

**BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

**PJM Interconnection, L.L.C.**

)  
)  
)

**Docket No. ER15-\_\_\_\_-000**

**Revisions to the Reliability Pricing Market (“RPM”) and Related Rules in the PJM  
Open Access Transmission Tariff (“Tariff”) and Reliability Assurance Agreement  
Among Load Serving Entities (“RAA”)**

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

Vincent P. Duane  
Senior Vice President & General Counsel  
PJM Interconnection, L.L.C.  
2750 Monroe Blvd  
Audubon, PA 19403  
(610) 666-4367  
*Vincent.Duane@pjm.com*

Jacquelynn Huges  
Assistant General Counsel  
PJM Interconnection, L.L.C.  
2750 Monroe Blvd  
Audubon, PA 19403  
(610) 666-8208  
*Jacquelynn.Huges@pjm.com*

Barry S. Spector  
Michael J. Thompson  
Paul M. Flynn  
Carrie L. Bumgarner  
Ryan J. Collins  
Wright & Talisman, P.C.  
1200 G Street, N.W., Suite 600  
Washington, D.C. 20005  
(202) 393-1200  
*spector@wrightlaw.com*  
*thompson@wrightlaw.com*  
*flynn@wrightlaw.com*  
*bumgarner@wrightlaw.com*  
*collins@wrightlaw.com*

Jennifer Tribulski  
Senior Counsel  
PJM Interconnection, L.L.C.  
2750 Monroe Blvd.  
Audubon, PA 19403  
(610) 666-4363  
*Jennifer.Tribulski@pjm.com*

**January 14, 2015**

## Table of Contents

I.	Introduction and Background .....	3
A.	Current RPM Demand Response Paradigm and Need for Proposed Changes.....	3
B.	New RPM Wholesale Load Reduction Proposal.....	7
C.	PJM’s Proposal Facilitates Demand-Side Commitments to Reduce Wholesale Load and Thus Falls Within the Commission’s Jurisdiction .....	9
II.	Proposed Effective Date, Suspension, and Applicability of Proposed Changes ....	11
A.	Supreme Court Consideration of <i>EPSA</i> and the Effectiveness of this Proposal .....	11
B.	Relationship Between this Proposal and the Capacity Performance Filing .....	12
1.	Option A Tariff Records.....	12
2.	Option B Tariff Records.....	13
III.	Overview of PJM’s Wholesale Load Reduction Proposal.....	13
A.	The WLR Proposal is Soundly Based on PJM’s Previous ALM Program.....	13
B.	Differing Types of WLR with Differing Availability Limits .....	15
C.	LSE Capacity Obligation Reductions .....	18
D.	WLR Impacts on RPM’s Demand Curve.....	19
E.	Proving, Measuring, and Verifying WLR Levels.....	26
F.	Provisions to Facilitate Flexible Implementation Approaches .....	28
H.	Wholesale Energy Efficiency Loads.....	30
I.	Credit Requirements .....	30
IV.	PJM’s Proposed RPM Changes Are Just and Reasonable, and Within the Commission’s Jurisdiction .....	31

A.	PJM’s Proposal Does Not Implicate <i>EPSA</i> ’s Jurisdictional Ruling.....	31
B.	Even If <i>EPSA</i> Is Deemed Relevant, PJM’s Proposal Meets Its Jurisdictional Test .....	35
C.	Wholesale Load Reductions Directly Affect PJM’s Rates for Jurisdictional Sales of Capacity for Resale.....	37
D.	Wholesale Load Reductions Are Properly Distinguished from Retail Demand Response .....	38
V.	Description of Proposed Revisions .....	38
A.	Removing Provisions Enabling Demand Resources and Energy Efficiency Resources to Make Supply-Side Capacity Commitments.....	38
B.	Overview of Wholesale Load Reduction Rules .....	41
C.	WLR Obligations .....	44
D.	Agents .....	46
E.	WLR Plans .....	47
	1. Template.....	47
	2. Procedures Concerning Submission and Review of WLR Plans....	48
F.	Reducing Capacity Obligations of LSEs for WLR Load Commitments ....	49
	1. Valuation of WLR Loads and WEELs .....	50
	2. LSE Capacity Obligation Reduction .....	53
G.	Registration .....	54
H.	WLR Bids.....	54
I.	WLR Transfers Between Wholesale Entities .....	56
J.	Measurement and Verification of Wholesale Load Reductions.....	57
	1. Approaches to Measuring WLR Load Reduction Capability .....	59
	2. Performance Verification and Measurement.....	60
K.	Non-Hourly Metered Customer Pilot .....	62
L.	WLR Compliance Charges .....	63

1.	Commitment Deficiencies .....	63
2.	Testing Shortfalls .....	66
3.	Performance Shortfalls .....	68
i.	Non-Performance Charge Consistent With PJM's Capacity Performance Proposal (Option A).....	68
ii.	WLR Non-Performance Charge in the Event the Commission Does Not Accept the Capacity Performance Proposal (Option B) .....	71
4.	Distribution of Compliance Charge Revenues .....	73
M.	WLR and WEEL Credit Changes.....	73
1.	Status Quo Credit Rate Determination (Option B).....	74
2.	Capacity Performance Credit Rate Determination (Option A) .....	76
3.	Credit-Limited Bids.....	77
N.	Committing Less-Available WLR Loads and WEELs .....	77
O.	Wholesale Energy Efficiency Loads.....	80
VI.	Correspondence .....	82
VII.	Documents Enclosed .....	82
VIII.	Service .....	83
IX.	Conclusion .....	84



1200 G Street, N.W.  
Suite 600  
Washington, D.C. 20005-3802  
202.393.1200  
Fax 202.393.1240  
www.wrightlaw.com

January 14, 2015

**VIA ELECTRONIC FILING**

The 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. ER15-\_\_\_\_-000

Dear Secretary Bose:

Pursuant to section 205 of the Federal Power Act (“FPA”), 16 U.S.C. § 824d, PJM Interconnection, L.L.C. (“PJM”) submits for filing the enclosed revisions to Attachments DD, DD-1, and Q of the PJM Open Access Transmission Tariff (“PJM Tariff” or “Tariff”); and to Schedules 6 and 8 of the Reliability Assurance Agreement Among Load Serving Entities in the PJM Region (“RAA”). These proposed changes modify PJM’s rules addressing participation by demand response in PJM’s capacity market, the Reliability Pricing Model (“RPM”).<sup>1</sup> PJM seeks to implement the revisions only in the event the United States Supreme Court denies the Federal Energy Regulatory Commission’s (“FERC” or “Commission”) (and other parties’) petitions for *certiorari* seeking review of *Electric Power Supply Ass’n v. FERC*.<sup>2</sup> This filing is intended to allow PJM and the marketplace to have a fully adjudicated method to allow demand response to

---

<sup>1</sup> RPM is the market mechanism through which PJM secures capacity commitments to assure reliable service, in accordance with resource adequacy standards of the North American Electric Reliability Corporation, to loads in the PJM Region.

<sup>2</sup> 753 F.3d 216 (D.C. Cir. 2014) (“*EPSA*”).

participate in the May 2015 Base Residual Auction (“BRA”),<sup>3</sup> should the Supreme Court deny review of *EPSA*. PJM proposes these changes in order to establish a jurisdictionally sound basis to realize the operational and market efficiencies of demand response in the PJM Region in lieu of the risks and uncertainties that would arise if PJM cleared demand response in its capacity market auctions under the existing rules after the *EPSA* mandate had issued.

Under this proposal, should the Supreme Court deny review of *EPSA*, commencing with the 2015 BRA, PJM will adjust the amounts of capacity it procures in RPM Auctions by modifying the demand curve for such auctions, known as the Variable Resource Requirement, or “VRR,” Curve, to conform to qualifying commitments by wholesale entities to reduce their wholesale loads in the capacity market. With such modifications, the VRR Curve will more accurately reflect the amount of capacity PJM properly should procure in RPM because it will reflect the actual (reduced) load that wholesale customers want to be served, based on the RPM clearing price for capacity. Thus, PJM will be able to ensure that, in the event the *EPSA* mandate issues, RPM Auctions will operate with accurate representations of demand, and thus will continue to provide just and reasonable prices for the capacity needed to maintain resource adequacy. The proposed new market rules include provisions for reductions in the PJM capacity obligations and associated capacity charges under the PJM Tariff and RAA for wholesale entities whose load reduction bids are accepted in RPM.<sup>4</sup>

PJM does not contend that the “stop-gap” rules it proposes in this submission are superior to the current RPM rules. Nor can PJM predict how much demand response may

---

<sup>3</sup> Capitalized terms not otherwise defined in this transmittal are intended to have the meaning specified in, as applicable, the PJM Tariff, the RAA, or the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C.

<sup>4</sup> PJM’s proposal addresses only the role of demand response in the RPM capacity market, should the *EPSA* mandate issue. PJM recognizes the Commission will have to address on remand the consequences of *EPSA* for wholesale energy markets if the decision stands, and PJM considers ancillary services markets to be outside the scope of *EPSA*’s jurisdictional interpretation.

participate in the capacity market under these proposed rules, though it could be substantially lower under this proposal than it has been historically. Curtailment Service Providers (“CSPs”) have historically accounted for a majority of the demand response registered in PJM, but would not be permitted to offer demand response directly into the PJM market under this proposal. However, if the current rules under which demand response participates in the PJM market must be revised, PJM believes the rules it proposes here would preserve the reliability and economic benefits of some demand response, and would be superior to rules that do not recognize any demand response.

## **I. Introduction and Background**

### **A. Current RPM Demand Response Paradigm and Need for Proposed Changes**

This filing is premised on a simple proposition: a functional market should accurately reflect demand, as well as supply. For the past seven years, RPM rules have allowed generation and demand response “to compete to meet the [PJM] region’s installed capacity needs” for each Delivery Year.<sup>5</sup> Specifically, Demand Resources<sup>6</sup> participate fully as a source of supply in the PJM capacity procurement process, and RPM provides capacity compensation for Demand Resources that clear in RPM Auctions in the same manner as cleared generation resources are compensated. Today, PJM procures both types of resources as sources of supply to meet the PJM Region Reliability Requirement, the expected peak demand of the PJM Region, plus appropriate reserves. If PJM did not reflect demand response, it would have to meet the entire Reliability Requirement by procuring only generation capacity. However, by allowing Demand Resources to compete with generation to supply capacity to meet peak load, PJM reduces the amount of generation capacity that it procures by the amount of cleared Demand Resources. This results in capacity procurement by PJM that more accurately reflects the price sensitivity

---

<sup>5</sup> *EnerNOC, Inc.*, 134 FERC ¶ 61,158, at P 2 (2011).

<sup>6</sup> *See* RAA, section 1.13. As discussed further below, PJM currently recognizes three types of Demand Resources, all of which are defined in the RAA: Limited Demand Resources, Extended Summer Demand Resources, and Annual Demand Resources.

of demand, and leads to lower capacity prices for consumers than would result if demand response was not included in RPM.

Currently, demand response supply in PJM comes, in large part, from end-users willing to commit to reduce their consumption of electricity, or from CSPs, aggregators that bundle end-users' load reductions into supply commitments to PJM. *EPSA*, however, raises serious questions about the viability of continuing this approach for the upcoming 2015 BRA. For example, because *EPSA* involves the scope of the Commission's jurisdiction to establish compensation for demand response by retail end-users in wholesale markets, if PJM elected to take a "business-as-usual" approach to the 2015 BRA, there is a clearly foreseeable risk that the Demand Resource offers cleared in that auction later could be nullified. Whether or when such an action could occur is uncertain and unknowable.<sup>7</sup>

Of more immediate concern, however, should the Supreme Court deny *certiorari* prior to the 2015 BRA, conducting the auction under the current rules could lead to either of two unacceptable outcomes. On the one hand, the pending issuance of the *EPSA* mandate might significantly chill participation by demand response in the upcoming auction, thus compelling PJM to procure more generation capacity than would be needed to ensure resource adequacy if demand response participation were not hindered.<sup>8</sup> The

---

<sup>7</sup> PJM recognizes the arguments of some stakeholders that capacity markets differ sufficiently from energy markets such that they avoid falling within the reach of the *EPSA* ruling. Nevertheless, *EPSA* clearly presents a threat to the continuing viability of capacity demand response in its present forms in RPM. Indeed, two complaints already have been filed with the Commission seeking to terminate participation by Demand Resources as supply options in RPM and in the similar capacity market administered by ISO-New England, Inc. See Emergency Complaint of FirstEnergy Service Company and Request for Fast Track Processing, Docket No. EL14-55-000 (May 23, 2014); Complaint Requesting Fast Track Processing of the New England Power Generation Association, Inc., Docket No. EL15-21-000 (Nov. 14, 2014). PJM cannot reasonably plan its operations based on the expectation that the Commission and subsequent reviewing courts will confine the holding of *EPSA* to energy markets only.

<sup>8</sup> PJM operates one of the largest wholesale power markets in the nation, and generally has experienced the strongest participation by demand response in any such market. In the 2014 BRA, for example, approximately 12,300 megawatts of



result would be a higher auction clearing price than would occur if the region's actual demand reduction capabilities were accurately reflected.

On the other hand, demand response providers might participate in the BRA to the same extent they have in prior auctions, and thus could force the market to clear substantial amounts of Demand Resources that may prove to be unable to perform as promised during the 2018/2019 Delivery Year. This could unreasonably depress the BRA clearing price, while also creating a need to replace cleared Demand Resources at significantly different prices in RPM's subsequent Incremental Auctions for the same Delivery Year.<sup>9</sup>

Even worse, conducting the BRA under current rules could lead, after the scope of *EPSA* is resolved, to legal challenges that ultimately might require re-running one or more RPM Auctions for the 2018/2019 Delivery Year. The ripple effects of that outcome on competitive wholesale and retail electricity markets, as well as pricing and valuation of hedges and derivatives, are incalculable, but clearly should be avoided if possible.<sup>10</sup>

---

Demand Resources and Energy Efficiency Resources cleared the auction. At the average cleared price for such resources of approximately \$100 per MW-Day, PJM's total commitments of capacity payments to Demand Resources for the 2017/2018 Delivery Year total nearly \$450 million.

<sup>9</sup> In addition to a Base Residual Auction, RPM includes three Incremental Auctions for each Delivery Year. The Incremental Auctions are held approximately two years, one year, and four months prior to the start of the Delivery Year.

<sup>10</sup> While *EPSA* undeniably creates uncertainties regarding future auctions held under current RPM rules, it does not alter the commitments of the demand response Capacity Resources that PJM procured in RPM Auctions held prior to the *EPSA* ruling. Those existing commitments were entered into under, and in reasonable reliance on, market rules the Commission approved in final, unchallenged orders. Such resources remain obligated to perform for the RPM Delivery Years for which they have already been committed, and remain eligible to receive compensation for those commitments. *Cf. Associated Gas Distribs. v. FERC*, 898 F.2d 809, 810 (D.C. Cir. 1990) ("The Commission may not disinter the past merely because experience has belied projections, whether the advantage went to customers or the utility; bygones are bygones." (Williams, J., concurring in denial of rehearing and rehearing en banc)).

PJM has concluded, therefore, that it must take steps now to modify the RPM rules for the 2015 BRA, should the Supreme Court deny review of *EPSA*, to ensure that the auction will produce a just and reasonable procurement and price for capacity for the 2018/2019 Delivery Year. To that end, PJM is proposing revised market rules that will permit PJM to adjust the VRR Curve for the BRA to reflect commitments by wholesale entities to reduce their wholesale purchases at various price points. Unless such a new mechanism to accommodate the PJM Region's significant load reduction capabilities is created in advance of the 2015 BRA, it is virtually certain that, if the Supreme Court denies review of *EPSA* prior to the auction, consumers in the PJM Region would face over-procurement and substantially higher prices for the capacity PJM would purchase to maintain reliable electric service for them in the 2018/2019 RPM Delivery Year.<sup>11</sup>

However, should the Supreme Court grant *certiorari* to review *EPSA*, PJM anticipates making a subsequent filing with the Commission to withdraw these proposed tariff revisions. In that event, the current RPM rules for supply-side participation by Demand Resources (as modified by the Capacity Performance Filing,<sup>12</sup> if accepted) would govern the 2015 BRA. PJM recognizes that by not implementing the wholesale load reduction alternative under these circumstances, the marketplace would face continued uncertainty while *EPSA* was pending before the Supreme Court, including the risk that *EPSA* could be affirmed, leading to requests to re-examine 2015 BRA outcomes. Nevertheless, after considering the competing equities while preparing this filing, PJM believes it would be reasonable in those circumstances to allow the litigation to run its

---

<sup>11</sup> *The 2017/2018 RPM Base Residual Auction: Sensitivity Analyses Revised*, Monitoring Analytics, LLC, 3-6 (Aug. 26, 2014), [www.monitoringanalytics.com/reports/Reports/2014/IMM\\_20172018\\_RPM\\_BRA\\_Sensitivity\\_Analyses\\_Revised\\_20140826.pdf](http://www.monitoringanalytics.com/reports/Reports/2014/IMM_20172018_RPM_BRA_Sensitivity_Analyses_Revised_20140826.pdf).

<sup>12</sup> On December 12, 2014, in Docket Nos. ER15-623-000 and EL15-29-000, PJM filed proposed revisions to the RPM rules to be effective April 1, 2015. Should the Commission accept those revisions, they also will apply to the 2015 BRA. *See* Reforms to the Reliability Pricing Market ("RPM") and Related Rules in the PJM Open Access Transmission Tariff ("Tariff") and Reliability Assurance Agreement Among Load Serving Entities ("RAA"), Docket No. ER15-623-000 (Dec. 12, 2014) ("Capacity Performance Filing").

course. PJM therefore proposes (subject to Commission direction otherwise) that it would proceed with the 2015 BRA under the current RPM rules if the Supreme Court grants *certiorari* of the *EPSA* decision.

**B. New RPM Wholesale Load Reduction Proposal**

PJM's proposed new wholesale "demand-side commitment" approach to account for demand response in the RPM market will avoid the distortions that current market circumstances otherwise would cause, promises to provide just and reasonable auction clearing prices for all PJM consumers, and will enable the Load Serving Entities ("LSEs") that provide such load reductions to reduce their PJM capacity obligations and related capacity charges. In short, it will enable RPM, as intended, to provide an economically efficient capacity resource mix to meet the region's peak demand reliably.

PJM's proposal includes the following key elements:

- Existing terms and conditions of the PJM Tariff and RAA for supply-side Demand Resources' participation in future RPM Auctions will be made ineffective, pending a future filing to restore or otherwise address those pre-existing provisions.
- New provisions in the PJM Tariff and RAA will enable wholesale entities to bid demand-side reductions in wholesale loads (to be called Wholesale Load Reductions, or "WLR," and Wholesale Energy Efficiency Load, or "WEEL"<sup>13</sup> into the 2015 BRA and subsequent Base Residual Auctions. Such wholesale load reductions will shift the VRR Curve to the left, reducing the amount of capacity PJM will procure in the auction and the price at which the auction will clear, in a manner which ensures that the resulting BRA price reflects wholesale purchasers' choices to reduce their capacity purchases at higher prices.

---

<sup>13</sup> When discussing the proposed demand-side wholesale demand reduction provisions PJM is proposing, PJM's references in this transmittal to "WLR" or "Wholesale Load Reductions" should be understood to refer to both Wholesale Load Reductions and Wholesale Energy Efficiency Loads.

- An LSE or other wholesale entity may submit a bid for a Wholesale Load Reduction commitment on its own behalf, or such a bid may be submitted by an agent authorized by state law or bilateral contract to act on the LSE's behalf. Wholesale entities likewise may utilize agents to perform obligations and/or to exercise rights on their behalf under the tariff provisions relating to wholesale load reductions.
- Wholesale Load Reductions accepted in RPM will result in reductions to the PJM capacity obligations and associated charges of the affected LSEs. Committed Wholesale Load Reductions will be subject to measurement and verification ("M&V") requirements, as well as compliance charges for non-performance, comparable to those the Commission previously has approved.
- To conform to changes in load-serving responsibility associated with customers in competitive markets that switch LSEs, wholesale entities will be permitted to transfer from one to another, prior to and during the affected Delivery Year, Wholesale Load Reduction commitments and associated reductions in capacity obligations, M&V obligations, and compliance charge liabilities.

Under this approach, PJM will *not* pay retail end-users (either directly or indirectly through aggregators) for demand response cleared in RPM Auctions. Nor does the approach provide for payments to wholesale entities; PJM proposes only to reduce the capacity obligations of, and thus the capacity charges owed to PJM by, wholesale entities that commit to reduce the wholesale loads they are responsible for serving. Thus, the new approach avoids the jurisdictional flaw that *EPSA* found in the energy market compensation prescribed by the Commission's Order No. 745, even if that ruling is determined to extend to wholesale capacity markets. PJM's new rules leave to LSEs, retail customers, and state regulatory authorities all arrangements regarding compensation to end-use consumers that support Wholesale Load Reductions by reducing their electricity consumption. PJM anticipates that some state commissions will prescribe by rule or order terms for retail customers' role in facilitating Wholesale Load Reductions, while in

other states such arrangements may be governed solely by contracts between end users and LSEs.

The Demand Resource offers that cleared in prior RPM Auctions were, by explicit requirement<sup>14</sup> a reflection of real, physical demand reduction capability that presently exists, or that is reasonably expected to exist in the relevant Delivery Year, in the PJM Region. *EPSA* does not eliminate that capability, and does not preclude considering wholesale load reduction commitments in RPM. PJM's proposal thus preserves to the maximum extent feasible, consistent with *EPSA*, the benefits of the PJM Region's considerable load reduction capabilities and their contribution to ensuring just and reasonable prices and capacity procurement. The new paradigm that PJM proposes would utilize the region's load reduction capabilities only on the demand side of the RPM supply-demand equation. The salutary effect of the reductions in peak demand would continue: PJM would procure the correct amount of capacity to ensure resource adequacy for the PJM Region and at a lower cost than if no demand reductions had occurred.

**C. PJM's Proposal Facilitates Demand-Side Commitments to Reduce Wholesale Load and Thus Falls Within the Commission's Jurisdiction**

PJM emphasizes that the new rules it proposes here do not affect any existing commitments of Demand Resources that cleared as sources of supply in prior RPM Auctions, and do not affect PJM's capacity payments to such resources for the duration of their commitments. However, under the proposed rules, such "supply-side" demand response no longer will be permitted in future RPM Auctions. Instead, commencing with the 2015 BRA, the proposed new tariff terms would authorize commitments by wholesale entities in such auctions of Wholesale Load Reductions and Wholesale Energy Efficiency Load reductions. These will be demand-side commitments, i.e., PJM will reduce the amounts of capacity that it must procure in the affected auctions by the amount of the committed reductions. Thus, qualifying wholesale load reductions will shift the VRR Curve to the left, and will reduce the clearing price for capacity in the PJM Region.

---

<sup>14</sup> See PJM Tariff, Attachment DD-1, section A.5.

PJM's proposal focuses strictly on load reduction commitments that will be implemented by wholesale LSEs, which are the purchasers in wholesale sales of capacity under RPM. Accordingly, PJM's proposal unquestionably is within the Commission's regulatory jurisdiction under the FPA.

Congress expressly has authorized the Commission to exercise jurisdiction over wholesale sales of electricity in interstate commerce, as well as "all rules and regulations affecting or pertaining to" the rates or charges for such sales.<sup>15</sup> A central element of every wholesale transaction is the quantity of power that the buyer wishes to buy. This amount-or, more to the point in the RPM context, the method for determining the quantity for which the LSE buyer is responsible to pay capacity charges-is necessarily encompassed within the Commission's jurisdictional mandate. Indeed, the courts have held explicitly that the Commission's jurisdiction over wholesale rates and transmission includes authority to review tariff elements like the PJM Region Reliability Requirement, i.e., the amount of capacity, including reserves to assure reliable service, PJM determines is needed to meet resource adequacy criteria, because the Reliability Requirement affects the clearing price for capacity, as well as each LSE's associated reliability charges.<sup>16</sup>

Each LSE member of PJM pays capacity charges based on the LSE's allocated share of the Reliability Requirement. Achieving just and reasonable clearing prices for capacity, and just and reasonable allocations of cost responsibility for the capacity PJM procures in RPM, dictates that PJM include LSEs' commitments to reduce their respective wholesale purchases of power in determining the amount of capacity to procure in the RPM Auctions, as well as each LSE's allocated share of the capacity PJM procures.

---

<sup>15</sup> FPA section 205(a), 16 U.S.C. § 824d(a). *See also* Energy Policy Act of 2005, Pub. L. No. 109-58, §§ 1252(e)(3)(E), 1252(f), 119 Stat. 594 (declaring it is national policy "that . . . unnecessary barriers to demand response participation in energy, *capacity* and ancillary service markets shall be eliminated," and FERC shall publish annually a report to identify and review, *inter alia*, "steps taken to ensure that, in regional transmission planning *and operations*, Demand Resources are provided equitable treatment as a quantifiable, reliable resource"(emphasis added)), *codified at* 16 U.S.C. § 2642.

<sup>16</sup> *Conn. Dep't. of Pub. Util. Control v. FERC*, 569 F.3d 477, 483 (D.C. Cir. 2009) ("*Connecticut*").

Accordingly, just as the Commission had jurisdiction to approve the capacity deficiency changes that were disputed in *Connecticut*, the Commission has authority under the FPA to review and approve PJM's proposed tariff revisions stating the terms under which PJM will reflect in the VRR Curve the quantity of power that each wholesale customer is willing to buy for resale, and the price each customer is willing to pay for capacity.<sup>17</sup> By accepting this proposal, therefore, the Commission can enable wholesale demand to play a meaningful role in forming just and reasonable prices for capacity in PJM's 2015 BRA, while the Commission deliberates on larger, nationwide questions about the future role of demand response, should the *EPSA* decision become binding precedent.

## **II. Proposed Effective Date, Suspension, and Applicability of Proposed Changes**

### **A. Supreme Court Consideration of *EPSA* and the Effectiveness of this Proposal**

As described above, PJM submits this filing because of the timing of the 2015 BRA relative to the Supreme Court's consideration of *EPSA*. PJM's decision to make this filing also takes into account the three-year forward aspect of RPM, which requires PJM to determine in 2015 the quantity and price of resources that it must be able to call upon in the Delivery Year commencing in June 2018, as well the high level of demand response participation PJM has experienced in its markets. For all of these reasons, PJM believes it is necessary to have an alternative in place to avoid the prospect of over-procurement and a distorted clearing price for capacity in the 2015 BRA, and/or having to undo, or potentially re-run, the auction results. Either of those outcomes would defeat the forward price signal for investment that RPM is intended to produce.

To ensure that the proposed alternative rules are in place for the scheduled opening of the next BRA on May 11, 2015, PJM proposes that these revisions become effective on April 1, 2015. However, PJM seeks to make this proposal effective only if the Supreme Court denies the petitions for *certiorari* review of *EPSA*. Therefore, if the Supreme Court has not acted on *EPSA* before the Commission issues its order on this filing, PJM requests that the Commission accept PJM's tariff revisions, but suspend their

---

<sup>17</sup> Section IV below provides more extensive discussion of the Commission's jurisdiction to authorize PJM's proposal.

effectiveness for a period of five days, until April 6, 2015. This nominal suspension will allow PJM to submit a motion to continue the suspension and further defer the effectiveness of this proposal as needed to provide additional time to await the Supreme Court's order. In the event the Supreme Court has not yet acted as the BRA approaches, PJM expects to proceed with the auction under existing rules governing demand response.

PJM also recognizes that, should the *EPSA* mandate issue, parties likely will seek to litigate whether the holding of *EPSA* reaches organized capacity markets like RPM. PJM presents its proposal here merely as a "stop-gap," recognizing that determining the overall future of demand response in both energy and capacity markets, should *EPSA* stand, may require Commission action of nationwide scope. Although PJM seeks the Commission's authorization to make this filing effective as described above, this proposal is not intended to foreclose, either legally or practically, the Commission's consideration of the larger issues that *EPSA* may raise. Rather, as noted above, PJM makes this filing out of caution in light of the unusual circumstances the PJM Region currently faces, given its forward capacity market, the history of strong demand response participation in RPM, and the uncertain timing of Supreme Court action on *EPSA*.

## **B. Relationship Between this Proposal and the Capacity Performance Filing**

This submission includes two sets of proposed tariff revisions to implement PJM's new, demand-side, wholesale load reduction model. The tariff records identified as Option A reflect changes to the PJM Tariff and RAA designed to integrate implementation of the wholesale load reduction model with the changes PJM proposed in the pending Capacity Performance Filing. The enclosed tariff records identified as Option B are proposed revisions to the currently effective versions of the PJM Tariff and RAA. PJM files these two alternatives to accommodate various scenarios that affect the desired effectiveness of the proposed tariff records, as described below.

### *1. Option A Tariff Records*

PJM requests that Option A become effective under the following circumstances:

- (a) If the Capacity Performance Filing becomes effective on April 1, 2015, as PJM proposes, and the Supreme Court denies *certiorari* of *EPSA* prior to



Commission action on this filing, PJM requests that the Option A tariff records become effective on April 1, 2015.

(b) If the Capacity Performance Filing becomes effective on April 1, 2015, but the Supreme Court has not yet acted on *EPSA*, PJM requests that the Option A tariff records be effective April 1, 2015, but subject to the requested five-day suspension described above.

(c) If the Capacity Performance Filing becomes effective on a date after April 1, 2015, and the Supreme Court denies *certiorari*, PJM requests that the Option A tariff records become effective concurrently with the effective date of the Capacity Performance Filing.<sup>18</sup>

## 2. *Option B Tariff Records*

PJM requests that Option B become effective under the following circumstances:

If the Supreme Court denies *certiorari* prior to the proposed effective date of this filing and the Capacity Performance Filing becomes effective after April 1, 2015, or is rejected, PJM requests that the Option B tariff records become effective on April 1, 2015 (again, subject to the requested five-day suspension if the Supreme Court has not acted before the Commission issues its order in this case). In this circumstance, the Option B tariff records should remain in effect only until the effective date of the Capacity Performance Filing, at which time, Option A should become effective as requested above in section II.1(c).

## III. Overview of PJM's Wholesale Load Reduction Proposal

### A. The WLR Proposal is Soundly Based on PJM's Previous ALM Program

PJM's proposed Wholesale Load Reduction program has important similarities to the Active Load Management ("ALM") program that preceded the 2007 introduction in RPM of supply-side Demand Resources. ALM was a feature of the RAA, the capacity-

---

<sup>18</sup> Should the Capacity Performance Filing be conditionally accepted and/or require modifications upon compliance, PJM will file appropriate modifications to the Option A tariff records as required for consistency with any required compliance changes to the Capacity Performance Filing.

sharing agreement among LSEs, that allowed a LSE to obtain a MW credit against its capacity obligation by demonstrating that a portion of its wholesale load could be reduced during capacity emergencies.<sup>19</sup> Provisions of the PJM Manuals implementing ALM prescribed the minimum requirements for when, how often, and for how long, a load would have to be available to reduce in order to qualify the LSE for a credit against its capacity obligation.<sup>20</sup> The LSE was required to place the designated subset of its wholesale load under PJM's dispatch control so that PJM had unambiguous authority to dispatch the needed load reductions in an emergency. The PJM Manuals' ALM provisions included basic rules on categorizing, identifying and measuring load reductions by the LSE's retail customers to help determine whether the overall reduction in wholesale peak load proposed by the LSE could be provided, and then, once the LSE committed to provide such a reduction (and received the corresponding capacity obligation credit), whether that reduction was in fact provided when needed by PJM during emergencies.<sup>21</sup> ALM also included a penalty provision if an LSE did not provide the promised load reduction during an emergency.<sup>22</sup>

In broad outline, that description of the ALM program also describes the proposed WLR provisions. With WLR (and WEEL), an LSE can receive a reduction in the capacity obligation otherwise imposed on it by the RAA. The proposed WLR provisions of the RAA will have minimum criteria that the LSE will have to satisfy to qualify any identified portion of its wholesale load as WLR Load. That wholesale load will have to be placed under PJM's dispatch authority to ensure PJM can rely upon the committed load reductions in an emergency. The WLR provisions of the RAA also will set requirements

---

<sup>19</sup> See Reliability Assurance Agreement Among Load Serving Entities in the MAAC Control Zone, PJM Interconnection, L.L.C., Second Revised FERC Rate Schedule FERC No. 27 ("Former RAA"), at Schedule 5.2.

<sup>20</sup> See Compliance Filing of PJM Interconnection, L.L.C., Docket No. ER05-1410-004, at 3-4 (Feb. 20, 2007) (describing the provisions of the then-existing ALM Manual 19 that PJM was carrying forward into Tariff Attachment DD-1, to satisfy the Commission's directive that PJM incorporate in the Tariff).

<sup>21</sup> See Former RAA at Schedule 5.2.

<sup>22</sup> See Former RAA, at Schedule 11(E) "ALM deficiency Charge."

for identifying, measuring, and verifying load reductions. LSEs will be subject to compliance charges if the promised load reductions are not provided.

The primary difference between ALM and WLR is that PJM has gained tremendous, detailed experience since 2007 with the commitment and use of peak load reductions in its three-year-forward capacity market. PJM can bring that experience fully to bear in ensuring just and reasonable terms and conditions for wholesale peak load reductions by LSEs. PJM will highlight a few of these features in this overview section. Later sections of this transmittal will describe in more detail each element of the WLR proposal, and the associated PJM Tariff and RAA provisions.

#### **B. Differing Types of WLR with Differing Availability Limits**

ALM had severe limits on when PJM could call for load reductions. ALM loads only had to be available to reduce during the weekdays of four summer months (June through September), for only up to ten times per summer, and for no more than six hours at a time when called upon. That template continues today in the supply-side product known as Limited Demand Resources. Should the Option B tariff records be implemented, PJM proposes to retain such resources as a demand-side product, to be called Limited WLR.

In the intervening years, PJM has proposed, and the Commission has approved, alternative demand response products with fewer limits on their availability. Extended Summer Demand Resources must be available for six months, for up to ten hours when called upon, and with no limit on the number of calls during the period of availability. Annual Demand Resources must be available throughout the year, also with no limit on the number of calls.

The development of these less-limited products is highly beneficial to system reliability, simply because the need for load reductions is not necessarily confined to the summer weekdays and limited hours that characterized ALM. Importantly, these alternative availability rules are indifferent to whether a load reduction is characterized as a supply-side resource or a demand-side commitment. In both cases, they simply define when PJM may call upon the load reduction. Moreover, because these expanded availability rules have been in place for a few years, consumers have been able to structure

their operations to provide these more flexible load reductions, and LSEs will be able to capitalize on those capabilities as they enter into their separate arrangements with retail customers in order to support the LSEs' Wholesale Load Reduction commitments to PJM. PJM therefore proposes, as part of the Option B tariff revisions, different types of WLR with different availability rules that exactly match the availability rules previously approved for Limited Demand Resource, Extended Summer Demand Resource, and Annual Demand Resource.<sup>23</sup>

Related to these alternative load reduction products, the Commission has recognized that reliability concerns can arise from over-dependence on the more-limited types of Demand Resources. In simplest terms, the concern is that if PJM relied too much on those products, to the exclusion of the products with fewer (or no) availability limits, then PJM could find itself in a position of needing to call on Demand Resources when the more-limited products are not required to be available, but not enough of the less-limited products have been committed. The Commission therefore has approved PJM's proposals to establish constraints on the clearing of those more limited types of Demand Resources in the RPM Auctions so that the region does not become more dependent on them than is consistent with maintenance of reliability. Those auction clearing constraints are determined in accordance with formulaic rules in the PJM Tariff that focus on the resource adequacy consequences of the specific availability limits of those products. Again, the limits on when PJM can call upon the loads to reduce are indifferent to whether the load reduction is considered a supply-side resource or a demand-side reduction commitment. Accordingly, the need for the reliability-based constraints on the quantities of load reductions that may be cleared with those availability limits is the same regardless of whether the load reductions are considered supply-side or demand-side.

Consequently, under the Option B tariff revisions, PJM proposes to apply to the more limited types of WLR, i.e., Limited WLR and Extended Summer WLR, auction-clearing constraints that are substantively identical to the constraints that the Commission

---

<sup>23</sup> The rules for Limited, Extended Summer, and Annual WLR are set forth in the Option B set of PJM Tariff and RAA changes in this filing.

has previously approved on Limited Demand Resources, and on the aggregate clearing of Limited Demand Resources and Extended Summer Demand Resources. Tracking the previously approved terminology, PJM's proposed tariff revisions refer to these as the Limited WLR Constraint and the Sub-Annual WLR Constraint, respectively.

But the evolution towards more flexible types of load management did not stop with the Commission's acceptance of PJM's Limited Demand Resource, Extended Summer Demand Resource, and Annual Demand Resource rules. The long-term goal is, and should be, that PJM can call upon a load reduction to help meet capacity needs anytime PJM can call upon a generator to help meet capacity needs. To that end, PJM has proposed in the Capacity Performance Filing to transition all Demand Resources, beginning in the 2020-2021 Delivery Year, to a single "Capacity Performance" product that will be available year-round. To facilitate that transition, PJM has proposed a "Base Capacity" Demand Resource product that will be available only in the summer, for use through the 2019-2020 Delivery Year. Like the existing, limited-availability products, PJM proposed an auction-clearing constraint for Base Capacity Demand Resource, patterned very closely on the previously approved constraints, and serving the same reliability purpose.

The continued evolution toward a more desirable end-state of greater comparability between load reductions and generation increases should also be reflected in WLR, to the extent the Commission accepts PJM's Capacity Performance proposal. This filing therefore includes, as part of PJM's Option A tariff revisions to implement WLR on terms consistent with the Capacity Performance Filing, a proposal for both Base Capacity WLR and Capacity Performance WLR, and for a Base Capacity WLR Constraint. The availability rules under Option A for the Base Capacity and Capacity Performance versions of WLR are identical to those PJM has proposed in the Capacity Performance Filing for the corresponding types of Demand Resources, and the Base Capacity WLR Constraint likewise is substantively identical to the constraint PJM has proposed in that filing for Base Capacity Demand Resource.

### **C. LSE Capacity Obligation Reductions**

As with ALM, PJM proposes that WLR will reduce the capacity obligation that the RAA otherwise determines for an LSE. PJM does not propose to reflect this reduction as a financial credit or to monetize it; rather, the committed WLR quantity will simply reduce the peak load on which the LSE's capacity obligation is based *and* reduce the increment of reserves associated with that peak load that would otherwise be embedded in the LSE's capacity obligation. This is appropriate, because reserves are based on peak load and are designed to ensure reliable service to that peak load under a variety of contingencies. If the peak load is reduced, then the associated increment of reserves can be avoided.

Of course, while PJM will implement WLR as a MW reduction in the LSE's capacity obligation, the associated RPM capacity charge per-MW-day will be public knowledge. LSEs, other market participants, or state regulators that wish to transfer or extend the financial benefit of RPM capacity obligation reductions to other parties will readily be able to identify that financial benefit.

WLR's MW reduction to a LSE's capacity obligation raises a question of how to address the differing types of WLR that PJM proposes to allow LSEs to bid into RPM Auctions, i.e., Base Capacity and Capacity Performance WLR under the "Option A" approach, or Limited, Extended Summer, and Annual WLR under the "Option B" approach. PJM proposes to weight the different types of WLR to reflect the relative differences in the reliability value of the different products.

Specifically, PJM will assign a "WLR Value" to the different WLR products based on the price at which the auction clearing optimization algorithm recognizes the constraint on clearing that type of WLR binds in the auction. Note that this value will *not* become a price paid to the LSE for its WLR. Instead, that WLR Value will become the numerator in a ratio calculation, with the denominator equaling the Final Zonal Capacity Price applicable to that LSE. Consequently, WLR types that have greater limits on their availability will be subject to a WLR Constraint that binds at a lower auction price, and thus will afford the LSE a relatively lower MW reduction in its capacity obligation,

compared to a WLR type, such as Annual WLR or Capacity Performance WLR, that has no limit on its availability.

**D. WLR Impacts on RPM's Demand Curve**

Another important difference between PJM's capacity rules when ALM was effective, and PJM's capacity rules today, is that RPM is a competitive auction market, which explicitly uses both demand and supply to set the price for capacity. As a reduction in wholesale peak demand, WLR properly should be reflected in price formation as an adjustment to the wholesale demand addressed in the RPM Auction. PJM proposes such treatment here. Simply put, WLR Bids will shift the VRR Curve to recognize that WLR Bids reduce wholesale demand.

Since its inception, RPM has used a VRR Curve to clear each of its three-year-forward auctions. The point at which the demand curve intersects the supply curve defines the clearing price that is paid to every sell offer in that auction with an offer price at or below that point. But while the supply curve is composed of the capacity sell offers submitted in the auction, the demand curve in the three-year-forward auction is *not* composed of Buy Bids to purchase capacity. Capacity, or more precisely, the reliability it helps ensure, is a public good.<sup>24</sup> All capacity buyers benefit from overall resource adequacy, but few buyers (traditionally) have had an incentive, individually, to volunteer to pay for the reliability from which all will benefit. RPM's demand curve is consequently an administrative construct derived from system planning estimates of the reserve margin that is likely to provide an acceptable level of reliability at a reasonable cost.

By this filing, PJM proposes to give wholesale buyers of capacity an opportunity to help define the VRR Curve. Under this proposal, a wholesale buyer will be allowed to indicate, at a specified price, that part of its load will *not* need capacity, i.e., it will not impose a demand on the system during the emergency periods when there is the greatest need for capacity. And the wholesale buyer will be able to specify a maximum capacity price that a part of its load is willing to tolerate: below a certain capacity price, the load

---

<sup>24</sup> This is especially true for an interconnected electric grid. Even if users on one part of a grid install adequate capacity, failures on other parts of the same grid could imperil reliable service to that first set of responsible grid-users.

will still be part of the demand for capacity; above that price, the load will be removed from that demand.

Moving the demand curve means that the point at which the demand and supply curves intersect also will likely change. And because a load reduction will move the demand curve to the left (given that the capacity quantity increases, left to right, along the horizontal axis), leftward movement of the intersection point on a traditionally ascending supply curve will almost always result in a lower clearing price. Because RPM pays the clearing price to all cleared resources, each Wholesale Load Reduction will broadly benefit all capacity buyers—indeed, the benefit to other wholesale buyers will usually far exceed the benefit to the specific wholesale purchaser that bid its Wholesale Load Reduction into the auction and thereby reduced its individual capacity obligation.<sup>25</sup>

Figure 1 below illustrates how WLR Bids will move the RPM demand curve and reduce the capacity clearing price. The black line is the administratively determined VRR Curve prescribed by PJM's Tariff. The light blue line is a typical RPM supply curve, with a greater overall quantity of supply offered as capacity prices increase. With no Wholesale Load Reductions, the demand and supply curves intersect at a point where quantity equals 167,185 MWs and price equals \$400/MW-day.

---

<sup>25</sup> While beyond the scope of this wholesale market proposal, this highly beneficial feature of WLR could theoretically be considered by retail regulators, LSEs, or other stakeholders when assessing the value of retail demand response and how that value might best be monetized through retail ratemaking to incent end users, LSEs and CSPs maximize demand participation.



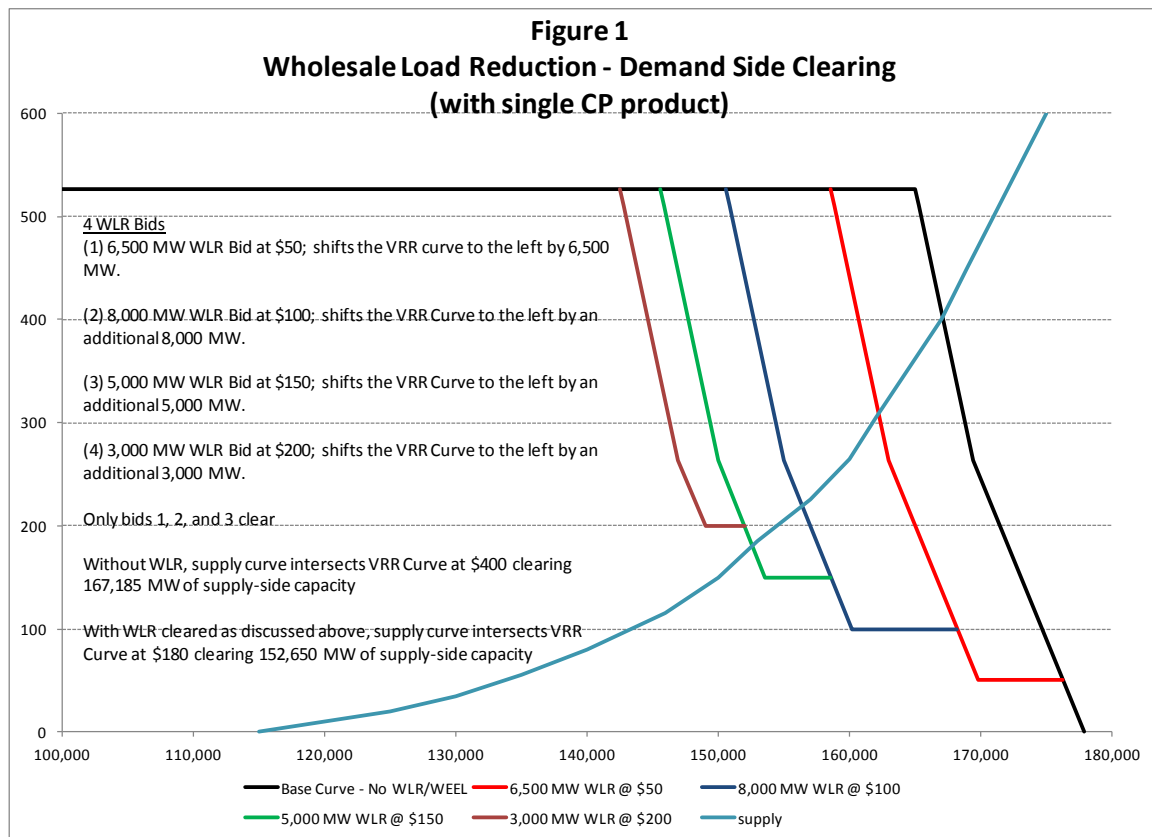


Figure 1 then shows the effect of four Wholesale Load Reduction bids. Each of these is best seen as equivalent to multiple WLR Bids with a common bid price; for simplicity, each as shown here as a single bid. The first WLR Bid, represented by the red line, is 6,500 MWs, with a bid price of \$50/MW-day. As with all the WLR Bids, the bid price reflects the maximum price the wholesale purchaser is willing to pay for that increment of capacity to serve its wholesale loads. Below that price, that part of the wholesale load remains in the VRR Curve; above that price, it is removed from the VRR Curve. At the \$50/MW-day price point on the VRR Curve, the curve shifts to the left by 6,500 MWs. Because that load is removed from the VRR Curve at all prices above \$50/MW-day, the red line runs parallel to the black line—every point on the VRR Curve above \$50/MW-day is equally shifted to the left by exactly 6,500 MWs.

The second WLR Bid—represented by the dark blue line—is for 8,000 MWs of load reduction at any price at or above \$100/MW-day. Because this LSE is willing to tolerate a higher capacity price, its bid is “stacked” after the first WLR Bid, which proposed to remove an increment of wholesale peak demand at a lower capacity price.

This second WLR Bid shifts the demand curve to the left beginning at the \$100 price point, and from that point up through every higher price point, it moves the curve exactly 8,000 MWs to the left.

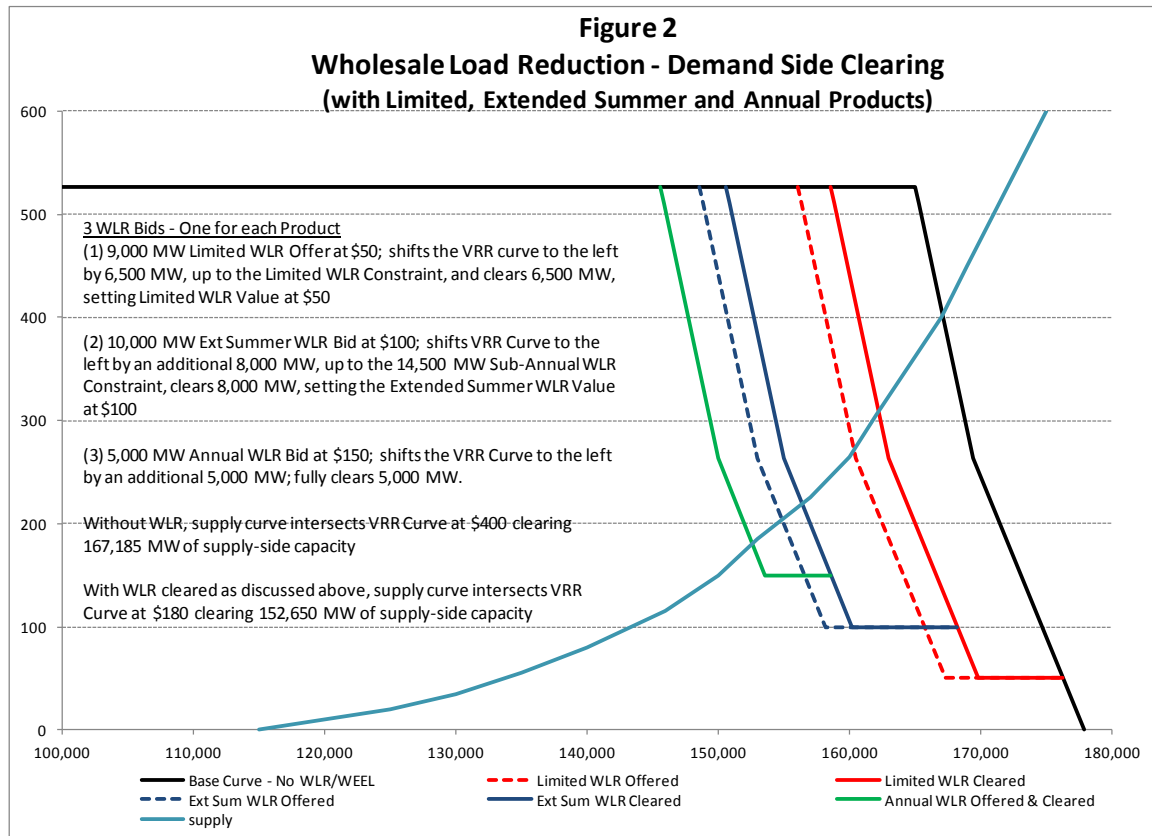
The third WLR Bid—represented by the green line—is for 5,000 MWs of load reduction at any price at or above \$150/MW-day. This third WLR Bid shifts the demand curve to the left beginning at the \$150 price point, and from that point up through every higher price point, it moves the curve exactly 5,000 MWs to the left. The light blue supply curve now intersects this green shifted VRR Curve, and sets the revised clearing results as 152,000 MWs at \$175/MW-day.

The fourth and final WLR Bid—represented by the purple line—is for 3,000 MWs of load reduction at any price at or above \$200/MW-day. This fourth WLR Bid shifts the demand curve to the left beginning at the \$200 price point, and from that point up through every higher price point, it moves the curve exactly 3,000 MWs to the left. Of the four bidders, this wholesale purchaser places the highest value on capacity. Unless it can forego paying at least \$200/MW-day, this wholesale purchaser wants, and is willing to pay for, the capacity needed to serve this part of its peak wholesale demand during emergencies. Given that higher price tolerance, this WLR Bid shifts the VRR Curve to the left at relatively high price points, but does not affect the auction clearing results. As a result of the other three, lower-priced, WLR Bids, the supply curve already intersects the left-shifted VRR Curve at a price below \$200/MW-day.

Wholesale Load Reductions have the same effect on the demand curve even if there are multiple load reduction products. However, because the constraints on certain WLR types, such as Limited and Extended Summer WLR, will limit the maximum quantity of those types of WLR that may be cleared, they will also limit the extent to which WLR Bids for Limited WLR or Extended Summer WLR can shift the VRR Curve.

This is illustrated in Figure 2 below. Figure 2 uses the same supply curve and initial VRR curve that were shown in Figure 1. Figure 2 also has the same initial clearing results as Figure 1 (before accounting for Wholesale Load Reductions), i.e., a cleared quantity of 167,185 MWs at a clearing price of \$400/MW-day. Figure 2 then shows three WLR Bids: one each for Limited WLR, Extended Summer WLR, and Annual WLR. As

will be seen, the Limited WLR and Extended Summer WLR Bids can move the VRR Curve to the left, but only to the extent those less-available products are allowed to clear by the applicable constraints.



The first WLR Bid is for 9,000 MWs of Limited WLR, at a price of \$50/MW-day. If this entire bid was permitted to clear, its effect on the VRR Curve would be shown by the red dashed line. That effect would be similar to the WLR Bids shown in Figure 1, i.e., shifting the VRR Curve to the left 9,000 MWs, for all points on the VRR Curve at or above the WLR Bid Price of \$50/MW-day. But the dashed line does not yet take account of the Limited WLR Constraint, which in this illustration is assumed to permit only 6,500 MWs of Limited WLR to clear. Accounting for that constraint, the VRR Curve can be shifted to the left only by 6,500 MWs, as shown by the solid red line.

The second WLR Bid is for 10,000 MWs of Extended Summer WLR at \$100/MW-day. The dark blue dashed line shows the effect of this bid on the VRR Curve if there were no applicable constraints, i.e., it would shift the VRR Curve to the left by 10,000 MWs at every price point at or above \$100/MW-day. But there is a constraint.

Just like today's approved "Sub-Annual" constraint on total Limited and Extended Summer Demand Resource, PJM proposes essentially the same constraint on the total of Limited and Extended Summer WLR. In this illustration, the Sub-Annual WLR Constraint is 14,500 MWs. Because the first bid cleared 6,500 MWs of Limited WLR, the auction now can clear no more than 8,000 MWs of Extended Summer and Limited WLR combined. Consequently, only 8,000 MWs of the 10,000 MWs in the second WLR Bid can clear, and thus the VRR Curve can shift to the left only by 8,000 MWs. The dark blue line shows this leftward shift in the VRR Curve.

The third WLR Bid is for 5,000 MWs of Annual WLR at a price of \$150/MW-day. Because Annual WLR is required to be available year-round, there is no constraint on its clearing, just as there is no constraint today on clearing of Annual Demand Resources. Accordingly, the VRR Curve is shifted to the left by 5,000 MWs for every price point at or above \$150/MW-day. This is shown by the solid green line. With this shift, the supply curve and the modified VRR Curve now intersect at a quantity of 152,650 MWs and a price of \$180/MW-day.

The same principles would apply if WLR is implemented in a manner consistent with PJM's Capacity Performance proposal, i.e., with a Base Capacity WLR product that is available only in the summer (and therefore is subject to a clearing constraint in order to protect against over-reliance on the product), and a Capacity Performance WLR product. Figure 3 illustrates this scenario.

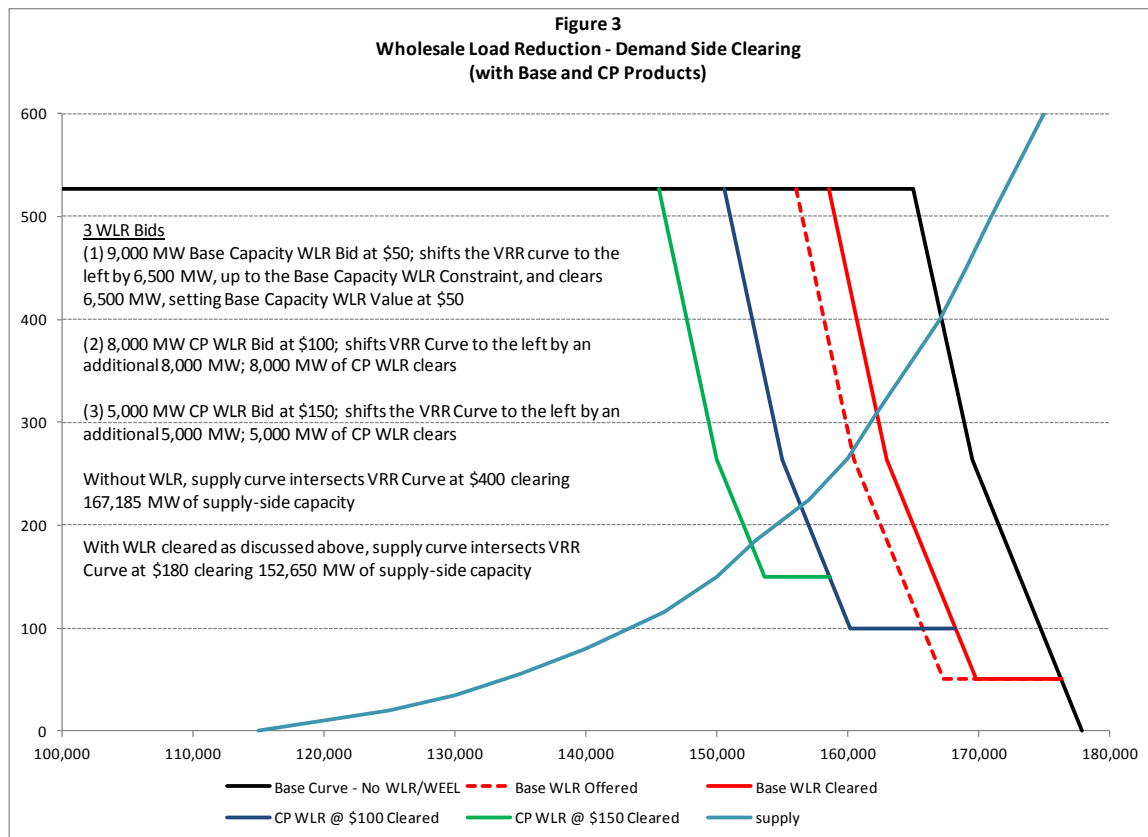


Figure 3 again uses the same supply curve, same initial VRR Curve, and same initial clearing results (before accounting for WLR) as in Figures 1 and 2. Figure 3 adds three WLR Bids—one as Base Capacity WLR and two as Capacity Performance WLR.

The first WLR Bid is for 9,000 MWs of Base Capacity WLR at a Bid Price of \$50/MW-day. But like the Limited WLR Bid seen in Figure 2, Base Capacity WLR Bid does not shift the VRR Curve by the full 9,000 MWs (as indicated by the red dashed line), because the applicable constraint permits only 6,500 MWs of this type of WLR to clear. The VRR Curve therefore shifts to the left by only 6,500 MWs, beginning at the \$50/MW-day price point on the curve (as shown by the solid red line).

The two remaining WLR Bids are both for Capacity Performance WLR, and therefore, are not subject to any clearing constraint. These two WLR Bids, i.e., 8,000 MWs at \$100/MW-day and 5,000 MWs at \$150/MW-day, shift the VRR Curve to the left by a combined 13,000 MWs, as shown by the dark blue and green lines, respectively. Taking account of all WLR Bids and applicable constraints, the supply curve and the

modified VRR Curve now intersect at a quantity of 152,650 MW at a price of \$180/MW-day.

**E. Proving, Measuring, and Verifying WLR Levels**

The last several years have given PJM considerable experience in the measurement and verification of load reductions, and in the support needed for three-year forward commitments of load reductions by capacity market participants. PJM relies on that experience, and on the numerous enhancements to PJM's market rules the Commission has approved on this topic in recent years,<sup>26</sup> to ensure that WLR will be provided on just and reasonable terms.

PJM emphasizes that only Wholesale Entities can provide Wholesale Load Reductions, that they may do so only from the wholesale loads they are responsible for serving, and that PJM proposes no compensation in this filing whatsoever to retail entities. But that does not mean that PJM is required to *ignore* load reductions by the LSE's retail customers when the LSE identifies those reductions as a means of forecasting, measuring, or verifying the aggregate reduction in wholesale load that the LSE proposes in its capacity transaction with PJM. To the contrary, rules for identifying and measuring end-user load reductions were part of PJM's ALM program nearly ten years ago, and they will appropriately be part of PJM's proposed WLR program.

An LSE's wholesale load is the aggregate consumption of the retail end-use loads the LSE is obligated to serve. The aggregate loads of most regulated utility LSEs generally include considerable weather-sensitive demand. Weather-sensitive loads are unpredictable and, more importantly in this context, are not controllable by the LSE. It would be impractical, and almost certainly would be intolerably risky, for an LSE to base a commitment of wholesale load reduction to PJM on weather-sensitive loads.

Wholesale Load Reductions instead must be based on the LSE's arrangements with controllable loads that are capable of timely reducing their consumption in direct response to the LSE's instructions. Therefore, to demonstrate performance of its

---

<sup>26</sup> See *PJM Interconnection, L.L.C.*, 138 FERC ¶ 61,138 (2012); *PJM Interconnection, L.L.C.*, 137 FERC ¶ 61,216 (2012); *PJM Interconnection, L.L.C.*, 137 FERC ¶ 61,108 (2011).

Wholesale Load Reduction commitment, the LSE will have to gather and provide to PJM from its customers the kinds of customer- and site-specific metering and other data that are already described in PJM's tariff, and which PJM proposes to include in the M&V provisions of the new Schedule 6.2 of the RAA.

The Commission's jurisdiction under the FPA includes authority to authorize PJM's use of end-user data in its administration of the proposed wholesale load reduction model. First, and most importantly, PJM's proposal includes no compensation to any retail consumer, and thus presents no question of overstepping the limits of the Commission's jurisdiction as articulated in *EPSA*. Second, the wholesale entities (WLR Providers) that commit to wholesale load reductions in RPM will be ultimately responsible for ensuring that PJM receives all the customer-specific data needed to demonstrate that the wholesale load reduction committed by the wholesale entity were in fact provided.

This filing therefore draws upon and incorporates various market rules the Commission has approved over the years to ensure that committed load reductions are credible, are grounded in reasonable expectation, and are in fact provided when called upon. These include rules the Commission has approved in the RAA for compliance and performance measurement for demand response in the capacity market, the Demand Resource Sell Offer Plan rules the Commission approved in 2014 to help ensure that forward offers of demand response for a future Delivery Year are based in reasonable expectations supported by hard data and analysis, and select other existing rules on measurement and verification that rules and are helpful to ensuring that load reductions committed as capacity are in fact realized when called upon. Each of these types of market rule is discussed in more detail in later sections of this transmittal.

**F. Provisions to Facilitate Flexible Implementation Approaches**

As explained, WLR will be available only to Wholesale Entities, and must be provided from loads the bidding Wholesale Entity is responsible for serving. In simplest terms, WLR modifies the quantity term of the Commission-jurisdictional sale for resale transaction between PJM and the LSE.

But compliance with these essential minimum requirements does not bar a role for any other entities, nor does it prevent parties from transacting with others to help them implement their load reduction programs and manage the risk of agreeing to provide such wholesale load reductions.

The tools that parties may use to tailor, structure, implement, and manage their load reduction commitments are, for the most part, already found in the PJM Tariff. Such options either will apply by their current terms to WLR, once WLR is added to the PJM Tariff and RAA, or through clarifying changes PJM proposes to ensure those same transactional and implementation tools are available to WLR Providers. PJM also is adding some new options specific to WLR.

As more fully described in later sections, these implementation and transactional tools and options include:

- The existing RAA provisions that expressly permit LSEs to act through an authorized agent, including important requirements on the designation and authorization of such agents and the LSE's ultimate responsibility;
- Proposed provisions in new Schedule 6.2 of the RAA that expressly permit LSEs with WLR commitments to transfer those WLR commitments to a second LSE that will take over service to the associated wholesale load—an essential provision given RPM's three-year forward perspective, and the probability that retail customers could change their supplier after a BRA (and even within a Delivery Year);
- Various means for a Wholesale Entity that clears WLR in an RPM Auction to manage risks and unexpected contingencies by finding a supply-side replacement (such as an available generation resource), either by clearing a



Buy Bid for replacement capacity in an Incremental Auction (which PJM is clarifying as an option available to WLR Providers), or by becoming a buyer of a generation Capacity Resource in one of the various bilateral transactions already permitted by the PJM Tariff, such as “section 4.6 bilaterals” or Locational Unforced Capacity (“Locational UCAP”);

- Use of the Designation of Authority forms that are available on PJM’s website and regularly used by market participants to satisfy a variety of relationship or transactional needs.

Taken together, these tools and options should allow parties substantial flexibility to structure their arrangements to comply with PJM’s market rules, but also accommodate the variety of approaches to demand response that may arise as a result of state regulatory programs and industry innovations.

#### **G. Compliance Charges**

As with all other products and commitments authorized in the PJM capacity market, PJM proposes a variety of compliance charges to incent parties to honor their RPM commitments. Patterned closely on capacity compliance charges previously accepted by the Commission, PJM proposes for WLR:

- Deficiency charges if a WLR Provider clears WLR for a Delivery Year but, as of the start of the Delivery Year, does not have the capability to honor the commitment;
- Testing requirements and charges, to verify during the Delivery Year that the WLR can fulfill any load reduction commitments; and
- Performance measurement rules and associated charges, to evaluate whether WLR has performed when called upon during an emergency and to charge it for failing to perform (as well as, assuming acceptance of the Capacity Performance Filing, to make added payments to the WLR Provider if its load reductions exceed expected performance).

## **H. Wholesale Energy Efficiency Loads**

In addition to establishing a demand-side load reduction product that PJM can call upon to reduce energy consumption, PJM proposes to establish a demand-side energy efficiency load reduction that can bid into and clear in Base Residual Auctions, and for which an LSE may obtain an associated reduction in its capacity obligation. This new demand-side reduction is called Wholesale Energy Efficiency Loads, or WEELs. The rules governing continuous reduction performance, measurement, and verification of WEELs are closely modeled on those approved for the existing Energy Efficiency Resources. Like for WLR Loads, WEELs can be transferred to other LSEs or can be replaced with generation resources, and WEELs are similarly subject to compliance charges for deficiency shortfalls and non-performance.

## **I. Credit Requirements**

To ensure RPM market participants will be able to satisfy any applicable compliance charges assessed to them, Attachment Q to the PJM Tariff includes credit requirements particular to RPM. The RPM credit rules recognize the specific risks associated with commitments of planned resources on a three-year forward basis. The establishment of WLR Loads and WEELs as demand-side products requires updates to the RPM credit requirements to ensure that WLR and WEEL Providers will be sufficiently creditworthy to pay one or more compliance charges, should they become subject to such charges. Accordingly, PJM is proposing revisions to Attachment Q that account for the enhanced risk of commitments of Planned WLR Loads and WEELs. These proposed revisions apply to WLR and WEEL Providers' credit terms closely modeled on those the Commission previously accepted for Price Responsive Demand ("PRD") Providers and Energy Efficiency Resources.

**IV. PJM's Proposed RPM Changes Are Just and Reasonable, and Within the Commission's Jurisdiction**

**A. PJM's Proposal Does Not Implicate *EPSA*'s Jurisdictional Ruling**

The *EPSA* court reviewed only the Commission's Order Nos. 745 and 745-A.<sup>27</sup> Therefore, by definition, the holding of *EPSA* circumscribes only the Commission's jurisdiction to require compensation in wholesale energy markets to retail end users that agree to reduce their consumption when called upon.

While PJM's present proposal relates to its capacity market, rather than its energy markets, the validity of the proposal does not rest on that distinction. Instead, PJM's proposal is plainly within the Commission's jurisdiction because the proposed tariff revisions relate to how PJM will reflect in its wholesale capacity market the commitments of *wholesale* customers to reduce their *wholesale* purchases of power under a prescribed price and other terms. In exchange for such commitments, wholesale customers will obtain reductions in their PJM capacity obligations and the associated capacity charges the PJM Tariff requires them to pay. In addition, the wholesale price for capacity in the PJM Region will be reduced for all wholesale customers. PJM's proposal involves no payments to retail customers and no retail transactions. Therefore, *EPSA* has no legal implications for PJM's proposal, even if that decision is upheld and thereafter interpreted to extend to wholesale capacity markets, as well as energy markets.

The principal element of PJM's proposal is to incorporate into PJM's determination of the VRR Curve the commitments of wholesale entities to reduce their wholesale purchases (or to forego additional purchases) from PJM at specified capacity prices. PJM's proposal thus relies on the long-established principle that a wholesale customer may reduce its allocated share of its wholesale supplier's capacity costs by reducing its consumption at times of system peak demand. For example, in *Kentucky*

---

<sup>27</sup> *Demand Response Compensation in Organized Wholesale Energy Markets*, Order No. 745, 2008–2013 FERC Stats. & Regs., Regs. Preambles ¶ 31,322, *order on reh'g & clarification*, Order No. 745-A, 137 FERC ¶ 61,215 (2011), *reh'g denied*, Order No. 745-B, 138 FERC ¶ 61,148 (2012), *vacated*, *EPSA*.

*Utilities Co.*,<sup>28</sup> the Commission held that a customer's agreement to provide demand response, i.e., to be curtailed at its supplier's direction during the supplier's peak demand periods, justified a reduction in the customer's obligation to pay capacity costs:

What is important is that because of the right to interrupt, Kentucky [(the supplier)] can keep Paris [(the customer)] from imposing any demand on Kentucky's system during peak periods and thereby control its capacity costs. In these circumstances the peak responsibility method provides that no demand costs whatsoever are to be allocated to the customer.<sup>29</sup>

The courts also have acknowledged that responsibility for capacity costs is a function of the extent to which a wholesale customer contributes to its supplier's aggregate peak demand. "A utility's decision to invest in additional capacity is . . . informed by the type of demand placed upon the system at its peak."<sup>30</sup> Accordingly, a wholesale customer's election to take a service that the supplier can interrupt during system peak demands—i.e., to provide demand response—"typically" means the price the customer pays should reflect "a significant discount because the utility's ability simply to cut off service at peak demand periods alleviates its need to plan for and finance additional capacity to offer the service."<sup>31</sup>

PJM's WLR proposal is a direct corollary of this time-honored principle of cost allocation. PJM proposes to permit each Wholesale Entity to inform the capacity market of how much capacity the entity requires at differing price points. At prices the purchaser

---

<sup>28</sup> Opinion No. 116, 15 FERC ¶ 61,002 (1981) ("*Kentucky*").

<sup>29</sup> *Id.* at 61,004. *See also Delmarva Power & Light Co.*, 24 FERC ¶ 61,199, at 61,462 (1983) (following *Kentucky*); *Minn. Power & Light Co.*, Opinion No. 12, 3 FERC ¶ 61,045, at 61,140 (1978) (rejecting a wholesale supplier's proposed allocation of capacity costs to "supplemental power" service customers where the supplier did not demonstrate that "this [was] anything more than an interruptible service that is frequently counted on and used," including during peak demand periods).

<sup>30</sup> *La. Pub. Serv. Comm'n v. FERC*, 184 F.3d 892, 895 (D.C. Cir. 1999).

<sup>31</sup> *Id.* (quoting *Fort Pierce Utils. Auth. v. FERC*, 730 F.2d 778, 786 (D.C. Cir. 1984)).

is unwilling to pay, it commits to an interruption of its wholesale service to the extent of its committed WLR Load or WEEL. In return, the purchaser's capacity obligation is reduced, with a concomitant reduction in the capacity charges it must pay to PJM.

Support for PJM's proposal also is found in the courts' further holdings that the Commission's regulatory authority under the FPA includes jurisdiction to review and approve tariff terms establishing wholesale capacity obligations, capacity deficiency charges, and other elements wholesale markets employ to achieve just and reasonable rates while ensuring reliable service.

In *Municipalities of Groton v. FERC*,<sup>32</sup> for example, the court upheld the Commission's jurisdiction to approve the New England Power Pool deficiency charges applicable to member utilities that failed to make available their allocated shares of the capacity the pool determined to be needed for reliability purposes. The court so ruled even though "the purpose behind the deficiency charge" was "to motivate participants to develop sufficient capacity to meet their load requirements," and thus allegedly intruded into the states' exclusive jurisdiction to regulate generation facilities.<sup>33</sup>

Building on the *Groton* precedent, the D.C. Circuit more recently held that the Commission may approve the terms of ISO New England's system-wide capacity requirement and its allocation of capacity obligations among its members as a means of ensuring that the RTO's capacity charges are just and reasonable:

[T]he Commission claims authority to review the capacity charges that ISO-NE imposes on member utilities to ensure they are just and reasonable. Because the ICR [(the RTO's Installed Capacity Requirement, similar to PJM's Reliability Requirement)] impacts those charges in two ways--by affecting the market clearing price for capacity in the Forward Market and by affecting the size of each LSE's proportionate share of the ICR--the Commission claims authority to review it as an integral determinant of the transmission tariffs within its jurisdiction. . . . That reasonable concerns about system adequacy might factor into the fairness of those charges is precisely what brings

---

<sup>32</sup> 587 F.2d 1296 (D.C. Cir. 1978) ("*Groton*").

<sup>33</sup> *Id.* at 1302.

them within the heartland of the Commission's [FPA] jurisdiction.<sup>34</sup>

The Commission has applied the principles underlying these decisions to assert its jurisdiction to regulate numerous matters related to rates for transmission or sale for resale services, including several of particular relevance here:

- operating practices that affect reservation, scheduling, and curtailment provisions in open access transmission tariffs;<sup>35</sup>
- explanation of the values that are input to a demand curve for ancillary service products;<sup>36</sup>
- the level of an installed capacity requirement;<sup>37</sup> and
- the type and extent of information a market participant must provide to support its offer into a capacity market.<sup>38</sup>

The Commission also has held that wholesale customers with load-serving responsibilities in areas that join an ISO/RTO must have capacity requirements comparable to those of the rest of the region, to avoid unfairly leaning on the capacity commitments of the other wholesale customers/LSEs.<sup>39</sup> The Commission's authority to ensure that such practices result in jurisdictional rates that are just and reasonable and not unduly discriminatory are plainly implicated in each of these holdings and approvals.

---

<sup>34</sup> *Conn. Dep't. of Pub. Util. Control v. FERC*, 569 F.3d at 483 (citation omitted).

<sup>35</sup> *N. Am. Elec. Reliability Council*, 85 FERC ¶ 61,353, at 62,362 (1998).

<sup>36</sup> *Cal. Indep. Sys. Operator Corp.*, 131 FERC ¶ 61,280, at PP 60-61 (2010).

<sup>37</sup> *ISO New England Inc.*, 119 FERC ¶ 61,161, at P 26 (2007).

<sup>38</sup> *Demand Response Coal. v. PJM Interconnection, L.L.C.*, 143 FERC ¶ 61,061, at P 17 (2013).

<sup>39</sup> *PJM Interconnection, L.L.C.*, 96 FERC ¶ 61,060, at 61,213-14 (2001) (recognizing the need for uniform rules across PJM to assure reliability, "thus precluding one area from unfairly 'leaning' on the other"), *order on reh'g*, 116 FERC ¶ 61,253 (2006).

Therefore, it is clearly within the Commission’s authority to review and approve PJM’s proposal here to include wholesale demand reductions in the RPM supply-demand equation. *EPSA* offers no basis to question that conclusion.

**B. Even If *EPSA* Is Deemed Relevant, PJM’s Proposal Meets Its Jurisdictional Test**

Defending its authority to adopt Order No. 745, the Commission argued to the *EPSA* court that compensation for retail demand response in wholesale energy markets is within the Commission’s jurisdiction under sections 205 and 206 of the FPA to ensure that “all rules and regulations *affecting* . . . rates’ in connection with the wholesale sale of energy are ‘just and reasonable.’”<sup>40</sup> The reviewing court agreed that “demand response compensation affects the wholesale market” – and even acknowledged that the relationship is “direct.”<sup>41</sup> Nevertheless, the court faulted the Commission for failing to enunciate any “limiting principle” to its rationale.<sup>42</sup>

The court pointed out that FPA section 201(a) provides that the Commission’s regulatory reach “‘extend[s] only to those matters which are not subject to regulation by the States.’”<sup>43</sup> Section 201 specifically reserves for the states “exclusive” jurisdiction over the retail electricity market, and, the court stated, “demand response, while not necessarily a retail *sale*, is indeed part of the retail *market*, which . . . is exclusively within the state’s jurisdiction.”<sup>44</sup> Referring to the Commission’s reliance on its jurisdiction over matters “affecting” rates, the court agreed that “FERC can regulate practices affecting the

---

<sup>40</sup> *EPSA* at 221 (alteration in original) (quoting FPA section 205(a), 16 U.S.C. § 824d(a)).

<sup>41</sup> *Id.*

<sup>42</sup> *Id.*

<sup>43</sup> *Id.* (alteration in original) (quoting FPA section 201(a), 16 U.S.C. § 824(a)); *see also id.* at 221–22 (The “overall statutory scheme” of the FPA is that “FERC can regulate practices affecting the wholesale market under §§ 205 and 206, provided the Commission is not directly regulating a matter subject to state control, such as the retail market.”).

<sup>44</sup> *Id.* at 222 n.1.

wholesale market under §§ 205 and 206,” but only when it “is not directly regulating a matter subject to state control, such as the retail market.”<sup>45</sup>

*EPSA*, therefore, stands for the proposition that the scope of the Commission’s “affecting” authority under FPA sections 205 and 206 cannot circumvent the constraints imposed by other provisions of the statute. In the context of demand response as defined in Order Nos. 745 and 745-A, the critical constraint was section 201(a)’s provision that the retail market for electricity “is exclusively within the state[s] jurisdiction.”<sup>46</sup>

This view of *EPSA* is squarely supported by the D.C. Circuit’s decision of a few weeks later in *New England Power Generators Ass’n v. FERC*.<sup>47</sup> In *NEPGA*, the court<sup>48</sup> rejected the contention that an RTO’s rules mitigating buyer market power in a wholesale capacity market were beyond the Commission’s jurisdiction. The *NEPGA* court held that the Commission had authority to approve the RTO’s tariff for two reasons. First, the RTO’s rules establish parameters for offers into a wholesale capacity market, and therefore are a matter “affecting” wholesale rates that the Commission can regulate under FPA sections 205 and 206.<sup>49</sup> Second, the rules do not contravene any statutory limitation of the Commission’s authority; specifically, they do not run afoul of section 201(b), because they “do not entail direct regulation of facilities, a matter within the exclusive control of the states.”<sup>50</sup>

In short, *EPSA* struck down Order No. 745 because it attempted to regulate a matter the court held is subject to regulation only by the states, i.e., compensation for a retail customer’s decision to purchase less electricity at retail. End-user demand response

---

<sup>45</sup> *Id.* The court added that, even if it had assumed the FPA was ambiguous about the extent of FERC’s authority, it still would have ruled against the Commission because Order No. 745 involved “direct regulation of the retail market.” *Id.* at 224.

<sup>46</sup> *Id.* at 222 n.1.

<sup>47</sup> 757 F.3d 283 (D.C. Cir. 2014) (“*NEPGA*”).

<sup>48</sup> Though a different panel of judges decided *NEPGA*, joining the decision was Circuit Judge Brown, the author of the *EPSA* majority opinion.

<sup>49</sup> *NEPGA* at 290.

<sup>50</sup> *Id.*



and wholesale-customer demand response both can directly affect the wholesale price of capacity. Regulating the price for the former, according to *EPSA*, requires the Commission to intrude impermissibly in the retail market that is the exclusive province of the states. The latter plainly does not. Unlike the end-user demand response at issue in *EPSA*, the wholesale customer's decision to purchase less power at wholesale, and thereby reduce demand in the wholesale market, *is not a matter the FPA reserves exclusively for state regulation*.<sup>51</sup> Thus, PJM's proposed tariff prescribing how voluntary load reductions may participate in its wholesale capacity market, but which does not establish compensation for any end-user, and does not set the price or other terms of any retail electricity transactions, does not run afoul of *EPSA*'s holding.

PJM merely proposes to adjust the VRR Curve by amounts equivalent to the commitments of *wholesale entities* to reduce their *wholesale loads* on the demand side of the RPM supply/demand equation. The terms on which LSEs may obtain curtailment commitments from their end-use retail customers will be established outside the PJM Tariff, and outside the Commission's regulatory purview, in private contracts or through state laws or regulations. Rather than somehow evading *EPSA*, therefore, PJM's approach in fact preserves to the states exactly the role that *EPSA* holds the Commission must respect, i.e., regulating the distinct retail sale, as well as compensation for reductions in retail purchases.

**C. Wholesale Load Reductions Directly Affect PJM's Rates for Jurisdictional Sales of Capacity for Resale**

In RPM's single-clearing price auctions, the voluntary reductions in wholesale loads that PJM proposes to accommodate in RPM can reduce the prices that all LSEs pay for their jurisdictional, wholesale purchases of capacity for resale to the retail customers they are obligated to serve. As shown above, when PJM integrates such reductions into the VRR Curve, they reduce the amount of capacity PJM must procure in RPM to meet its Reliability Requirement, and have a direct effect on the regional clearing price for wholesale capacity. These circumstances clearly make approval of the wholesale load

---

<sup>51</sup> *Cf. NEPGA* at 290.

reductions that PJM seeks to factor into the VRR Curve a permissible exercise of the Commission's authority.

In the proposal it makes here, PJM seeks to authorize LSEs to submit load reduction bids into PJM's capacity market and (like under the ALM program) to receive reductions to their capacity obligations, as well as reductions in the locational capacity charges they pay under the current tariff. The logic of *Groton* and the other court and Commission precedents discussed above, as well as the reasoning of *EPSA* itself, support the conclusion that the Commission may lawfully review and authorize the terms for such wholesale load reductions in order to ensure that the prices determined in PJM's wholesale capacity market are and will be just and reasonable.

**D. Wholesale Load Reductions Are Properly Distinguished from Retail Demand Response**

Wholesale demand is, of course, composed of retail demand. However, wholesale demand, which is the sum total of the energy or capacity that LSEs purchase for resale, is a distinct and essential component of a wholesale market. That key attribute—that the purchaser will resell the power and not consume it—is precisely how Congress distinguished FERC-jurisdictional transactions from non-jurisdictional sales in the FPA. The ensuing resale is a bright-line legal distinction that places the wholesale load reductions PJM proposes to incorporate into the VRR Curve unquestionably within the Commission's jurisdiction. Nothing about PJM's proposed wholesale load reduction proposal implicates *EPSA*'s directive that the Commission may not rely on its "affecting" jurisdiction to intrude into an area reserved for exclusive regulation by the states. Accordingly, PJM respectfully urges the Commission to accept PJM's revised tariff records to authorize Wholesale Load Reductions in RPM, to become effective as described in this transmittal.

**V. Description of Proposed Revisions**

**A. Removing Provisions Enabling Demand Resources and Energy Efficiency Resources to Make Supply-Side Capacity Commitments**

Most of this filing is focused on the market rules for a new demand-side form of wholesale load reduction provided by wholesale entities. However, that is only half the

effort needed to mitigate the uncertainty raised by *EPSA* for the current supply-side form of demand response provided by end-users and their representatives. To get at the heart of those risks, this filing also must include a mechanism to prevent new three-year-forward commitments in the next BRA under the current rules if the Supreme Court denies certiorari of *EPSA*. The risks described earlier in this filing (including clearing Demand Resource commitments in the 2015 BRA that, as a result of further litigation spawned by *EPSA*, might not be honored in the 2018/2019 Delivery Year, and undermining RPM's price signal function by setting BRA prices that later might have to be revised) arise only if the BRA is conducted under rules clouded by *EPSA*.

Consequently, in addition to new provisions that embody PJM's proposed new Wholesale Load Reduction approach to reflecting demand response, PJM also proposes to amend the PJM Tariff and RAA to make clear that the existing supply-side products that are provided directly by end-users or their representatives, i.e., Demand Resources and Energy Efficiency Resources, "shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years."<sup>52</sup>

However, there is a very important exception to this rule. PJM does not propose to disrupt, and indeed relies upon, Demand Resources and Energy Efficiency Resources that have already been cleared or committed. Accordingly, the above restriction applies "except to the extent [Demand Resources and Energy Efficiency Resources are] committed before April 1, 2015."<sup>53</sup> Therefore, all Demand Resources and Energy Efficiency Resources that have already been committed (or that are committed by April 1, 2015) for the 2014/2015, 2015/2016, 2016/2017, or 2017/2018 Delivery Years are unaffected by this proposed restriction.

This language is clear and unambiguous and puts all market participants on notice that PJM will not accept new offers or commitments of Demand Resources or Energy Efficiency Resources. To further eliminate doubt, PJM proposes to insert this amendatory

---

<sup>52</sup> See, e.g., proposed PJM Tariff, Attachment DD, section 1 (Options A & B).

<sup>53</sup> *Id.*

language in each area of the Tariff or RAA that otherwise makes provisions for offers or commitments of Demand Resources or Energy Efficiency Resources. This includes both Attachment DD-1 of the PJM Tariff and RAA Schedule 6, which set forth most of the rules applicable to Demand Resources and Energy Efficiency Resources, as well as numerous places within the RPM rules in Attachment DD that address such matters as resource definitions, resource offers, constraints on clearing of resources, and other related matters. Viewed as a whole, these multiple insertions leave no doubt that no new Demand Resource or Energy Efficiency Resource offers or commitments will be accepted after April 1, 2015, if PJM's proposed revisions are accepted and become effective. Attachment E enclosed with this transmittal is a list of the provisions of the PJM Tariff and RAA where PJM proposes to add the foregoing language (or very similar text with the same meaning and purpose).

PJM recognizes that a more surgical (and laborious) approach to this drafting issue would be to excise from the PJM Tariff, RAA, and other documents, each section, paragraph, sentence, clause, or word that reflects, advances, or references the current approach of allowing supply-side offers from end-use customers or their representatives. In the unique circumstances presented here, PJM has not taken that approach.

First, the *EPSA* mandate remains stayed pending possible Supreme Court disposition, so the Commission has yet to act on remand. Thus, the Commission has neither considered nor decided how jurisdictional public utilities should address their tariffs' existing provisions concerning demand response participation in any wholesale market. Second, neither the Commission nor any court has extended the *EPSA* holding to any capacity market. PJM and its stakeholders have devoted over eight years to developing the current rules on demand response and they should not be jettisoned unnecessarily. Third, and closely related to the second reason, PJM considers the present filing a "stop-gap." It is designed to address the immediate problem that PJM must conduct a BRA less than four months following the date of this proposal to secure capacity commitments that will not be delivered for three years hence, and that a decision of the Supreme Court denying review of *EPSA* would magnify the considerable uncertainty hanging over those impending commitments. Fulfilling this "stop-gap"

function requires a set of tariff changes that 1) establish a new, more sound vehicle for the wholesale market's recognition of the region's demand response capabilities; and 2) make clear that no new commitments can be allowed under the existing rules. That is what this filing does: it proposes a viable new approach to become effective as of April 1, 2015, and makes clear that the old approach is ineffective as of the same date.

PJM's proposed amendatory language contemplates that the existing rules on offering and committing Demand Resources and Energy Efficiency Resources will remain disabled "unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission." PJM offers this language to recognize the possibility of generic action by the Commission following the final disposition of *EPSA*, which action might then need to be reflected in PJM's tariff.

As an alternative, however, if the Commission deems it preferable, PJM could be directed to submit a compliance filing, following acceptance of the present filing, that removes or replaces all of the specific provisions in the PJM Tariff, RAA, and (as needed) PJM's other governing agreements that embody the present approach of supply-side demand response provided by end-users and their representatives.

## **B. Overview of Wholesale Load Reduction Rules**

PJM proposes RAA and PJM Tariff changes to set forth the proposed market rules for WLRs and WEELs. Pursuant to the proposed rules, which are described more fully below, for the 2018/2019 Delivery Year and subsequent Delivery Years, any Wholesale Entity may submit one or more WLR Bids in a Base Residual Auction to reduce WLR Load or WEEL by a specified quantity during emergency actions. A Wholesale Entity intending to submit a WLR Bid supported by WLR Load into a BRA shall provide a plan ("WLR Plan") to calculate and supports the amount of load reduction (i.e. "Nominated WLR Quantity") it proposes to specify in its WLR Bid. A Wholesale Entity intending to submit a WLR Bid supported by WEEL shall provide a notice of intent that includes all pertinent project design data and support the amount of load reduction (i.e., "Nominated WEEL Quantity") it proposes to specify in its WLR Bid.

PJM's proposal provides that WLR and WEEL may be bid into BRAs only. This is a function of recognizing wholesale load reductions as a demand-side factor in RPM,

and of PJM's RPM Auction experience. First, clearing demand-side bids in Incremental Auctions is likely to be problematic. Demand bids can clear in Incremental Auctions only if PJM is procuring additional capacity in such an auction, and that has rarely happened. Indeed, it has been much more common for PJM to offer to release capacity commitments in Incremental Auctions than for it to procure additional resources.

Second, PJM's experience teaches that there likely would be little value in clearing a demand-side bid in an Incremental Auction. Particularly in recent years, the BRA clearing prices contribute 95 percent or more to the Final Zonal Capacity Price that is used to calculate the Locational Reliability Charge to LSEs. The reduced Reliability Requirement that will result from demand bids committed in a BRA will be reflected in all subsequent Incremental Auctions. Accordingly, the economic value of clearing a WLR or WEEL Bid—the reduction to a LSE's reliability charge—overwhelmingly will be realized in a BRA. A bid cleared in an Incremental Auction is likely to provide, at best, less than 5 percent of such value. Moreover, as noted, PJM's proposal includes several options for WLR and WEEL Providers to substitute generation capacity for all or portions of their commitments.<sup>54</sup> PJM has concluded, therefore, that the additional burdens outweigh the potential benefits of allowing demand-side bids for wholesale load reductions in Incremental Auctions.

In BRAs in which WLR Bids are submitted, PJM will shift to the left the VRR Curve for the PJM Region or an LDA, as applicable, to reflect any WLR Bids. Reductions in load made pursuant to a WLR Load commitment in response to price shall be added back in determining Peak Load Contributions. Any Wholesale Entity that commits WLR Load in an RPM Auction, but fails fully to honor its WLR commitments for a Delivery Year, shall be assessed compliance charges.<sup>55</sup> In the RAA and Tariff

---

<sup>54</sup> See proposed RAA, Schedule 6.2, section J(2) (Options A & B).

<sup>55</sup> Proposed RAA, Schedule 6.2, section A (Options A & B).

revisions, PJM also sets forth the rules for WEELs<sup>56</sup> in the RPM market. These rules are included because they are an important component of the RPM market, but also may be impacted by *EPSA*, as WEELs require action by retail customers.

PJM's proposal provides that WLR and WEEL may bid in BRAs only. PJM chose this approach based on consideration of its RPM auction experience, the mechanics of recognizing wholesale demand reductions as a demand-side factor in RPM, and the stop-gap nature of this filing.

PJM's experience with RPM indicates that there may be relatively little value in clearing a demand side bid in an Incremental Auction. Particularly in recent years, the BRA clearing prices have contributed 95 percent or more to the Final Zonal Capacity Price that is used to calculate the Locational Reliability Charge to LSEs. The reduced Reliability Requirement that will result from demand bids committed in a BRA will be reflected in all subsequent Incremental Auctions for the same Delivery Year. Thus, the economic value of clearing a WLR or WEEL bid—the reduction to a LSE's reliability charge—may be realized largely in a BRA. Moreover, as noted, PJM's proposal includes several options for WLR and WEEL Providers to substitute generation capacity for all or portions of their commitments.<sup>57</sup>

In addition, there is limited opportunity for recognition of demand side bids in the Incremental Auctions as currently structured. All load is represented in the BRA by the VRR Curve. Only a truncated version of the VRR Curve is used in the Incremental Auctions, and only when there has been an increase in the load forecast that requires PJM

---

<sup>56</sup> Proposed RAA, section 1.87A (Options A & B) (defining WEEL as “a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6.2 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak summer and winter periods as described in Schedule 6.2 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the WEEL is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.”)

<sup>57</sup> See proposed RAA, Schedule 6.2, section J(2) (Options A & B).

to seek more capacity through an IA. That has been uncommon recently. There are “Buy Bids” submitted in Incremental Auctions, but those are predominantly concerned with replacing one supply-side resource with another supply-side resource.

In light of these circumstances, and because this filing is designed for implementation in time for the 2015 BRA, PJM’s proposal focuses on the critically important need for new rules for demand-side participation in that auction.

However, PJM does not consider this the final word on the matter, and is willing to work with its stakeholders on possible means of permitting WLR to bid into Incremental Auctions, as well as BRAs. Conceptually, for example, there may be value in allowing a generation resource that has overcommitted in a BRA (perhaps as a result of an intervening reduction in the resource’s Unforced Capacity) to be paired up with a WLR Provider that is willing to reduce its load in a way that matches the generation resource’s offered reduction in its capacity. If this is done, it should be in a way that preserves the approach proposed in this filing of not paying WLR Providers for load reductions.

However, considerable work and discussion would be needed to develop workable market rules that allow WLR to participate in IAs. Therefore, if the Commission accepts the WLR proposal in this filing, PJM would be willing to address the options for WLR participation in Incremental Auctions as a follow-on matter with its stakeholders, perhaps allowing such rules to be implemented in time for one or more Incremental Auctions scheduled for the 2018/2019 Delivery Year.

The WLR and WEEL rules are set forth in detail in Section IV of Tariff Attachment Q, Tariff Attachments DD and DD-1, and RAA section 2 and Schedule 6.2, and are more fully described below.

### **C. WLR Obligations**

Pursuant to PJM’s proposal, qualifying WLR Load may bid into the BRA. The qualifying criteria for WLR Load set forth in new Schedule 6.2 of the RAA mirror the



criteria that PJM proposed, and the Commission accepted, for Demand Resources.<sup>58</sup> The qualifying criteria promote operational flexibility and lead to a more efficient use of load reduction capability and are therefore just and reasonable.

All WLR Load must respond within 30 minutes of a request from PJM to reduce energy consumption. As the Commission has explained, a 30 minute prior notification requirement “balances PJM’s need to quickly respond to system emergencies with the needs of demand response resources and appropriately addresses the concerns of demand response resources that may have physical limitations through the proposed exception process.”<sup>59</sup> Additionally, the 30 minute prior notification requirement prevents PJM dispatchers from calling upon WLR Load when forecasted system conditions are still in flux, or calling upon more WLR Load than is ultimately necessary to maintain reliability.

Furthermore, PJM recognizes that there may be circumstances when WLR Load cannot, or should not, be required to respond within 30 minutes. Accordingly, PJM proposes an exceptions process that would enable WLR Providers to notify PJM, at the time the WLR Load registers, that the WLR Load is not able to meet the 30 minute notification requirement. The four exceptions that PJM proposes for WLR Load, which are intended to accommodate resources with legitimate, physical reasons why load reduction cannot be achieved within the default time period, are identical to the four exceptions that the Commission approved for Demand Resources.<sup>60</sup> The revised tariff provides that, if one of the four exceptions is established, the WLR Provider may seek to receive notification from PJM either 60 minutes or 120 minutes prior to a Load Management Event.

---

<sup>58</sup> See RAA, Schedule 6, section A; see also *PJM Interconnection, L.L.C.*, 147 FERC ¶ 61,103, at PP 57-62, 81-86 (2014) (accepting tariff language that requires, on a phased-in basis, that all demand response perform within 30 minutes of notification, unless a demand response resources has requested (and PJM has granted) one of four specific exemptions).

<sup>59</sup> *Id.* at P 58.

<sup>60</sup> See RAA, Schedule 6, sections A(2)(b)(1) – (4).

Further, upon acceptance of a WLR Bid into an RPM Auction, the WLR Provider shall establish a firm commitment to the specified Nominated WLR Quantity at each Zone or sub-Zone during the applicable Delivery Year. However, a WLR Bid may be transferred pursuant to paragraph J of Schedule 6.2. WLR Loads that are committed must also be available upon PJM's request during pre-emergency and emergency events.<sup>61</sup>

#### **D. Agents**

LSEs with WLR Load that wish to submit WLR Bids into the RPM Auctions may desire to make arrangements with other entities to facilitate the wholesale load reductions associated with their bids.<sup>62</sup> To provide LSEs the necessary flexibility to enter into such arrangements, paragraph C of proposed Schedule 6.2 allows LSEs (i.e., Wholesale Entities) to authorize one or more agents to perform any act authorized or required under Schedule 6.2 of the RAA.<sup>63</sup> To effectuate such an agency arrangement, paragraph C requires that the Wholesale Entity provide written notification to PJM, prior to any act by the agent on the Wholesale Entity's behalf, identifying the agent and the scope of the agent's authority.<sup>64</sup> In addition, when there is such an agency relationship, paragraph C provides that, as between the Wholesale Entity and PJM, the Wholesale Entity (and not the agent) will remain solely responsible for all of the duties and obligations of a Wholesale Entity under Schedule 6.2 of the RAA. Thus, the Wholesale Entity always remains the actual participant in the RPM market.

---

<sup>61</sup> See proposed RAA, Schedule 6.2, section B(6) (Options A & B).

<sup>62</sup> For example, states may have programs or regulatory schemes that mandate that LSE's participate with alternative energy suppliers in contracting for load reductions.

<sup>63</sup> See proposed RAA, Schedule 6.2, section C (Options A & B).

<sup>64</sup> PJM routinely permits agents to act on behalf of principals in the PJM markets and interconnection processes by executing a Declaration of Authority form, which is posted on the PJM website. See *Declaration of Authority*, PJM Interconnection, L.L.C. (Nov. 18, 2014), <http://www.pjm.com/~media/about-pjm/member-services/membership-assistant/doa-principal-agent-arrangement.ashx>.

**E. WLR Plans**

To ensure that WLR Bids are fully supported, proposed paragraph D of RAA Schedule 6.2 provides that WLR Providers must submit WLR Plans detailing the loads supporting the load reduction bid. The plan requirements are closely modeled on provisions that the Commission recently found to be just and reasonable in Docket No. ER13-2108-000<sup>65</sup> and ensure that WLR Providers will be treated comparably to other RPM participants. As described below, WLR Plans must be submitted in the form of a template provided on PJM's website. PJM will timely review each plan and request WLR Providers to cure any identified deficiencies.

*1. Template*

Much like the previously approved template,<sup>66</sup> the WLR Plan template requires the WLR Provider to state the Nominated WLR Quantity, identify all Existing WLR Loads, and provide information regarding Planned WLR Loads.

The revised tariff establishes that, for any WLR Load not identified as "Existing," the WLR Load Provider must include "the details of, and key assumptions underlying the Planned WLR Load quantities." Such data is sought support the WLR Provider's assertion that it will actually be the LSE for its Planned WLR Load and that such Planned WLR Load will be available for the Delivery Year at the bidder's proposed load reduction quantity. The list of such attributes and assumptions mirrors those that PJM proposed, and the Commission accepted, to develop the Planned Demand Resources quantities.<sup>67</sup>

The geographic detail to be included in the WLR Plan template for Planned WLR Loads is nearly identical to that which is presently required for Planned Demand

---

<sup>65</sup> See *PJM Interconnection, L.L.C.*, 146 FERC ¶ 61,150 (2014) (accepting PJM's revisions to its Tariff and RAA to require certain information be provided prior to submission of a Demand Resource offer into PJM's forward capacity auctions to assure that the resource will be able to provide the demand reduction capability). See also RAA, Schedule 6, section A-1.

<sup>66</sup> RAA, Schedule 6, section A-1.

<sup>67</sup> See RAA, Schedule 6, section A-1(1)(c)(i).

Resources.<sup>68</sup> For example, the revised RAA provides that, when an end-use customer site is not identified, the WLR Load Provider must submit WLR information by Zone or by sub-Zone for each end-use customer segment. Additionally, the revised tariff specifies the end-use customer site information to be provided when it is known before the auction (or when it is required under the narrow conditions described below). In those cases, the WLR Provider must supply the end-use customer's name, its premises address and its electric distribution company account number (if known), and the customer's end-use segment and Zone or sub-Zone. The WLR Load Provider also must supply data on the load reduction value of the customer.<sup>69</sup>

The final component of the standard WLR Plan template is a schedule that sets forth "an approximate timeline for procuring end-use customer sites as needed to physically deliver" the demand reduction capability identified in the WLR Plan. Proposed RAA Schedule 6.2 provides that the WLR Provider must specify the cumulative number of customers and the cumulative Nominated WLR Quantity associated with each end-use customer segment within each Zone/sub-Zone that the WLR Provider expects to have under contract as of June 1 each year between the time of the RAA Auction and the subject Delivery Year.

## *2. Procedures Concerning Submission and Review of WLR Plans*

The final subsection of revised section D sets forth the procedures for submission and review of WLR Plans, including preliminary actions PJM must undertake. These procedures are substantially similar to those the Commission approved for Demand

---

<sup>68</sup> See RAA, Schedule 6, sections A-1(1)(c)(ii) – (iv).

<sup>69</sup> PJM also proposes to include a provision to require, commencing with the BRA for the 2022-2023 Delivery Years, WLR information for each end-use customer site in certain narrowly-defined circumstances that present the greatest risk that multiple WLR offers may rely on load reductions from the same end-users. This more detailed information will be required, however, only if two screens (based on past years experience with WLR) that are designed to detect a possible mismatch between offered load reduction capability and demonstrated load reduction capability, are both failed. This provision is included for completeness, and will become operative only after PJM has several years of experience under the WLR provisions.

Resource Sell Offer Plans.<sup>70</sup> By no later than 30 calendar days before the RPM Auction in which a WLR Provider intends to bid a WLR Load, the WLR Provider must submit to PJM a completed WLR Plan template. The revised tariff specifies that PJM will review the submitted plan, and it prescribes a specific procedure, including interim deadlines, to address duplicative or competing WLR commitments in separate plans. Specifically, PJM must notify any WLR Providers, by no later than 10 business days before the BRA, that have identified the same end-use customer sites in their respective WLR Plans for the same Delivery Year. To resolve that conflict, one of the WLR Providers must provide PJM, no later than seven business days before the auction, “a letter of support from the end-use customer indicating that it is likely to execute a contract with that WLR Provider for the relevant Delivery Year,” or “other comparable evidence of likely commitment.” If no such letter of support or comparable evidence is provided to resolve the conflict in favor of one of the WLR Providers, or if the end-use customer provides such a letter to both WLR Providers, then neither plan will be approved to include that end-use customer. Finally, the revised tariff provides that, by no later than 5 business days before the BRA, PJM will notify each WLR Provider of the approved WLR Quantity that the provider may offer into the auction. A WLR Provider can choose to offer a lower WLR Quantity into the auction if it chooses, but it cannot offer more than the approved level.

**F. Reducing Capacity Obligations of LSEs for WLR Load Commitments**

WLR Loads and WEELs are demand-side commitments to reduce energy demand during pre-emergency and emergency events when requested to do so by PJM. As such, WLR Loads and WEELs are *reducing* the demand for capacity and thus lessening an LSE’s need to procure capacity for loads committed to reduce during emergencies. Thus, the load reduction commitment is reasonably reflected as a reduction in the capacity obligation of the LSE responsible for serving the WLR Load or WEEL.

Therefore, there must be a way to measure the reduction of an LSE’s capacity obligation for each committed WLR Load and WEEL. As previously noted, PJM will do this by assigning a value (through the auction algorithm) to each type of WLR Load and

---

<sup>70</sup> See RAA, Schedule 6, section A-1(3).

WEEL that reflects its relative contribution to reliability. PJM then will apply such valuation in reducing an LSE's capacity obligation.

*1. Valuation of WLR Loads and WEELs*

Under the current PJM Tariff, Limited, Extended Summer, and Annual Demand Resources each have different availability obligations, and thus provide varying levels of reliability benefit. Accordingly, each type of Demand Resource is valued differently, based on the reliability benefit it provides. The Commission has found it just and reasonable to allow "prices [to] separate according to a resource's availability and overall contribution to system operations,"<sup>71</sup> thereby valuing resources in accordance with their reliability benefit. The current PJM Tariff accomplishes this relative valuation for Demand Resources by establishing separate clearing prices at the level where the Limited and Sub-Annual Resource Constraints are binding and no additional amounts of less-available resources may be committed,<sup>72</sup> while Annual Demand Resources and Energy Efficiency Resources obtain the same clearing price as other Annual Resources, e.g., generation. The distinct prices for Limited, Extended Summer, and Annual Demand Resources reflect the differing reliability benefit provided by these Capacity Resources.

PJM proposes to apply a similar approach to assigning value to each committed WLR Load and WEEL. WLR Loads and WEELs will not receive a capacity payment based on any clearing price. However, they will be assigned a value based on prices identified in the auction. Under Option B, for Annual WLR, this will be the clearing price determined for Annual Resources, which is appropriate because Annual WLR provides essentially the same reliability value as Annual Resources. For Extended Summer WLR, this value will be equal to the optimum price<sup>73</sup> determined by the auction algorithm at

---

<sup>71</sup> *PJM Interconnection, L.L.C.*, 134 FERC ¶ 61,066, at P 30.

<sup>72</sup> See PJM Tariff, Attachment DD, section 5.14(a) (providing for Limited and Sub-Annual Resource Price Decrements from the auction clearing price).

<sup>73</sup> In most cases, this will be based on the Bid Price in the last MW of Extended Summer WLR clears as the maximum megawatt quantity of the constraint is met. But this will not always be the case, as the optimization algorithm simultaneously considers offers, bids, locational constraints, and product constraints across the

which to recognize the binding of the Sub-Annual WLR Load Constraint if that constraint binds. If the Sub-Annual WLR Load Constraint *does not* bind, however, Extended Summer WLR will be assigned the same value as Annual WLR. This makes sense because, if the constraint does not bind, then the quantity of Extended Summer WLR cleared is not enough to raise a reliability concern, and so it need not be valued differently from Annual WLR. Similarly, the WLR Value for Limited WLR will be equal to the optimum price determined by the auction algorithm at which to recognize the binding of the Limited WLR Load Constraint—if that constraint binds. If the Limited WLR Constraint does not bind, however, Limited WLR will be assigned the same value as Extended Summer WLR. This approach is just and reasonable, as it properly assigns value to each type of WLR Load and WEEL in accordance with each load’s “availability and overall contribution to system operations.”<sup>74</sup> As discussed in the following section, these relative values will then be used to provide weighted reductions in the LSE’s capacity obligation.

Similar rules would assign values to the Capacity Performance versions of the WLR, if the Commission accepts the Capacity Performance Filing, as shown under Option A.<sup>75</sup> The WLR Value for Capacity Performance WLR Loads and Capacity Performance WEELs would be established by the clearing price applicable to Capacity Performance Resources, i.e., essentially the same approach as proposed above for Annual Resources. For Base Capacity WLR, the assigned value will be equal to the optimum price determined by the auction algorithm at which to recognize the binding of the Base Capacity WLR Load Constraint—if that constraint binds.

If the Base Capacity WLR Constraint *does not* bind, there are two possibilities for the WLR Value for Base Capacity WLR. In the Capacity Performance proposal, there are two constraints for Base Capacity: a higher constraint for all Base Capacity resources, including generation, and a lower constraint for only Base Capacity Demand Resource.

---

PJM Region and seeks the lowest overall cost result that satisfies all applicable constraints.

<sup>74</sup> *PJM Interconnection, L.L.C.*, 134 FERC ¶ 61,066, at P 30 (2011).

<sup>75</sup> See proposed RAA, Schedule 6.2, section F (Option A).

The Base Capacity WLR Load Constraint PJM proposes in this proceeding is equivalent to the Base Capacity Demand Resource Constraint in the Capacity Performance proposal. So applying that approach here, even if the Base Capacity WLR Load Constraint does not bind, the overall constraint on all Base Capacity resources, including generation, might bind. In that event, the WLR Value for Base Capacity will be equal to the clearing price set in the auction for all Base Capacity. Alternatively, if neither the Base Capacity WLR Load Constraint, nor the overall Base Capacity Resource Constraint binds, then the WLR Value for Base Capacity WLR Load will equal the clearing price for Capacity Performance Resources.

While the differing product terminology and potential alternatives for status quo versus Capacity Performance add complexity, the basic principle is simple: when a constraint on a lower-availability product binds, it determines the value for that product; if the constraint does not bind, the product's value is equal to that determined for the next higher availability product.

Finally, the WLR Values for Base Capacity WEELs and Capacity Performance WEELs will be set equal to the WLR Values determined for Base Capacity WLR and Capacity Performance WLR , respectively.<sup>76</sup>

---

<sup>76</sup> RAA, Schedule 8. Each transmission Zone is allocated a pro-rata share of the RTO Unforced Capacity Obligation for a Delivery Year, i.e., the total unforced capacity obligations procured in the BRA and subsequent Incremental Auctions conducted for that Delivery Year. The capacity obligation allocated to each Zone is called the Zonal Unforced Capacity Obligation. Under the current RAA, each Zone's weather-normalized peak at the time of the RTO weather-normalized peak from the prior summer period is called the Zonal Obligation Peak Load and LSEs within each Zone are assigned a MW value, as determined by the electric distribution company, representing the contribution to the Zonal Obligation Peak Load of the end-users served by the LSE. *Id.* For each day of the Delivery Year, the electric distribution company ("EDC") assigns each LSE with load in the Zone a share of the Zonal Obligation Peak Load. In the Capacity Performance Filing, PJM proposed to determine each Zonal Obligation Peak Load by deriving the average zonal load at the time of: (i) the four highest summer peak hours experienced by the PJM Region, (ii) the single highest winter peak hour for the PJM Region, and (iii), for each day containing Performance Assessment Hours, the hour with the highest PJM Region load level in that day. Capacity Performance Filing at 64-65, proposed RAA, Schedule 8, section B.



## 2. *LSE Capacity Obligation Reduction*

These WLR Values will then be used to weight the capacity obligation reduction for an LSE that clears the particular type of WLR.

By way of background, each LSE is allocated a share of the capacity procured by PJM for each day of the Delivery Year. That allocated share is called Obligation Peak Load and is used to determine an LSE's Daily Unforced Capacity Obligation. The Daily Unforced Capacity Obligation, in turn, is multiplied by the Final Zonal Capacity Price for such Zone to determine an LSE's Locational Reliability Charge, i.e., the capacity payment for the load the LSE is serving on that day.<sup>77</sup>

Specifically, PJM proposes to reflect an LSE's commitment of WLR Loads and WEELs by giving it a weighted reduction in its obligation, with the weighting determined by the ratio between the WLR Value for the particular type of WLR and the Final Zonal Capacity Price. To use a simple example, assume an LSE cleared a Base Capacity WLR Bid of 10 MWs, the Base Capacity WLR Load Constraint binds, and the assigned WLR Value for Base Capacity WLR is \$150/MW-day. Assume also that the Final Zonal Capacity Price that the LSE must pay for capacity in the relevant Zone is \$250/MW-day. The weighting ratio is therefore 0.60, i.e., 150/250. By clearing 10 MWs of Base Capacity WLR, the LSE will obtain an obligation reduction of 6 MWs. Had the LSE instead cleared a WLR Bid of 10 MWs of Capacity Performance WLR, its obligation reduction would have been approximately 10 MWs.<sup>78</sup> In no event, however, will an LSE's Obligation Peak Load be reduced below zero.

Just as an LSE's Obligation Peak Load and capacity obligation is determined each day during a Delivery Year, PJM proposes to calculate the obligation reduction for each day that the LSE has in effect a commitment of WLR Loads or WEELs as to the loads it is serving that day.<sup>79</sup> PJM is proposing to apply this approach to recognize LSEs for

---

<sup>77</sup> See RAA, Schedule 8.

<sup>78</sup> The specific reduction would depend on the ratio of the Capacity Resource Clearing Price to the Final Zonal Capacity Price. These prices will be close to one another, but may not be identical.

<sup>79</sup> See proposed RAA, Schedule 6.2, section I (Options A & B).

commitment of Limited, Extended Summer, and Annual WLR Loads and WEELs,<sup>80</sup> as well as for commitments of Base Capacity and Capacity Performance WLR Loads and WEELs.<sup>81</sup>

This approach is reasonable. It recognizes distinctions between the relative reliability values of differing types of load reductions that have differing limits on their availability. Yet it preserves the fundamental approach of PJM's WLR proposal that an LSE receives a reduction of its capacity obligation (rather than a resource payment) for clearing WLR Bids in an auction.

#### **G. Registration**

Section G of proposed Schedule 6.2 of the RAA provides that each WLR Provider that commits Whole Load Reductions through a WLR Bid that clears in any RPM Auction must, no later than 10 days prior to the start of the relevant Delivery Year, register with PJM sufficient WLR Load to satisfy its Nominated WLR Quantity commitment.<sup>82</sup> To be clear, "registration" in the context of demand-side, LSE-provided WLR entails only the collection of sufficient information regarding the WLR Provider's curtailable loads for PJM to verify that any aggregate wholesale load reduction ultimately provided by the LSE fulfills its committed level of load reduction. Recognizing that retail customers may switch service providers during a Delivery Year, the proposed rules permit a WLR Provider to change the loads customers registered to meet the WLR Provider's commitment during the Delivery Year. However, the WLR Provider must at all times register sufficient Wholesale Load Reduction to meet or exceed its Zonal or sub-Zonal LDA committed Nominated WLR Quantity level.

#### **H. WLR Bids**

Section H of proposed Schedule 6.2 of the RAA specifies that each submitted WLR Bid for WLR Loads must be consistent with a WLR Provider's WLR Plan. A WLR Bid may also be supported by one or more WEELs. Section H also requires that each

---

<sup>80</sup> See proposed RAA, Schedule 6.2, sections F and I (Option B).

<sup>81</sup> See proposed RAA, Schedule 6.2, sections F and I (Option A).

<sup>82</sup> See proposed RAA, Schedule 6.2, section G (Options A & B).

WLR Bid specify the relevant Zone or sub-Zonal LDA, a Nominated WLR Quantity, and a WLR Bid Price. Section H elaborates that the Bid Price may be comprised of a range of up to ten pairs of WLR commitment levels and associated clearing prices. The price pairing element of the WLR Bid is similar to the price pairing provision that PJM proposed, and the Commission accepted, for the development of Price Responsive Demand (“PRD”).<sup>83</sup>

Furthermore, to encourage WLR Load’s participation in PJM’s capacity market, PJM proposes to allow WLR Providers to submit “coupled” bids for different types of WLR. This is consistent with PJM’s current rules, which allow coupled, alternative, offers for Limited Demand Resources, Extended Summer Demand Resources, and/or Annual Demand Resources. It also is consistent with PJM’s Capacity Performance proposal, which allows coupled, alternative, offers by Base Capacity Resources and Capacity Performance Resources. Such rules give sellers with resources that can qualify as both a less-available and more-available product type an opportunity to indicate a price level at which they are willing to commit to the “more-available” version of the product.

There is no reason not to apply the same flexibility for demand-side WLR. As discussed above, the differing “product types” are simply different rules on when, how often, and for how long, a load reduction must be made available. Those differing availability rules have differing reliability implications, leading to differing maximum quantity clearing constraints, and in turn leading to differing WLR Values. An efficient market will allow a bidder to specify a Bid Price at which it is willing to commit to a load reduction with lesser availability, and a different Bid Price to commit to a load reduction with greater availability. That is what PJM proposes here.

---

<sup>83</sup> See *PJM Interconnection, L.L.C.*, 137 FERC ¶ 61,204 (2011) (“PRD Order”) (accepting revisions to the RAA that direct the PRD Provider to identify its loads’ willingness to reduce as a PRD Curve and indicate up to ten price-quantity pairs), *order on clarification*, 140 FERC ¶ 61,222 (2012).

Specifically, the revised tariff permits WLR Load to submit separate but coupled WLR Bids for each WLR Load type for which it qualifies, at different bid prices.<sup>84</sup> Under the “Option A,” i.e., Capacity Performance, version of the enclosed Tariff records, a WLR Provider can submit coupled bids for Base Capacity WLR Load and Capacity Performance WLR Load. Under the “Option B,” i.e., status quo, version of the Tariff changes, a WLR Provider can submit coupled bids for any two or more of Limited WLR Load, Extended Summer WLR Load, or Annual WLR Load. In either circumstance, the auction clearing algorithm will select the WLR Bid that yields the least-cost solution.

WLR Providers submitting a WLR Bid also must comply with the applicable RPM Credit requirements as discussed in section III.I.<sup>85</sup>

#### **I. WLR Transfers Between Wholesale Entities**

Because WLR Bids will be made for WLR commitments three years into the future, flexibility is required to provide an incentive for LSE participation and to ensure that committed Wholesale Load Reductions are honored. Loads often change LSEs more frequently than every three years (especially in retail choice states). When an LSE loses load that is part of its WLR or WEEL commitment, it may lose its ability to honor its commitment. Therefore, to ensure performance, a WLR Provider that clears WLR in a BRA must be able to transfer all or part of its WLR commitment to any LSE that ultimately serves the load from which the WLR was committed.

Therefore, paragraph J of Schedule 6.2 of the RAA provides that a “WLR Provider may transfer all or part of its WLR commitment for a Delivery Year as to WLR Load in a Zone or sub-Zonal LDA to another Wholesale Entity acting as a WLR Provider in the same Zone or sub-Zonal LDA, provided that the transferee WLR Provider is the

---

<sup>84</sup> Consistent with PJM’s current approved approach for coupled offers, the bid price of the higher-availability type of WLR must be at least \$.01 per MW-day greater than the bid price of the lower-availability type of WLR. *See* PJM Tariff, Attachment DD, section 5.6.1(e).

<sup>85</sup> In addition, to ensure that there are not duplicative load reduction bids, WLR Load may not also be identified in a PRD Plan or PRD registration of a PRD Provider for the same Delivery Year. *See* proposed RAA, Schedule 6.2, section E (Options A & B).

Load Serving Entity that shall serve such WLR Load.” To effectuate this transfer, paragraph J provides that the transferor and the transferee WLR Providers must provide notice to PJM “in the form and manner specified in the PJM Manuals.”

Paragraph J further provides that from the effective date of such a transfer and to the extent of such transfer:

the transferor WLR Provider shall be relieved of its WLR commitment and credit requirements, shall not be liable for WLR compliance charges, and shall not be entitled to the capacity obligation reduction otherwise provided by section I hereof, and the transferee WLR Provider, to the extent of such transfer, shall assume such WLR commitment, credit requirements, and obligation for compliance charges and shall be entitled to the capacity obligation reduction provide by section I as to such WLR Load.

This provision effectively shifts the WLR commitment obligations and benefits to the transferee from the transferor, thus placing those obligations and benefits with the LSE that ultimately will be responsible for serving the associated load and delivering the Wholesale Load Reduction. Notably, transfers under this section are purely voluntary and are not mandatory when load switches LSEs. However, if the LSE which loses the load, elects not to transfer the associated WLR commitment, it will be responsible for any resulting compliance changes for deficiencies or non-performance.

#### **J. Measurement and Verification of Wholesale Load Reductions**

By clearing WLR in a BRA, PJM will forego procuring generation resources needed to ensure reliable service in the PJM Region, based on an LSE’s representation that it will reduce its wholesale loads during emergency or pre-emergency conditions. PJM therefore must have clear and effective rules for measuring the resulting load reductions and verifying that they were provided consistent with the Nominated WLR Quantity specified in the cleared Bid. PJM need not write on a blank slate to develop such rules. As noted above, PJM has been receiving, measuring, and verifying load reductions offered in connection with system resource adequacy needs for many years—even before RPM, under the Active Load Management rules that were in the RAA (and supporting

manuals)<sup>86</sup>. Those rules, originating under ALM and carried into RPM, have given PJM the concrete data needed to discern whether the particular load fluctuations and changes experienced in the Delivery Year in fact fulfill the pre-Delivery Year commitments of load reductions that permitted PJM to reduce its procurement of generation capacity. Those rules, developed and refined over the years and found to be just and reasonable, can and should be adopted to perform the same function here—ensuring that cleared WLR commitments are realized in the Delivery Year as actual, verifiable, Wholesale Load Reductions.<sup>87</sup>

PJM considered modifying the M&V requirements for this proposal to create a general performance standard for each LSE that commits WLR Loads, without the specificity of the existing and proposed provisions. PJM concluded, however, that the types of data PJM would need to measure and verify its performance under such a general standard would not differ materially from the kinds of data described in the provisions PJM has incorporated into its proposed tariff revisions.

LSE's wholesale load is the aggregate consumption of the retail end-use loads an LSE is obligated to serve. The aggregate loads of most regulated utility LSEs generally include considerable weather-sensitive demand. Weather-sensitive loads are unpredictable and, more importantly in this context, are not controllable by the LSE. It would be impractical, and almost certainly would be intolerably risky, for an LSE to base a commitment of wholesale load reduction to PJM on weather-sensitive loads.

Wholesale Load Reductions instead must be based on the LSE's arrangements with controllable loads that are capable of timely reducing their consumption in direct response to the LSE's instructions. To demonstrate performance of its Wholesale Load Reduction commitment, the LSE will have to gather and provide to PJM from its customers the same kinds of customer- and site-specific metering and other data that are

---

<sup>86</sup> See *supra* nn.18 & 19.

<sup>87</sup> See, e.g., *PJM Interconnection, L.L.C.*, 138 FERC ¶ 61,138; *PJM Interconnection, L.L.C.*, 137 FERC ¶ 61,216; *PJM Interconnection, L.L.C.*, 137 FERC ¶ 61,108.

already described in the PJM Tariff, and which PJM proposes to include in the M&V provisions of the new Schedule 6.2 of the RAA.

*1. Approaches to Measuring WLR Load Reduction Capability*

PJM is proposing to measure load reductions using the Direct Load Control (“DLC”) and Firm Service Level (“FSL”) approaches.<sup>88</sup> However, in the lone substantive difference from the current effective Demand Resource measurement protocols, PJM is proposing to measure all load reductions requested outside the summer peak period using the Customer Baseline Load (“CBL”) approach,<sup>89</sup> just like PJM proposed in the Capacity Performance Filing.<sup>90</sup> PJM is not proposing any changes in the measurement methodology under these approaches, but is merely using them to measure reductions by WLR Loads.

Accordingly, a WLR Provider with WLR Loads using the DLC approach can rely on load research studies to set the per-participant reduction below the Peak Load Contribution (“PLC”) to support the Nominated WLR Quantity in a WLR Bid.<sup>91</sup> Similarly, a WLR Provider with WLR Loads using the FSL approach commit to load reductions down to a certain pre-determined consumption level. The FSL approach will be based on the relevant end-users’ PLCs, which is the same metric used to determine the share of an LSE’s capacity obligation that is associated with its particular end-use customers (for load-switching and other purposes). A WLR Provider using this approach can only nominate and bid up to the relevant WLR Load’s PLCs.<sup>92</sup>

A Nominated WLR Quantity must be supported with documentation and data to allow PJM to verify the amount of load management available to set the maximum allowable Nominated WLR Quantity. Such data must be updated prior to the Delivery Year for which the WLR Load is committed.<sup>93</sup> WLR Providers must provide this

---

<sup>88</sup> See proposed RAA, Schedule 6.2, section K (Options A & B).

<sup>89</sup> See proposed RAA, Schedule 6.2, section N (Options A & B).

<sup>90</sup> See Capacity Performance Filing at 36, proposed RAA, Schedule 6, section G.

<sup>91</sup> See proposed RAA, Schedule 6.2, section L(a) (Options A & B).

<sup>92</sup> See proposed RAA, Schedule 6.2, section L(a) (Options A & B).

<sup>93</sup> See proposed RAA, Schedule 6.2, section L(b) (Options A & B).

information to PJM and the host electric distribution company. For WLR Loads using the FSL approach, the PLC values, by customer and Zone, will be based on information provided by the WLR Provider; for loads using the DLC approach, information must be provided detailing the number of active participants supporting the WLR Load.<sup>94</sup>

## *2. Performance Verification and Measurement*

For each pre-emergency or emergency event when PJM requests a WLR Provider to reduce load, the WLR Provider must demonstrate to PJM that the requested load reduction in fact occurred.<sup>95</sup> Specifically, WLR Providers must show that each identified WLR Load reduced consumption by the committed MW amount below the end-use customer's PLC. Included in such information must be the actual energy usage by the identified WLR Loads during the pre-emergency or emergency event. As with Demand Resources, the timelines for tendering such evidence of performance will be set forth in the PJM Manuals, and PJM will conduct performance reviews generally within two months following each event.<sup>96</sup>

PJM will measure compliance by each WLR Provider across a Zone and by measurement type (e.g., consider together all FSL WLR Loads of a WLR Provider within a single Zone) to determine the WLR Provider's net compliance position for each WLR Zone.<sup>97</sup> WLR Loads cannot reduce their loads below zero (i.e., export energy to the system) and no compliance credit will be given for an incremental drop below zero.

Compliance for load reductions requested during the summer peak period will be measured in accordance with the measurement approach selected by the WLR Provider to support the Nominated WLR Quantity. Thus, for loads using the FSL approach, compliance will be measured by comparing the PLC against the actual metered load. For

---

<sup>94</sup> See proposed RAA, Schedule 6.2, section L(b) (Options A & B).

<sup>95</sup> See proposed RAA, Schedule 6.2, section M (Options A & B).

<sup>96</sup> See proposed RAA, Schedule 6.2, section M (Options A & B).

<sup>97</sup> See proposed RAA, Schedule 6.2, section N (Options A & B).



WLR Loads using the DLC approach, summer-period compliance will be measured based on the transmission of the control signal sent to the relevant end-users to reduce load.<sup>98</sup>

For the remainder of the Delivery Year (i.e., the non-summer period) compliance for WLR Loads using the FSL approach will be measured using the CBL approach,<sup>99</sup> which is currently employed for measuring load reductions in the energy market.<sup>100</sup> However, just as PJM did in the Capacity Performance Filing, for WLR Loads that employ DLC, PJM does not propose to change the non-summer compliance measurement, because DLC-based loads have established the ability to reduce load in response to a control signal, which is sufficient to determine compliance.<sup>101</sup>

Application of the CBL methodology for non-summer load reductions is reasonable, as it provides an accurate representation of what the load's energy consumption would have been in a relevant hour, had PJM not requested a reduction in load for that hour. PJM's CBL method (for weekdays) uses the average of the four highest of the five most recent days that meet certain specified criteria. To find those days, PJM "looks back" over the 45 calendar days preceding the load reduction event. Under certain specified circumstances, PJM will extend that look-back period by up to an additional 15 days.<sup>102</sup> The CBL method also allows WLR Providers to normalize their CBLs based on their actual usage just before an event through the Symmetric Additive Adjustment.<sup>103</sup>

---

<sup>98</sup> See proposed RAA, Schedule 6.2, section N (Options A & B).

<sup>99</sup> See proposed RAA, Schedule 6.2, section N (Options A & B).

<sup>100</sup> See Operating Agreement, Schedule 1, sections 3.3A.2, 3.3A.2.01, & 3.3A.3.

<sup>101</sup> See proposed RAA, Schedule 6.2, section N (Options A & B).

<sup>102</sup> See proposed RAA, Schedule 6.2, section O(1) (Options A & B).

<sup>103</sup> As set forth in proposed RAA, Schedule 6.2, section O(2)(e) (Options A & B), to apply this adjustment, a WLR Provider must: (i) calculate the average usage for the three-hour period ending one hour before the start of an event; (ii) calculate the average usage over the three-hour period in the CBL that corresponds to the three-hour period; (iii) subtract the results of (ii) from the results of (i) to determine the Symmetric Additive Adjustment (the resulting usage may be positive or negative); and (iv) add the Symmetric Additive Adjustment (that is, the results from (iii)) to each hour in the CBL that corresponds to each event hour.

Thus, the CBL method should provide a more timely and realistic calculation of what the energy demand would have been absent the reduction. By contrast, using a non-summer PLC or non-summer FSL approach would yield a less accurate compliance measurement, as such approaches rely on the average consumption levels from certain peak days of the prior year and would not, therefore, measure the actual reduction provided during the load management event.

#### **K. Non-Hourly Metered Customer Pilot**

Section P of the revised Schedule 6.2 of the RAA permits non-hourly metered customers to participate in the WLR Program on a pilot basis. This provision is substantially similar to the pilot program for measurement that is described in the Operating Agreement for Economic Load Response Participants.<sup>104</sup> The proposed pilot program in the capacity market is flexible and permits PJM to determine the most efficient ways to measure demand response.<sup>105</sup> The Commission has previously found the pilot measurement program to be just and reasonable.<sup>106</sup> The revised tariff requires that the customer's WLR Provider propose an alternate method for measuring hourly demand reductions, which will then be approved by PJM on a case-by-case basis for a specified time period ("Pilot Period"). Furthermore, the revised RAA limits load reductions using alternate measurement mechanisms on a pilot basis to a combined total (system-wide) of 500 MW of reductions. Finally, the revised RAA dictates that, following completion of a Pilot Period, PJM will evaluate the alternate method to determine whether such method should be included in the PJM Manuals as an accepted measurement mechanism for load reductions in the WLR program.

---

<sup>104</sup> Operating Agreement, Schedule 1, section 1.5A.7.

<sup>105</sup> See proposed RAA, Schedule 6.2, section P (Options A & B).

<sup>106</sup> *PJM Interconnection, L.L.C.*, 99 FERC ¶ 61,227, at 61,942 (2002) (stating that "PJM's experimental program for non-hourly metered customers has the potential of increasing load reduction at time of peak demand" and "provides an opportunity to reduce demand, thereby reducing the use of more expensive generators"). See also *PJM Interconnection, L.L.C.*, 114 FERC ¶ 61,201 (2006) (accepting minor revisions to the pilot program for non-hourly metered customers).

## **L. WLR Compliance Charges**

To ensure that WLR Providers provide the load reduction capabilities promised in their WLR commitments, proposed RAA Schedule 6.2 establishes three compliance charges that are closely patterned on existing compliance charges for Demand Resources and for PRD in RPM. Because the compliance charges are based on the existing compliance provisions the Commission has approved, the proposed charges are just and reasonable.<sup>107</sup>

Specifically, the new WLR provisions include compliance charges for: (1) deficiencies related to the quantity of WLR Load commitment accepted in an RPM Auction versus the quantity of WLR Load ultimately registered and available for the Delivery Year; (2) failing a test designed to ensure that all registered WLR Loads are in fact available and capable of reducing as committed during emergency conditions; and (3) shortfalls in performance when PJM declares a pre-emergency or emergency action and calls on WLR Loads to reduce consumption down to the committed level of consumption. Amounts collected from these compliance charges generally will be distributed to RPM capacity resource providers. However, as discussed below, to the extent the Commission accepts the Capacity Performance Filing, revenues from non-performance charges under Option A will be distributed among all market participants that over-perform during certain pre-emergency and emergency actions.

### *1. Commitment Deficiencies*

Upon the start of the Delivery Year for which WLR Loads are committed, a WLR Provider is required to register (and maintain registration of) sufficient quantities of WLR Load in a Zone to satisfy its Nominated WLR Quantity committed in that Zone on each day of the Delivery Years.<sup>108</sup> Failure to register and maintain sufficient quantities of WLR Load will result in assessment of a deficiency charge for each day that the registered WLR Loads are below the level required to meet the WLR Provider's Nominated WLR

---

<sup>107</sup> See *PJM Interconnection, L.L.C.*, 146 FERC ¶ 61,052 (2014) (accepting current effective version of Attachment DD section 11), *reh'g pending*.

<sup>108</sup> See RAA, Schedule 6.2, section L (Options A & B).

Quantity commitments. The deficiency charge rate will be equal to the applicable WLR Value for each day implementation is delayed, plus the greater of 20% of the WLR Value or \$20/per MW-day.<sup>109</sup> Both the general form of the rate and the approach of charging for deficiencies in promised capabilities are identical to the currently effective deficiency charge used to assure sufficient quantities of PRD are registered throughout the Delivery Year to meet PRD commitments,<sup>110</sup> and closely conform to the compliance charge that is used to assure the capability of RPM capacity resources.<sup>111</sup>

PJM's proposal includes several options that will permit a WLR Provider or WEEL Provider to mitigate any shortfall in its load reduction registrations, including the registration of additional WLR Loads to satisfy its commitments.<sup>112</sup> In addition, PJM's proposal provides several means of replacing cleared WLR or WEEL commitments. These options provide WLR and WEEL Providers the same flexibility under PJM's existing market rules to make substitutions of resources that are available to other market participants. These replacement options include:

- (1) registering with PJM substitute WLR Loads or WEEL obtained from another LSE through a transfer of such loads under Section J(1) of the new Schedule 6.2 of the RAA;
- (2) clearing a Buy Bid for the purchase of sufficient replacement generation capacity in an Incremental Auction in accordance with RPM rules;

---

<sup>109</sup> See RAA, Schedule 6.2, section L (Options A & B).

<sup>110</sup> See RAA, Schedule 6.1, section I.

<sup>111</sup> See, e.g., PJM Tariff, Attachment DD, section 8.

<sup>112</sup> RAA, proposed Schedule 6.2, section Q (Options A & B).

(3) entering into a transaction for the acquisition of sufficient Locational UCAP in accordance with section 5.3A of Attachment DD of the PJM Tariff;<sup>113</sup> and

(4) acquiring sufficient generation capacity in a bilateral transaction under section 4.6 of Attachment DD to the PJM Tariff.

Replacements under option (1) are permitted on a MW-for-MW basis. When such a transfer is completed, the transferee WLR Provider or WEEL Provider assumes all responsibility for credit requirements and compliance charges, and is entitled to the entire capacity obligation reduction associated with the transferred WLR Load or WEEL.

Under each of the other replacement options, the replacement resource must equal the MW of commitment to be replaced, multiplied by the Forecast Pool Requirement.<sup>114</sup> This adjustment factor is needed because generation must be obtained to cover not only the peak load that is returned to the system, but also the reserves associated with that increment of peak load. The respective rights and responsibilities of the WLR Provider or WEEL Provider and the Capacity Market Seller involved in a replacement transaction shall be as stated in their notice of their transaction to PJM<sup>115</sup> or as otherwise stated in the PJM Tariff.<sup>116</sup>

The substantial flexibility PJM proposes to provide to wholesale load reduction providers is just and reasonable because it is consistent with the goal of RPM to obtain the

---

<sup>113</sup> Locational UCAP transactions relate only to satisfaction or replacement of previously cleared RPM commitments for a specified Delivery Year, and may be consummated only after the EFORD has been established for that year. In such transactions, the capacity seller remains responsible for certain charges payable to PJM under the Tariff, while other financial and settlement terms are in accordance with the parties' agreement. *See* PJM Tariff, Attachment DD, section 5.3A. EFORD is the equivalent demand forced outage rate determined for each generator, and is calculated at least one month prior to the Third Incremental Auction for each Delivery Year. *See* RAA, Schedule 5, sections A & B.

<sup>114</sup> Proposed RAA, Schedule 6.2, section J(2) (Options A & B).

<sup>115</sup> All replacement transactions must be reported to PJM in accordance with the applicable terms of the PJM Tariff. *See* proposed RAA, Schedule 6.2, sections J(1) & J(2) (Options A & B).

most cost-efficient mix of capacity taking into account demand, to ensure reliable service. These provisions also ensure that those who bid Wholesale Load Reductions into RPM Auctions are fairly treated, considering the options available to Capacity Market Sellers that offer supply-side resources into RPM Auctions. Replacement of committed WLR Load and WEEL should not be necessary unless such demand reductions are simply not available, or can be acquired only at a cost higher than that of the least-cost alternative among the replacement options. In either case, permitting replacements of WLR Loads and WEEL as PJM proposes will ensure an economically efficient balance of supply and demand in the capacity market, i.e., that the Reliability Requirement will be met at the lowest reasonable cost.

## 2. *Testing Shortfalls*

Wholesale Entities that commit WLR Loads receive the benefit of a lower capacity obligation throughout the year, but may actually be called upon to reduce load only a few times, and perhaps not at all, during the year. Therefore, rules must be in place to ensure that the committed WLR Loads are capable of performing when needed during pre-emergency or emergency conditions. To the extent those conditions do not occur, and WLR Loads are not requested to reduce consumption, it is reasonable to require the WLR Provider to demonstrate its load reduction capability at least once during the Delivery Year for which it is enjoying a reduced capacity obligation. Accordingly, the revised RAA includes WLR testing and compliance charge provisions that, as described below, are nearly identical to those for PRD and that closely track testing and compliance provisions previously approved.<sup>117</sup>

Under the testing provisions,<sup>118</sup> all WLR Loads registered in the same Zone must be tested simultaneously to ensure the desired performance can be achieved.<sup>119</sup> For every Delivery Year when PJM declares a pre-emergency or emergency action in which the

---

<sup>116</sup> Proposed RAA, Schedule 6.2, section J(2) (Options A & B).

<sup>117</sup> See PJM Tariff, Attachment DD, section 11A.

<sup>118</sup> Proposed RAA, Schedule 6.2, section R (Options A & B).

<sup>119</sup> Proposed RAA, Schedule 6.2, section R(ii) (Options A & B).

WLR Load is requested to reduce, no testing-related compliance charges will be assessed on WLR Loads in the affected Zones. If, however, PJM does not declare a pre-emergency or emergency action in which the WLR Load is requested to reduce, during that Delivery Year, then each WLR Provider must demonstrate that it tested its WLR Load for at least a one-hour period during any hour in which an emergency could be called.<sup>120</sup>

If less than 25% (by MWs) of a WLR Provider's WLR Load within a Zone fails a test, then that WLR Provider may conduct a single re-test.<sup>121</sup> Any re-test must be conducted during approximately the same time of day and weather conditions as the original test. If more than 75% of a WLR Provider's WLR Load within a Zone passes the original test, the WLR Provider may elect to keep the test results for the passing loads, so long as the WLR Provider notifies PJM 48 hours before the re-test and the re-test is conducted in accordance with the PJM Manuals.<sup>122</sup>

WLR Providers whose WLR Loads fail such tests will be assessed a compliance charge, or WLR Test Failure Charge, equal to the net shortfall (after any re-test) multiplied by the WLR Test Failure Charge Rate.<sup>123</sup> The net shortfall will be calculated and converted to an Unforced Capacity basis using the applicable Forecast Pool Requirement.

Similar to the other WLR-related compliance charges, the WLR Test Failure Charge Rate is based on the applicable WLR Value for the relevant Zone, plus the greater of 20% of that WLR Value or \$20/MW, multiplied by the number of days in the Delivery

---

<sup>120</sup> Proposed RAA, Schedule 6.2, section R(i) (Options A & B).

<sup>121</sup> The re-test does not need to be conducted simultaneously with all WLR Load in its Zone, but the retest must include that WLR Provider's entire WLR Load to prevent load shifting. Proposed RAA, Schedule 6.2, section R(ii) (Options A & B).

<sup>122</sup> Proposed RAA, Schedule 6.2, section R(ii) (Options A & B).

<sup>123</sup> Proposed RAA, Schedule 6.2, section R(iii) (Options A & B).

Year.<sup>124</sup> The WLR Test Failure Charge will be assessed daily and charged in accordance with customary PJM billing practices.<sup>125</sup>

### 3. *Performance Shortfalls*

When PJM declares a pre-emergency or emergency event and requests load reductions, affected WLR Providers are responsible for demonstrating that their registered WLR Loads performed as committed.<sup>126</sup> Following such an event, WLR Providers must submit verification of performance in accordance with the procedures and deadlines set forth in the PJM Manuals. In the event a WLR Provider's or WEEL Provider's performance fails to meet its commitment, a Non-Performance Charge will be assessed. However, given that PJM recently proposed as part of its Capacity Performance Filing substantially revised RPM non-performance charges and performance payments, to provide better incentives to perform, PJM proposes in this filing two versions of the WLR Non-Performance Charges, applicable depending on whether the Commission accepts PJM's Capacity Performance Filing.<sup>127</sup>

#### i. Non-Performance Charge Consistent With PJM's Capacity Performance Proposal (Option A)

In the Capacity Performance proposal, PJM proposed to replace RPM's existing performance charge provisions with an approach designed to provide stronger incentives for performance. Consistent with that proposal, PJM proposes in this filing rules that assess WLR Providers and WEEL Providers a WLR Non-Performance Charge virtually identical to the non-performance charge proposed in the Capacity Performance Filing. As in the Capacity Performance Filing, the provisions proposed here will assess charges when the actual performance of a WLR Load in a pre-emergency or emergency event falls below the performance expected of that load.<sup>128</sup> PJM also proposes to provide credits to

---

<sup>124</sup> Proposed RAA, Schedule 6.2, section R(ii) (Options A & B).

<sup>125</sup> Proposed RAA, Schedule 6.2, section R(iii) (Options A & B).

<sup>126</sup> Proposed RAA, Schedule 6.2, section M (Options A & B).

<sup>127</sup> See PJM Tariff, Attachment DD, section 5.12(b)(viii).

<sup>128</sup> Capacity Performance Filing at 47; proposed Tariff, Attachment DD, section 10A.



WLR Providers (consistent with the process discussed above) and all other market participants, including generation resources, whose actual performance exceeds expected performance. The only permissible excuse for a performance shortfall is that PJM did not ask the load to reduce to the committed level of consumption.<sup>129</sup>

Specifically, PJM's proposed WLR Non-Performance Charge/Performance Credit provision<sup>130</sup> will compare each WLR Load's and WEEL's Expected Performance against its Actual Performance during each Emergency Action declared by PJM. If the Actual Performance of a WLR Load or a WEEL falls short of its Expected Performance, then that shortfall will be subject to a WLR Non-Performance Charge equal to the shortfall quantity multiplied by a WLR Non-Performance Charge Rate.

As in the Capacity Performance Filing, the non-performance charge rate differs for Capacity Performance WLR Loads and WEELS, which are obligated to reduce load throughout the year, and Base Capacity WLR Loads and WEELS, which are obligated to reduce load only during summer months. Thus, for Capacity Performance WLR Loads and WEELS, the WLR Non-Performance Charge Rate equals the Net Cost of New Entry ("Net CONE") determined for that Delivery Year, times 365 to state the rate on an annual basis, divided by 30, a representative number of hours during a year that Emergency Actions could reasonably be expected to be in effect.<sup>131</sup> For Base Capacity WLR Loads and WEELS, the charge rate equals the WLR Value assigned to Base Capacity WLR Loads and Base Capacity WEELS, times 365, divided by 30.<sup>132</sup> This charge rate mirrors

---

<sup>129</sup> See proposed RAA, Schedule 6.2, section S(d) (Option A). In the Capacity Performance proposal, PJM limited the excuses for non-performance to being on a PJM-approved outage or not being dispatched by PJM. As the outage excuse cannot apply to commitments to reduce load down to a specified level of consumption, PJM proposes to excuse non-performance by WLR Loads only to those instances in which PJM does not ask for the WLR Load to reduce. Such a limit on non-performance excuses is consistent with the Commission's acceptance of a "no excuses" approach for ISO-NE's capacity market. See *ISO New England Inc.*, 147 FERC ¶ 61,172, at PP 8, 62 (2014), *reh'g pending*.

<sup>130</sup> See proposed RAA, Schedule 6.2, section S(c) (Option A).

<sup>131</sup> See proposed RAA, Schedule 6.2, section S(e) (Option A).

<sup>132</sup> See proposed RAA, Schedule 6.2, section S(e) (Option A).

that proposed in the Capacity Performance Filing,<sup>133</sup> ensuring fair treatment between demand-side bids and supply-side offers in RPM.

PJM also proposes “stop-loss” provisions to limit the total WLR Non-Performance Charges assessed. For Capacity Performance WLR Loads and WEELs, PJM will limit maximum charges for a calendar month, and for a calendar year. For a month, the maximum Non-Performance Charge proposed for such resources is 0.5 times Net CONE times the amount of load reduction committed. For a year, the Non-Performance Charge proposed for such resources is 1.5 times Net CONE, the sum of which is multiplied by the amount of load reduction committed.<sup>134</sup> For Base Capacity WLR Loads and WEELs, there will be a calendar year limit on total WLR Non-Performance Charges, equal to the total cost of procuring the same amount of capacity for the Delivery Year that otherwise would have been procured absent the load reduction commitment.<sup>135</sup>

Revenue collected from payment of WLR Non-Performance Charges will be pooled with revenues collected from payment of non-performance charges assessed on Capacity Resources in accordance with section 10A of Attachment DD, as proposed in the Capacity Performance Filing.<sup>136</sup> The pooled revenues will be distributed to all energy resources (of any type, even if they are not Capacity Resources), all WLR Loads, and all WEELs that performed above expectations. A WLR Load (or WEEL) with an Actual Performance above its Expected Performance is considered to have provided “Bonus” Performance, and will be assigned a share of the pooled Non-Performance Charge revenues based on the ratio of its Bonus Performance to the total Bonus Performance (from all resources, WLR Loads, and WEELs) for the same Performance Assessment Hour. Under the Capacity Performance proposal, *all* performance from an energy resource with no capacity commitment is considered Bonus Performance. However, the prohibitive complexity of measuring any given load’s expected consumption against its

---

<sup>133</sup> See proposed PJM Tariff, Attachment DD, section 10A (Options A & B).

<sup>134</sup> See proposed RAA, Schedule 6.2, section S(f) (Option A).

<sup>135</sup> See proposed RAA, Schedule 6.2, section S(f) (Option A).

<sup>136</sup> See proposed PJM Tariff, Attachment DD, section 10A(g)(Option A).

actual consumption during a Performance Hour requires PJM to limit the eligibility for load reduction Bonus Performance only to approved WEELs and registered WLR Loads.

ii. WLR Non-Performance Charge in the Event the Commission Does Not Accept the Capacity Performance Proposal (Option B)

In the event the Capacity Performance proposal is not in effect when the Commission rules on this filing, PJM is proposing, in Option B, an alternate WLR Non-Performance Charge that is closely modeled on the current RPM compliance charge provision for Demand Resources. This is found in section 11 of Attachment DD to the PJM Tariff. As with the existing provision, compliance is determined on an “event” specific basis<sup>137</sup> and at the registration level.<sup>138</sup>

The charge distinguishes between on-peak performance and off-peak performance and sets different penalty charges for non-performance during those periods. “On-peak” refers to the summer months of June through September, i.e., the period covered by Limited WLR Load. “Off-peak” refers to the rest of the Delivery Year, when Extended Summer WLR Loads and Annual WLR Loads must be available, i.e., October through the following May.<sup>139</sup>

The penalty charge for on-peak under-performance will be nearly identical to that currently defined in the tariff for Demand Resources, with one significant change. Rather than basing the penalty rate on the Demand Resource’s capacity revenues,<sup>140</sup> underperforming WLR Loads will pay a charge based on the assigned WLR Value.<sup>141</sup> Non-performance by a WLR Load may cost the affected WLR Provider the dollar equivalent of

---

<sup>137</sup> See proposed RAA, Schedule 6.2, section S(a) (Option B).

<sup>138</sup> See proposed RAA, Schedule 6.2, section S(b) (Option B).

<sup>139</sup> See proposed RAA, Schedule 6.2, section S(b) (Option B).

<sup>140</sup> See PJM Tariff, Attachment DD, section 11(b).

<sup>141</sup> See proposed RAA, Schedule 6.2, section S(b) (Option B) (“WLR Non-Performance Charge for a WLR Provider for a shall equal the lesser of (1/the number of pre-emergency and emergency actions during the on-peak period for which such WLR Provider was requested to provide, or 0.50) times the applicable WLR Value”).

as much as the entire potential annual reduction in the capacity obligation associated with those MWs of under-performance.<sup>142</sup> As in the existing provision regarding Demand Resources, the fraction of the provider's annual obligation reduction at risk per event decreases as the number of on-peak requests increases, such that if WLR Load is requested three times, the dollar equivalent of one-third of the annual capacity reduction is at risk for each event, and the dollar equivalent of one-fourth is at risk if requested four times, etc. There is a safe harbor, however, if a WLR Load is requested to perform only once and does not perform, the provider can lose no more than half the dollar equivalent of its potential capacity obligation reduction for such load.

The off-peak penalty charge is also nearly identical to the existing off-peak charge in section 11 of the PJM Tariff, but with the rate based on the assigned WLR Value, rather than a Demand Resource's capacity revenues.<sup>143</sup> Under-performance during the off-peak period puts roughly the dollar equivalent of one week's worth of capacity obligation reduction at risk for each event in which a WLR Load fails to perform fully as committed.

Because compliance is measured by event, a provider cannot offset under-performance in one event with over-performance in another event. However, as in the existing Demand Resource provision, a WLR Provider may substitute another WLR Load for a load that cannot perform when requested, so long as the substitute load is in the same area where relief is needed, has the same lead time, and provides a comparable load reduction commitment, i.e., has the same availability criteria.<sup>144</sup>

---

<sup>142</sup> See proposed RAA, Schedule 6.2, section S(c) (Option B).

<sup>143</sup> See PJM Tariff, Attachment DD, section 11(b); proposed RAA, Schedule 6.2, section S(b) ("[T]he WLR Non-Performance Charge for a WLR Provider for the off-peak period shall equal 1/52 times the applicable WLR Value for the relevant WLR Loads of such WLR Provider that were subject of a request to perform").

<sup>144</sup> See proposed RAA, Schedule 6.2, section S(a) (Option B). This provision allows a WLR Provider with multiple WLR Loads, e.g., a Limited WLR Load and an Annual WLR Load, in the same area to substitute its Annual WLR Load (so long as it was not requested to perform) for its non-performing Limited WLR Load. However, the converse would not be acceptable because the Limited WLR Load does not have comparable availability requirements.

Consistent with the existing Tariff, the billing and settlement for WLR Non-Performance Charges will be conducted in a manner reflective of the different availability requirements of the different types of WLR Loads.<sup>145</sup> Because Limited WLR Loads only commit to reduce load during the months of June through September, Limited WLR Loads will be billed in October of the Delivery Year, or three months after the last relevant Load Management event, if later. As Annual WLR Loads and Extended Summer WLR Loads have commitments for the last month of the Delivery Year (i.e., May), WLR Non-Performance Charges for such loads will be billed on an annual basis by the later of June of the following Delivery Year or the third billing month following the event that gave rise to the charge. Bills presented to Annual and Extended Summer WLR Loads will be in a lump sum of all charges accrued throughout the Delivery Year.

#### *4. Distribution of Compliance Charge Revenues*

Because acceptance of WLR Bids in RPM will remove load (demand) from RPM, and thus will tend to lower the capacity clearing price for Capacity Market Sellers, the funds collected through the WLR compliance charges will be distributed to all Capacity Market Sellers in proportion to each seller's net RPM revenues for that Delivery Year. To be eligible to receive such distributions, a Capacity Market Seller must have committed Capacity Resources in an RPM Auction for that Delivery Year.<sup>146</sup> However, as discussed above, in the event the Commission accepts PJM's Capacity Performance proposal and the tariff records included with Option A to this filing, revenues collected under the Capacity Performance version of the proposed WLR Non-Performance Charge will be distributed among over-performing WLR Loads and market participants.<sup>147</sup>

#### **M. WLR and WEEL Credit Changes**

The establishment of WLR and WEEL products requires conforming changes to the PJM credit requirement for RPM participants. Attachment Q to PJM's Tariff includes credit requirements to address the risks particular to forward commitments of capacity

---

<sup>145</sup> See proposed RAA, Schedule 6.2, section S(e) (Option B).

<sup>146</sup> See proposed RAA, Schedule 6.2, section T (Options A & B).

<sup>147</sup> See proposed RAA, Schedule 6.2, section T (Option A).

from various Capacity Market Sellers.<sup>148</sup> BRA commitments are on a three-year forward basis, and failure to satisfy such commitments exposes WLR Providers or WEEL Providers to the risk of paying one or more of the several deficiency or non-performance charges in the RPM market rules.<sup>149</sup>

Accordingly, to account for the enhanced risk associated with the commitment of Planned WLR Load and WEEL, PJM is proposing to revise the RPM credit rules to require such loads to meet an additional credit requirement similar to that for other resources where there is a materially increased risk of non-performance.<sup>150</sup> The proposed new credit rules are closely modeled on the credit rules for Planned Generation Capacity Resources. PJM is proposing alternative sets of these credit rules, one to apply under the Capacity Performance proposal, and the other to apply under the current RPM rules. However, regardless of which set of credit rules applies, the pre-auction credit requirement for planned loads will be reduced in direct proportion to the MW quantity of such loads that “qualifies” as WLR Load or WEEL under the procedures set forth in the RAA; i.e., loads that are committed in an RPM Auction, registered with PJM prior to the start of the Delivery Year, and meet all applicable requirements.<sup>151</sup>

*1. Status Quo Credit Rate Determination (Option B)*

The current-effective Attachment Q requires a Capacity Market Seller submitting a Sell Offer based on planned resources to satisfy a credit requirement equal to the MWs

---

<sup>148</sup> Specifically, credit requirements for RPM apply to resources “for which there is a materially increased risk of nonperformance [which] shall mean: (i) a Planned Generation Capacity Resource; (ii) a Planned Demand Resource or an Energy Efficiency Resource; (iii) a Qualifying Transmission Upgrade; (iv) an existing or Planned Generation Capacity Resource located outside the PJM Region that at the time it is submitted in a Sell Offer has not secured firm transmission service to the border of the PJM Region sufficient to satisfy the deliverability requirements of the [RAA]; or (v) Price Responsive Demand to the extent the responsible PRD Provider has not registered PRD-eligible load at a PRD Substation level to satisfy its Nominal PRD Value commitment, in accordance with Schedule 6.1 of the [RAA].” See PJM Tariff, Attachment Q, section IV.A.

<sup>149</sup> See PJM Tariff, Attachment Q, section IV.A.

<sup>150</sup> See proposed PJM Tariff, Attachment Q, sections IV.F & IV.G (Options A & B).

offered times an “RPM Auction Credit Rate.”<sup>152</sup> Prior to an auction, the RPM Auction Credit Rate is the product of the number of days in the Delivery Year times the greater of 0.3 times the Net CONE for the PJM Region for the Delivery Year, or \$20/MW-day.<sup>153</sup> After the auction results are posted and the auction clearing price is known, the RPM Auction Credit Rate for ongoing credit requirements is the product of the number of days in the Delivery Year times the greater of 0.2 times the clearing price in the applicable LDA, or \$20/MW-day.

To determine the credit rate applicable to WLR Load and WEEL, PJM is proposing to mirror the existing rules almost exactly. However, because the less-available Limited and Extended Summer WLR Loads will not receive clearing prices but instead will be assigned WLR Values corresponding to the clearing price at which the applicable WLR Constraints bind, the calculation for determining the post-auction credit rate will rely on the applicable WLR Value. Thus, the post-auction credit rate for Limited and Extended Summer WLR Loads will be the product of the number of days in the Delivery Year times the greater of “0.2 times the applicable WLR Value corresponding to the WLR Load type in such auction for the [LDA] within which the WLR Load is located,” or \$20/MW-day.<sup>154</sup> The applicable WLR Value of a WLR Load used to determine the required credit is a reasonable surrogate for the clearing price received by supply-side resources. There will be only one type of WEEL under the status quo proposal, and it mirrors the existing Energy Efficiency Resource. Because Energy Efficiency Resources receive the clearing price applicable to Annual Resources, there is no substantive difference between the determinations of credit rates for WEELs and for Capacity Resources.<sup>155</sup>

---

<sup>151</sup> See proposed PJM Tariff, Attachment Q, sections IV.C(f) & (g) (Options A & B).

<sup>152</sup> *Id.*, Attachment Q, section IV.B (Options A & B).

<sup>153</sup> PJM Tariff, Attachment Q, section IV.D.a.

<sup>154</sup> See proposed PJM Tariff, Attachment Q, section IV.F.b (Option B).

<sup>155</sup> Compare proposed PJM Tariff, Attachment Q, section IV.G (Option B), with PJM Tariff, Attachment Q, sections IV.D.a & b.

2. *Capacity Performance Credit Rate Determination (Option A)*

The RPM Auction Credit Rate is based on two factors: (i) the per-MW value of the committed MWs in the Delivery Year (e.g., clearing price, WLR Value); and (ii) an entity's possible deficiency charge exposure.<sup>156</sup> The credit rate must account for the maximum dollar amount which the seller may be charged under the various applicable compliance charges (e.g., deficiency, test failure, non-performance) that exceeds the resource's capacity market revenues (i.e., clearing price times the number of days in the Delivery Year). In other words, the dollar increment between a resource's revenues and its maximum penalty payments is the potential exposure that the credit rate intends to cover. That potential exposure, therefore, is the focus of the RPM credit requirement.

The non-performance charge included in the Capacity Performance Filing, and adopted here for WLR Loads and WEELs, substantially increases the compliance charge exposure. To provide reasonable assurance that a WLR or WEEL Provider can satisfy those potential payment obligations, corresponding changes are needed to establish credit rules for WLR and WEEL.

Under PJM's proposal, however, net charge exposure will increase relative to the status quo proposal only for Capacity Performance WLR Loads and WEELs. Base Capacity WLR Loads and WEELs will be subject to the Capacity Performance proposal's Non-Performance Charge, but the annual stop-loss will cap their total charge exposure at the dollar equivalent of the potential annual capacity obligation reduction.<sup>157</sup>

Capacity Performance WLR Loads and WEELs, by contrast, will face Non-Performance Charges as high as the annual stop-loss of 1.5 times Net CONE times all of the assigned WLR Value for the committed load reduction quantity.<sup>158</sup> The net exposure, i.e., after accounting for the reduction to capacity charges the WLR Provider will receive

---

<sup>156</sup> See *id.*, Attachment Q, section IV.D.

<sup>157</sup> See proposed RAA, Schedule 6.2, section S(f) (Option A).

<sup>158</sup> See proposed RAA, Schedule 6.2, section S(f) (Option A).



under RPM, depends on the gap between the Capacity Resource Clearing Price<sup>159</sup> and 1.5 times Net CONE. Because 1.5 times Net CONE is generally the highest clearing price possible under PJM's VRR Curve,<sup>160</sup> the Capacity Resource Clearing Price will in most cases be below 1.5 times Net CONE. The lower the clearing price, the larger that "charge exposure" will be. Thus, PJM's proposed substantive changes to the RPM credit requirement for WLR Loads and WEELs are limited to Capacity Performance WLR Loads and WEELs, and are focused on the net exposure between (i) the relative WLR Value of Capacity Performance WLR Loads and WEELs in RPM (i.e., Capacity Resource clearing price), and (ii) the annual stop-loss exposure of 1.5 times Net CONE.<sup>161</sup>

### 3. *Credit-Limited Bids*

PJM also proposes that WLR Bids based on Planned WLR Loads or WEELs may be submitted on a credit-limited basis, just as the current rules allow for planned Capacity Resources.<sup>162</sup> This option reduces the pre-auction credit requirement for planned loads by committing the load in such a manner that the post-auction credit requirement does not exceed a maximum credit requirement specified in the credit limited bid. Thus, WLR Providers may elect to minimize their credit exposure as their WLR Bids are accepted and the auction clearing price rises in the same manner available to Capacity Market Sellers.

#### **N. Committing Less-Available WLR Loads and WEELs**

Because Limited and Extended Summer Demand Resources (or Base Capacity Resources) do not provide the same availability as annual resources, they cannot provide

---

<sup>159</sup> Recall that Capacity Performance WLR Loads and WEELs will be valued at the applicable Capacity Performance Resource clearing price. *See supra* section III.F.1.

<sup>160</sup> *See PJM Interconnection, L.L.C.*, 138 FERC ¶ 61,062, at PP 72, 85 (accepting PJM's proposal to set a cap on the VRR Curve price axis be revised to equal the greater of the Gross CONE, or 1.5 times the Net CONE because "high historical E&AS Revenues . . . equaling the Gross CONE of the PJM region [could] result[] in the collapse of the entire VRR Curve"), *order on reh'g*, 139 FERC ¶ 61,031 (2012).

<sup>161</sup> *See* proposed PJM Tariff, Attachment Q, sections IV.F.a(ii) & IV.G.a(ii) (Option A).

<sup>162</sup> *See* proposed PJM Tariff, Attachment Q, section IV.B (Options A & B).

the same reliability benefit. The Commission has previously found “an acceptable level of risk”<sup>163</sup> in PJM’s proposal to increase the risk of loss-of-load expectations (“LOLE”) by 10 percent to facilitate the commitment of such less-available resources. Accordingly, the current PJM Tariff permits Limited and Extended Summer Demand Resources to commit up to a level that provides for an LOLE of 1.1-in-10, i.e., 10 percent above the standard 1-in-10 LOLE. Similarly, in the Capacity Performance Filing, PJM has proposed to replace Limited and Extended Summer Demand Resources with Base Capacity Demand Resources, and to commit such Base Capacity Demand Resources and Base Capacity Energy Efficiency Resources up to level that, when combined with the maximum commitment level of generation Base Capacity Resources, provides for an LOLE of 1.1-in-10.<sup>164</sup>

To ensure such procurement caps are not exceeded, the RPM Auction algorithm employs constraints specific to each type of limited-availability resource. For example, Limited Demand Resources can clear up to the Limited Resource Constraint,<sup>165</sup> and Extended Summer Demand Resources can clear up to the Sub-Annual Resource Constraint, which accounts for the total quantity of capacity that can be committed by Limited and Extended Summer Demand Resources for such Delivery Year.<sup>166</sup> Likewise, in the Capacity Performance Filing, PJM proposed a Base Capacity Demand Resource Constraint to set the maximum quantity of Base Capacity Demand Resources and Base Capacity Energy Efficiency Resources that may clear consistent with reliability.

Given that PJM is proposing different types of WLR Load with availability limitations similar to the availability limitations inherent in certain Demand Resource products (e.g., Limited Demand Resource, Extended Summer Demand Resource, and

---

<sup>163</sup> *PJM Interconnection, L.L.C.*, 134 FERC ¶ 61,066, at P 74 (2011).

<sup>164</sup> Capacity Performance Filing at 67-68, proposed Tariff, section 2.2B (definition of Base Capacity Demand Resource Constraint); *see also id.* at Affidavit of Thomas A. Falin on Behalf of PJM Interconnection, L.L.C. (Attachment C) ¶¶ 25-26 (“Falin Aff.”).

<sup>165</sup> *See* PJM Tariff, Attachment DD, sections 2.36C & 5.12.

<sup>166</sup> *See* PJM Tariff, Attachment DD, sections 2.25 & 5.12.

Base Capacity Demand Resource), the same reliability concerns that led to the adoption of constraints limiting the maximum quantities of such resources that may be committed for a Delivery Year are equally present for the commitment of non-annual WLR Loads and Base Capacity WEELs. Specifically, PJM is proposing, under the status quo Option B, a Limited WLR Load Constraint and a Sub-Annual WLR Load Constraint to ensure that the maximum quantity of Limited and Extended Summer WLR Loads committed is consistent with reliability and provides for an LOLE of 1.1-in-10, like the existing constraints.<sup>167</sup>

In the event the Commission accepts the Capacity Performance Filing, PJM is proposing, in Option A, a Base Capacity WLR Load Constraint to set the maximum combined quantity of Base Capacity WLR Loads and WEELs that may be committed consistent with reliability.<sup>168</sup> Mirroring the proposed Base Capacity Demand Resource Constraint, PJM is proposing that the Base Capacity WLR Load Constraint can yield no more than a five percent increase in the LOLE (i.e., 1.05-in-10), because the Base Capacity Constraint applicable to supply-side resources (e.g., generation) also allows for commitment of such resources up to a level that produces an LOLE of 1.05-in-10. Thus, when added together the Base Capacity WLR Load Constraint and Base Capacity Constraint will produce a 10 percent increase in the risk of an LOLE (i.e., 1.1-in-10).<sup>169</sup>

The proposed WLR Constraints will act just like the existing Limited Resource Constraint and the Sub-Annual Resource Constraint (or Base Capacity Demand Resource Constraint) in limiting the amount of less-available Capacity Resources that can be committed in RPM. The constraints will be determined in a manner similar to that for the existing resource constraints and will be stated in as a percentage of unrestricted annual peak load. In addition, the proposed WLR Constraints will operate like PJM's locational constraints. Thus, just as a locational constraint stops procuring any capacity located outside a constrained LDA to serve load in that LDA after the constraint binds, triggering

---

<sup>167</sup> See proposed PJM Tariff, Attachment DD, sections 2.36F & 2.65D (Option B).

<sup>168</sup> See proposed RAA, Section 1.2E (Option A).

<sup>169</sup> See Capacity Performance Filing at Falin Aff. ¶ 26.

of these constraints means that the auction algorithm will stop committing these bids to reduce wholesale capacity obligations.

**O. Wholesale Energy Efficiency Loads**

New section U of Schedule 6.2 of the RAA is closely modeled on section L of Schedule 6 of the RAA.<sup>170</sup> Accordingly, parallel to the existing Energy Efficiency Resources, a WEEL will be a project designed to achieve a continuous reduction in electric energy consumption at an End-Use Customer's location that is not reflected in the peak load forecast prepared for the Delivery Year for which the WEEL is proposed. The WEEL Provider<sup>171</sup> will be a Wholesale Entity, and may bid WEEL into the BRA for any Delivery Year beginning on or after June 1, 2018. No later than 30 days prior to the auction in which the resource is to be offered, the WEEL Provider shall submit to PJM a notice of intent to offer the resource into such auction and a measurement and verification plan.

Should the Commission accept PJM's Capacity Performance Filing, then, for the 2018/2019 and 2019/2020 Delivery Years, the seller's proposed Nominated WEEL Quantity<sup>172</sup> for any Base Capacity WEEL<sup>173</sup> shall be the expected average load reduction between 2 p.m. EPT and 6 p.m. EPT for the period of June 1 through August 31, excluding weekends and federal holidays. Similarly, for the 2018/2019 Delivery Year and subsequent Delivery Years, the seller's proposed Nominated WEEL Quantity for any Capacity Performance WEEL<sup>174</sup> shall be calculated in the same manner. In addition, the revised tariff provides that the expected average load reduction for all days in January and February, excluding weekends and federal holidays, between 7 a.m. EPT and 9 a.m. EPT, and between 5 p.m. EPT and 8 p.m. EPT, shall not be less than the Nominated WEEL Quantity. Conversely, if the Commission does not accept PJM's Capacity Performance

---

<sup>170</sup> See RAA, Schedule 6, section L.

<sup>171</sup> See proposed RAA, section 1.87 (Options A & B).

<sup>172</sup> See proposed RAA, section 1.53 (Options A & B).

<sup>173</sup> See proposed RAA, sections 1.2D (Option A).

<sup>174</sup> See proposed RAA, sections 1.7C (Option A).

proposal, then the status quo tariff will remain in place, and the seller's proposed Nominated Energy Efficiency Value<sup>175</sup> shall be the expected average load reduction between 2 p.m. EPT and 6 p.m. EPT for the period of June 1 through August 31, excluding weekends and federal holidays.

As discussed, WEELs that clear in a BRA will be assigned a WLR Value that reflects its relative reliability benefit. Base Capacity WEELs will be assigned the same WLR Value as Base Capacity WLR Loads. Capacity Performance WEELs will be assigned a WLR Value based on the auction clearing price applicable to Capacity Performance Resources. Similarly, if the Commission does not accept the Capacity Performance Filing, WEELs under Option B will be assigned a WLR Value based on the clearing price for Annual Resources.

Prior to the Delivery Year, a WEEL Provider must submit a post-installation report verifying the committed Nominated WEEL Quantity.<sup>176</sup> The MW value supported by such report will be the amount of load reduction credited to the WEEL for the Delivery Year and will be used in determining the LSE Capacity Obligation Reduction and applicable compliance charges. The Unforced Capacity Value of a WEEL bid into a Base Residual Auction shall be the Nominated WEEL Quantity times the Forecast Pool Requirement.

A WEEL that commits in an auction for a Delivery Year may be offered in BRA for up to three additional consecutive Delivery Years. However, a WEEL may not be offered for any Delivery Year in which any part of the peak season is beyond the expected life of the equipment, device, system, or process providing the expected load reduction.

---

<sup>175</sup> See RAA, Schedule 6, section L.2.

<sup>176</sup> See proposed RAA, Schedule 6.2, section U.7.

## **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:

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

Jacquelynn Hugee  
Assistant General Counsel  
PJM Interconnection, L.L.C.  
2750 Monroe Blvd  
Audubon, PA 19403  
(610) 666-8208  
*Jacquelynn.Hugee@pjm.com*

Barry S. Spector  
Michael J. Thompson  
Paul M. Flynn  
Wright & Talisman, P.C.  
1200 G Street, N.W., Suite 600  
Washington, D.C. 20005  
(202) 393-1200  
*spector@wrightlaw.com*  
*thompson@wrightlaw.com*  
*flynn@wrightlaw.com*

## **VII. Documents Enclosed**

This filing consists of the following:

1. This transmittal letter;
2. Attachment A, containing redlined versions of the Option A proposed revisions to the PJM Tariff and the RAA, both as described above and in electronic tariff filing format in accordance with the Commission’s Order No. 714;
3. Attachment B, containing clean versions of the Option A proposed revisions to the PJM Tariff and the RAA, both as described above and in electronic tariff filing format in accordance with the Commission’s Order No. 714;

4. Attachment C, containing redline versions of the Option B proposed revisions to the PJM Tariff and the RAA, both as described above and in electronic tariff filing format in accordance with the Commission's Order No. 714; and
5. Attachment D, containing clean versions of the Option B proposed revisions to the PJM Tariff and the RAA, both as described above and in electronic tariff filing format in accordance with the Commission's Order No. 714; and
6. Attachment E, a list identifying and describing the provisions of the PJM Tariff and RAA where PJM proposes to insert language to preclude new commitments of supply-side Demand Resources and Energy Efficiency Resources commencing with the 2015 BRA, until and unless the effectiveness of such provisions is restored following acceptance by the Commission of a subsequent filing by PJM for that purpose.

#### **VIII. 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,<sup>177</sup> PJM will post a copy of this filing to the FERC filings section of its internet site, located at the following link: <http://www.pjm.com/documents/ferc-manuals/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 Region<sup>178</sup> alerting them that this filing has been made by PJM and is available by following such link. PJM also serves the parties listed on the Commission's official service list for this docket. If the document is not immediately available by using the referenced link, the document will be available through the referenced link within 24 hours of the filing. Also, a copy of this

---

<sup>177</sup> See 18 C.F.R. §§ 35.2(e), 385.2010(f)(3).

<sup>178</sup> PJM already maintains, updates and regularly uses e-mail lists for all PJM members and affected state commissions.

filing will be available on the FERC's eLibrary website located at the following link:  
<http://www.ferc.gov/docs-filing/elibrary.asp> in accordance with the Commission's regulations and Order No. 714.

**IX. Conclusion**

PJM requests that the Commission accept the enclosed revisions to the PJM Tariff and RAA, with an effective date of April 1, 2015, without condition or modification.

Respectfully submitted,



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

Vincent P. Duane  
Senior Vice President & General Counsel  
PJM Interconnection, L.L.C.  
2750 Monroe Blvd  
Audubon, PA 19403  
(610) 666-4367  
*Vincent.Duane@pjm.com*

Jacquelynn Hugee  
Assistant General Counsel  
PJM Interconnection, L.L.C.  
2750 Monroe Blvd  
Audubon, PA 19403  
(610) 666-8208  
*Jacquelynn.Hugee@pjm.com*

Barry S. Spector  
Michael J. Thompson  
Paul M. Flynn  
Carrie L. Bumgarner  
Ryan J. Collins  
Wright & Talisman, P.C.  
1200 G Street, N.W., Suite 600  
Washington, D.C. 20005  
(202) 393-1200  
*spector@wrightlaw.com*  
*thompson@wrightlaw.com*  
*flynn@wrightlaw.com*

Jennifer Tribulski  
Senior Counsel  
PJM Interconnection, L.L.C.  
2750 Monroe Blvd.  
Audubon, PA 19403  
(610) 666-4363  
*Jennifer.Tribulski@pjm.com*

Counsel for  
PJM Interconnection, L.L.C.



# Attachment A

## Revisions to the PJM Open Access Transmission Tariff and Reliability Assurance Agreement Option A

(Identified by Additional Cover Pages)

(Marked/Redline Format)

Sections of the  
PJM Open Access Transmission Tariff  
Option A  
(Marked/Redline Format)

## **ATTACHMENT Q**

### **PJM CREDIT POLICY**

#### **POLICY STATEMENT:**

It is the policy of PJM Interconnection, LLC (“PJM”) that prior to an entity participating in the PJM Markets, or in order to take Transmission Service, the entity must demonstrate its ability to meet PJMSettlement’s credit requirements.

Prior to becoming a Market Participant, Transmission Customer, and/or Member of PJM, PJMSettlement must accept and approve a Credit Application (including Credit Agreement) from such entity and establish a Working Credit Limit with PJMSettlement. PJMSettlement shall approve or deny an accepted Credit Application on the basis of a complete credit evaluation including, but not be limited to, a review of financial statements, rating agency reports, and other pertinent indicators of credit strength.

#### **POLICY INTENT:**

This credit policy describes requirements for: (1) the establishment and maintenance of credit by Market Participants, Transmission Customers, and entities seeking either such status (collectively “Participants”), pursuant to one or more of the Agreements, and (2) forms of security that will be deemed acceptable (hereinafter the “Financial Security”) in the event that the Participant does not satisfy the financial or other requirements to establish Unsecured Credit.

This policy also sets forth the credit limitations that will be imposed on Participants in order to minimize the possibility of failure of payment for services rendered pursuant to the Agreements, and conditions that will be considered an event of default pursuant to this policy and the Agreements.

These credit rules may establish certain set-asides of credit for designated purposes (such as for FTR or RPM activity). Such set-asides shall be construed to be applicable to calculation of credit requirements only, and shall not restrict PJMSettlement’s ability to apply such designated credit to any obligation(s) in case of a default.

PJMSettlement may post on PJM’s web site, and may reference on OASIS, a supplementary document which contains additional business practices (such as algorithms for credit scoring) that are not included in this document. Changes to the supplementary document will be subject to stakeholder review and comment prior to implementation. PJMSettlement may specify a required compliance date, not less than 15 days from notification, by which time all Participants must comply with provisions that have been revised in the supplementary document.

#### **APPLICABILITY:**

This policy applies to all Participants.

## **IMPLEMENTATION:**

### **I. CREDIT EVALUATION**

Each Participant will be subject to a complete credit evaluation in order for PJMSettlement to determine creditworthiness and to establish an **Unsecured Credit Allowance**, if applicable; provided, however, that a Participant need not provide the information specified in section I.A or I.B if it notifies PJMSettlement in writing that it does not seek any Unsecured Credit Allowance. PJMSettlement will identify any necessary Financial Security requirements and establish a Working Credit Limit for each Participant. In addition, PJMSettlement will perform follow-up credit evaluations on at least an annual basis.

If a **Corporate Guaranty** is being utilized to establish credit for a Participant, the guarantor will be evaluated and the Unsecured Credit Allowance or Financial Security requirement will be based on the financial strength of the Guarantor.

PJMSettlement will provide a Participant, upon request, with a written explanation for any change in credit levels or collateral requirements. PJMSettlement will provide such explanation within ten Business Days.

If a Participant believes that either its level of unsecured credit or its collateral requirement has been incorrectly determined, according to this credit policy, then the Participant may send a request for reconsideration in writing to PJMSettlement. Such a request should include:

- A citation to the applicable section(s) of the PJMSettlement credit policy along with an explanation of how the respective provisions of the credit policy were not carried out in the determination as made
- A calculation of what the Participant believes should be the correct credit level or collateral requirement, according to terms of the credit policy

PJMSettlement will reconsider the determination and will provide a written response as promptly as practical, but no longer than ten Business Days of receipt of the request. If the Participant still feels that the determination is incorrect, then the Participant may contest that determination. Such contest should be in written form, addressed to PJMSettlement, and should contain:

- ◆ A complete copy of the Participant's earlier request for reconsideration, including citations and calculations
- ◆ A copy of PJMSettlement's written response to its request for reconsideration
- ◆ An explanation of why it believes that the determination still does not comply with the credit policy

PJMSettlement will investigate and will respond to the Participant with a final determination on the matter as promptly as practical, but no longer than 20 Business Days.

Neither requesting reconsideration nor contesting the determination following such request shall relieve or delay Participant's responsibility to comply with all provisions of this credit policy.

#### **A. Initial Credit Evaluation**

In completing the initial credit evaluation, PJMSettlement will consider:

##### **1) Rating Agency Reports**

In evaluating credit strength, PJMSettlement will review rating agency reports from Standard & Poor's, Moody's Investors Service, Fitch Ratings, or other nationally known rating agencies. The focus of the review will be on senior unsecured debt ratings; however, PJMSettlement will consider other ratings if senior unsecured debt ratings are not available.

##### **2) Financial Statements and Related Information**

Each Participant must submit with its application audited financial statements for the most recent fiscal quarter, as well as the most recent three fiscal years, or the period of existence of the Participant, if shorter. All financial and related information considered for a Credit Score must be audited by an outside entity, and must be accompanied by an unqualified audit letter acceptable to PJMSettlement.

The information should include, but not be limited to, the following:

- a. If publicly traded:
  - i. Annual and quarterly reports on Form 10-K and Form 10-Q, respectively.
  - ii. Form 8-K reports disclosing Material changes, if any.
- b. If privately held:
  - i. Management's Discussion & Analysis
  - ii. Report of Independent Accountants
  - iii. Financial Statements, including:
    - Balance Sheet
    - Income Statement
    - Statement of Cash Flows
    - Statement of Stockholder's Equity
  - iv. Notes to Financial Statements

If the above information is available on the Internet, the Participant may provide a letter stating where such statements may be located and retrieved by PJMSettlement. For certain Participants, some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJMSettlement.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness.

### **3) References**

PJMSettlement may request Participants to provide with their applications at least one (1) bank and three (3) utility credit references. In the case where a Participant does not have the required utility references, trade payable vendor references may be substituted.

### **4) Litigation, Commitments and Contingencies**

Each Participant is also required to provide with its application information as to any known Material litigation, commitments or contingencies as well as any prior bankruptcy declarations or Material defalcations by the Participant or its predecessors, subsidiaries or Affiliates, if any. These disclosures shall be made upon application, upon initiation or change, and at least annually thereafter, or as requested by PJMSettlement.

### **5) Other Disclosures**

Each Participant is required to disclose any Affiliates that are currently Members of PJMSettlement or are applying for membership with PJMSettlement. Each Participant is also required to disclose the existence of any ongoing investigations by the Securities and Exchange Commission ("SEC"), Federal Energy Regulatory Commission ("FERC"), Commodity Futures Trading Commission ("CFTC"), or any other governing, regulatory, or standards body. These disclosures shall be made upon application, upon initiation or change, and at least annually thereafter, or as requested by PJMSettlement.

## **B. Ongoing Credit Evaluation**

On at least an annual basis, PJMSettlement will perform follow-up credit evaluations on all Participants. In completing the credit evaluation, PJMSettlement will consider:

### **1) Rating Agency Reports**

In evaluating credit strength, PJMSettlement will review rating agency reports from Standard & Poor's, Moody's Investors Service, Fitch Ratings, or other nationally known rating agencies. The focus of the review will be on senior unsecured debt ratings; however, PJMSettlement will consider other ratings if senior unsecured debt ratings are not available.

### **2) Financial Statements and Related Information**

Each Participant must submit audited annual financial statements as soon as they become available and no later than 120 days after fiscal year end. Each Participant is also required to provide PJMSettlement with quarterly financial statements promptly upon their issuance, but no later than 60 days after the end of each quarter. All financial and related information considered

for a Credit Score must be audited by an outside entity, and must be accompanied by an unqualified audit letter acceptable to PJMSettlement. If financial statements are not provided within the timeframe required, the Participant may not be granted an Unsecured Credit Allowance.

The information should include, but not be limited to, the following:

- a. If publicly traded:
  - i. Annual and quarterly reports on Form 10-K and Form 10-Q, respectively.
  - ii. Form 8-K reports disclosing Material changes, if any, immediately upon issuance.
- b. If privately held:
  - i. Management's Discussion & Analysis
  - ii. Report of Independent Accountants
  - iii. Financial Statements, including:
    - Balance Sheet
    - Income Statement
    - Statement of Cash Flows
    - Statement of Stockholder's Equity
  - iv. Notes to Financial Statements

If the above information is available on the Internet, the Participant may provide a letter stating where such statements may be located and retrieved by PJMSettlement. For certain Participants, some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJMSettlement.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness.

### **3) Material Changes**

Each Participant is responsible for informing PJMSettlement immediately, in writing, of any Material change in its financial condition. However, PJMSettlement may also independently establish from available information that a Participant has experienced a Material change in its financial condition without regard to whether such Participant has informed PJMSettlement of the same.

For the purpose of this policy, a Material change in financial condition may include, but not be limited to, any of the following:

- a. a downgrade of any debt rating by any rating agency;
- b. being placed on a credit watch with negative implications by any rating agency;
- c. a bankruptcy filing;
- d. insolvency;

- e. a report of a quarterly or annual loss or a decline in earnings of ten percent or more compared to the prior period;
- f. restatement of prior financial statements;
- g. the resignation of key officer(s);
- h. the filing of a lawsuit that could adversely impact any current or future financial results by ten percent or more;
- i. financial default in another organized wholesale electric market futures exchange or clearing house;
- j. revocation of a license or other authority by any Federal or State regulatory agency; where such license or authority is necessary or important to the Participants continued business for example, FERC market-based rate authority, or State license to serve retail load; or
- k. a significant change in credit default spreads, market capitalization, or other market-based risk measurement criteria, such as a recent increase in Moody's KMV Expected Default Frequency (EDF<sup>tm</sup>) that is noticeably greater than the increase in its peers' EDF<sup>tm</sup> rates, or a collateral default swap (CDS) premium normally associated with an entity rated lower than investment grade.

If PJMSettlement determines that a Material change in the financial condition of the Participant has occurred, it may require the Participant to provide Financial Security within two Business Days, in an amount and form approved by PJMSettlement. If the Participant fails to provide the required Financial Security, the Participant shall be in default under this credit policy.

In the event that PJMSettlement determines that a Material change in the financial condition of a Participant warrants a requirement to provide Financial Security, PJMSettlement shall provide the Participant with a written explanation of why such determination was made. However, under no circumstances shall the requirement that a Participant provide the requisite Financial Security be deferred pending the issuance of such written explanation.

#### **4) Litigation, Commitments, and Contingencies**

Each Participant is also required to provide information as to any known Material litigation, commitments or contingencies as well as any prior bankruptcy declarations or Material defalcations by the Participant or its predecessors, subsidiaries or Affiliates, if any. These disclosures shall be made upon initiation or change or as requested by PJMSettlement.

#### **5) Other Disclosures**

Each Participant is required to disclose any Affiliates that are currently Members of PJM or are applying for membership within PJM. Each Participant is also required to disclose the existence of any ongoing investigations by the SEC, FERC, CFTC or any other governing, regulatory, or standards body. These disclosures shall be made upon initiation or change, or as requested by PJMSettlement.

### **C. Corporate Guaranty**



If a Corporate Guaranty is being utilized to establish credit for a Participant, the Guarantor will be evaluated and the Unsecured Credit Allowance or Financial Security requirement will be based on the financial strength of the Guarantor.

An irrevocable and unconditional Corporate Guaranty may be utilized as part of the credit evaluation process, but will not be considered a form of Financial Security. The Corporate Guaranty will be considered a transfer of credit from the Guarantor to the Participant. The Corporate Guaranty must guarantee the (i) full and prompt payment of all amounts payable by the Participant under the Agreements, and (ii) performance by the Participant under this policy.

The Corporate Guaranty should clearly state the identities of the “Guarantor,” “Beneficiary” (PJMSettlement) and “Obligor” (Participant). The Corporate Guaranty must be signed by an officer of the Guarantor, and must demonstrate that it is duly authorized in a manner acceptable to PJMSettlement. Such demonstration may include either a Corporate Seal on the Guaranty itself, or an accompanying executed and sealed Secretary’s Certificate noting that the Guarantor was duly authorized to provide such Corporate Guaranty and that the person signing the Corporate Guaranty is duly authorized, or other manner acceptable to PJMSettlement.

A Participant supplying a Corporate Guaranty must provide the same information regarding the Guarantor as is required in the “Initial Credit Evaluation” §I.A. and the “Ongoing Evaluation” §I.B. of this policy, including providing the Rating Agency Reports, Financial Statements and Related Information, References, Litigation Commitments and Contingencies, and Other Disclosures. A Participant supplying a Foreign or Canadian Guaranty must also satisfy the requirements of §I.C.1 or §I.C.2, as appropriate.

If there is a Material change in the financial condition of the Guarantor or if the Corporate Guaranty comes within 30 days of expiring without renewal, the Participant will be required to provide Financial Security either in the form of a cash deposit or a letter of credit. Failure to provide the required Financial Security within two Business Days after request by PJMSettlement will constitute an event of default under this credit policy. A Participant may request PJMSettlement to perform a credit evaluation in order to determine creditworthiness and to establish an Unsecured Credit Allowance, if applicable. If PJMSettlement determines that a Participant does qualify for a sufficient Unsecured Credit Allowance, then Financial Security will not be required.

The PJMSettlement Credit Application contains an acceptable form of Corporate Guaranty that should be utilized by a Participant choosing to establish its credit with a Corporate Guaranty. If the Corporate Guaranty varies in any way from the PJMSettlement format, it must first be reviewed and approved by PJMSettlement. All costs associated with obtaining and maintaining a Corporate Guaranty and meeting the policy provisions are the responsibility of the Participant.

## **1) Foreign Guaranties**

A Foreign Guaranty is a Corporate Guaranty that is provided by an Affiliate entity that is domiciled in a country other than the United States or Canada. The entity providing a Foreign Guaranty on behalf of a Participant is a Foreign Guarantor. A Participant may provide a Foreign

Guaranty in satisfaction of part of its credit obligations or voluntary credit provision at PJMSettlement provided that all of the following conditions are met:

PJMSettlement reserves the right to deny, reject, or terminate acceptance of any Foreign Guaranty at any time, including for material adverse circumstances or occurrences.

- a. A Foreign Guaranty:
  - i. Must contain provisions equivalent to those contained in PJMSettlement's standard form of Foreign Guaranty with any modifications subject to review and approval by PJMSettlement counsel.
  - ii. Must be denominated in US currency.
  - iii. Must be written and executed solely in English, including any duplicate originals.
  - iv. Will not be accepted towards a Participant's Unsecured Credit Allowance for more than the following limits, depending on the Foreign Guarantor's credit rating:

Rating of Foreign Guarantor	Maximum Accepted Guaranty if Country Rating is AAA	Maximum Accepted Guaranty if Country Rating is AA+
A- and above	USD50,000,000	USD30,000,000
BBB+	USD30,000,000	USD20,000,000
BBB	USD10,000,000	USD10,000,000
BBB- or below	USD 0	USD 0

- v. May not exceed 50% of the Participant's total credit, if the Foreign Grantor is rated less than BBB+.
- b. A Foreign Guarantor:
  - i. Must satisfy all provisions of the PJM credit policy applicable to domestic Guarantors.
  - ii. Must be an Affiliate of the Participant.
  - iii. Must maintain an agent for acceptance of service of process in the United States; such agent shall be situated in the Commonwealth of Pennsylvania, absent legal constraint.
  - iv. Must be rated by at least one Rating Agency acceptable to PJMSettlement; the credit strength of a Foreign Guarantor may not be determined based on an evaluation of its financials without an actual credit rating as well.
  - v. Must have a Senior Unsecured (or equivalent, in PJMSettlement's sole discretion) rating of BBB (one notch above BBB-) or greater by any and all agencies that provide rating coverage of the entity.
  - vi. Must provide financials in GAAP format or other format acceptable to PJMSettlement with clear representation of net worth, intangible assets, and any other information PJMSettlement may require in order to determine the entity's Unsecured Credit Allowance

- vii. Must provide a Secretary's Certificate certifying the adoption of Corporate Resolutions:
  - 1. Authorizing and approving the Guaranty; and
  - 2. Authorizing the Officers to execute and deliver the Guaranty on behalf of the Guarantor.
- viii. Must be domiciled in a country with a minimum long-term sovereign (or equivalent) rating of AA+/Aa1, with the following conditions:
  - 1. Sovereign ratings must be available from at least two rating agencies acceptable to PJMSettlement (e.g. S&P, Moody's, Fitch, DBRS).
  - 2. Each agency's sovereign rating for the domicile will be considered to be the lowest of: country ceiling, senior unsecured government debt, long-term foreign currency sovereign rating, long-term local currency sovereign rating, or other equivalent measures, at PJMSettlement's sole discretion.
  - 3. Whether ratings are available from two or three agencies, the lowest of the two or three will be used.
- ix. Must be domiciled in a country that recognizes and enforces judgments of US courts.
- x. Must demonstrate financial commitment to activity in the United States as evidenced by one of the following:
  - 1. American Depositary Receipts (ADR) are traded on the New York Stock Exchange, American Stock Exchange, or NASDAQ.
  - 2. Equity ownership worth over USD100,000,000 in the wholly-owned or majority owned subsidiaries in the United States.
- xi. Must satisfy all other applicable provisions of the PJM Tariff and/or Operating Agreement, including this credit policy.
- xii. Must pay for all expenses incurred by PJMSettlement related to reviewing and accepting a foreign guaranty beyond nominal in-house credit and legal review.
- xiii. Must, at its own cost, provide PJMSettlement with independent legal opinion from an attorney/solicitor of PJMSettlement's choosing and licensed to practice law in the United States and/or Guarantor's domicile, in form and substance acceptable to PJMSettlement in its sole discretion, confirming the enforceability of the Foreign Guaranty, the Guarantor's legal authorization to grant the Guaranty, the conformance of the Guaranty, Guarantor, and Guarantor's domicile to all of these requirements, and such other matters as PJMSettlement may require in its sole discretion.

## **2) Canadian Guaranties**

A Canadian Guaranty is a Corporate Guaranty that is provided by an Affiliate entity that is domiciled in Canada and satisfies all of the provisions below. The entity providing a Canadian Guaranty on behalf of a Participant is a Canadian Guarantor. A Participant may provide a Canadian Guaranty in satisfaction of part of its credit obligations or voluntary credit provision at PJMSettlement provided that all of the following conditions are met.

PJMSettlement reserves the right to deny, reject, or terminate acceptance of any Canadian Guaranty at any time for reasonable cause, including adverse material circumstances.

- a. A Canadian Guaranty:
  - i. Must contain provisions equivalent to those contained in PJMSettlement's standard form of Foreign Guaranty with any modifications subject to review and approval by PJMSettlement counsel.
  - ii. Must be denominated in US currency.
  - iii. Must be written and executed solely in English, including any duplicate originals.
- b. A Canadian Guarantor:
  - i. Must satisfy all provisions of the PJM credit policy applicable to domestic Guarantors.
  - ii. Must be an Affiliate of the Participant.
  - iii. Must maintain an agent for acceptance of service of process in the United States; such agent shall be situated in the Commonwealth of Pennsylvania, absent legal constraint.
  - iv. Must be rated by at least one Rating Agency acceptable to PJMSettlement; the credit strength of a Canadian Guarantor may not be determined based on an evaluation of its financials without an actual credit rating as well.
  - v. Must provide financials in GAAP format or other format acceptable to PJMSettlement with clear representation of net worth, intangible assets, and any other information PJMSettlement may require in order to determine the entity's Unsecured Credit Allowance.
  - vi. Must satisfy all other applicable provisions of the PJM Tariff and/or Operating Agreement, including this Credit Policy.

## **Ia. MINIMUM PARTICIPATION REQUIREMENTS**

### **A. PJM Market Participation Eligibility Requirements**

To be eligible to transact in PJM Markets, a Market Participant must demonstrate in accordance with the Risk Management and Verification processes set forth below that it qualifies in one of the following ways:

1. an "appropriate person," as that term is defined under Section 4(c)(3), or successor provision, of the Commodity Exchange Act, or;
2. an "eligible contract participant," as that term is defined in Section 1a(18), or successor provision, of the Commodity Exchange Act, or;
3. a business entity or person who is in the business of: (1) generating, transmitting, or distributing electric energy, or (2) providing electric energy services that are necessary to support the reliable operation of the transmission system, or;

4. a Market Participant seeking eligibility as an “appropriate person” providing an unlimited Corporate Guaranty in a form acceptable to PJMSettlement as described in Section I.C of Attachment Q from an issuer that has at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty, or;
5. a Market Participant providing a letter of credit of at least \$5 million to PJMSettlement in a form acceptable to PJMSettlement as described in Section VI.B of Attachment Q that the Market Participant acknowledges is separate from, and cannot be applied to meet, its credit requirements to PJMSettlement.

If, at any time, a Market Participant cannot meet the eligibility requirements set forth above, it shall immediately notify PJMSettlement and immediately cease conducting transactions in the PJM Markets. PJMSettlement shall terminate a Market Participant’s transaction rights in the PJM Markets if, at any time, it becomes aware that the Market Participant does not meet the minimum eligibility requirements set forth above.

In the event that a Market Participant is no longer able to demonstrate it meets the minimum eligibility requirements set forth above, and possesses, obtains or has rights to possess or obtain, any open or forward positions in PJM’s Markets, PJMSettlement may take any such action it deems necessary with respect to such open or forward positions, including, but not limited to, liquidation, transfer, assignment or sale; provided, however, that the Market Participant will, notwithstanding its ineligibility to participate in the PJM Markets, be entitled to any positive market value of those positions, net of any obligations due and owing to PJM and/or PJMSettlement.

## **B. Risk Management and Verification**

All Participants shall provide to PJMSettlement an executed copy of the annual certification set forth in Appendix 1 to this Attachment Q. This certification shall be provided before an entity is eligible to participate in the PJM Markets and shall be initially submitted to PJMSettlement together with the entity’s Credit Application. Thereafter, it shall be submitted each calendar year by all Participants during a period beginning on January 1 and ending April 30, except that new Participants who became eligible to participate in PJM markets during the period of January through April shall not be required to resubmit such certification until the following calendar year. Except for certain FTR Participants (discussed below) or in cases of manifest error, PJMSettlement will accept such certifications as a matter of course and Participants will not need further notice from PJMSettlement before commencing or maintaining their eligibility to participate in PJM markets. A Participant that fails to provide its annual certification by April 30 shall be ineligible to transact in the PJM markets and PJM will disable the Participant’s access to the PJM markets until such time as PJMSettlement receives the Participant’s certification.

Participants acknowledge and understand that the annual certification constitutes a representation upon which PJMSettlement will rely. Such representation is additionally made under the PJM Tariff, filed with and accepted by FERC, and any inaccurate or incomplete statement may subject the Participant to action by FERC. Failure to comply with any of the criteria or

requirements listed herein or in the certification may result in suspension of a Participant's transaction rights in the PJM markets.

Certain FTR Participants (those providing representations found in paragraph 3.b of the annual certification set forth in Appendix 1 to this Attachment Q) are additionally required to submit to PJMSettlement (at the time they make their annual certification) a copy of their current governing risk control policies, procedures and controls applicable to their FTR trading activities, except that if no substantive changes have been made to such policies, practices and/or controls applicable to their FTR trading activities, they may instead submit to PJMSettlement a certification stating that no changes have been made. PJMSettlement will review such documentation to verify that it appears generally to conform to prudent risk management practices for entities trading in FTR-type markets. If principles or best practices relating to risk management in FTR-type markets are published, as may be modified from time to time, by a third-party industry association, such as the Committee of Chief Risk Officers, PJMSettlement may, following stakeholder discussion and with no less than six months prior notice to stakeholders, apply such principles or best practices in determining the fundamental sufficiency of the FTR Participant's risk controls. Those FTR Participants subject to this provision shall make a one-time payment of \$1,000.00 to PJMSettlement to cover costs associated with review and verification. Thereafter, if such FTR Participant's risk policies, procedures and controls applicable to its FTR trading activities change substantively, it shall submit such modified documentation, without charge, to PJMSettlement for review and verification at the time it makes its annual certification. Such FTR Participant's continued eligibility to participate in the PJM FTR markets is conditioned on PJMSettlement notifying such FTR Participant that its annual certification, including the submission of its risk policies, procedures and controls, has been accepted by PJMSettlement. PJMSettlement may retain outside expertise to perform the review and verification function described in this paragraph, however, in all circumstances, PJMSettlement and any third-party it may retain will treat as confidential the documentation provided by an FTR Participant under this paragraph, consistent with the applicable provisions of PJM's Operating Agreement.

An FTR Participant that makes the representation in paragraph 3.a of the annual certification understand that PJMSettlement, given the visibility it has over a Participant's overall market activity in performing billing and settlement functions, may at any time request the FTR Participant provide additional information demonstrating that it is in fact eligible to make the representation in paragraph 3.a of the annual certification. If such additional information is not provided or does not, in PJMSettlement's judgment, demonstrate eligibility to make the representation in paragraph 3.a of the annual certification, PJMSettlement will require the FTR Participant to instead make the representations required in paragraph 3.b of the annual certification, including representing that it has submitted a copy of its current governing risk control policies, procedures and controls applicable to its FTR trading activities. If the FTR Participant cannot or does not make those representations as required in paragraph 3.b of the annual certification, then PJM will terminate the FTR Participant's rights to purchase FTRs in the FTR market and may terminate the FTR Participant's rights to sell FTRs in the PJM FTR market.

PJMSettlement shall also conduct a periodic compliance verification process to review and verify, as applicable, Participants' risk management policies, practices, and procedures pertaining to the Participants' activities in the PJM markets. Such review shall include verification that:

1. The risk management framework is documented in a risk policy addressing market, credit and liquidity risks.
2. The Participant maintains an organizational structure with clearly defined roles and responsibilities that clearly segregates trading and risk management functions.
3. There is clarity of authority specifying the types of transactions into which traders are allowed to enter.
4. The Participant has requirements that traders have adequate training relative to their authority in the systems and PJM markets in which they transact.
5. As appropriate, risk limits are in place to control risk exposures.
6. Reporting is in place to ensure that risks and exceptions are adequately communicated throughout the organization.
7. Processes are in place for qualified independent review of trading activities.
8. As appropriate, there is periodic valuation or mark-to-market of risk positions.

If principles or best practices relating to risk management in PJM-type markets are published, as may be modified from time to time, by a third-party industry association, PJMSettlement may, following stakeholder discussion and with no less than six months prior notice to stakeholders, apply such principles or best practices in determining the sufficiency of the Participant's risk controls. PJMSettlement may select Participants for review on a random basis and/or based on identified risk factors such as, but not limited to, the PJM markets in which the Participant is transacting, the magnitude of the Participant's transactions in the PJM markets, or the volume of the Participant's open positions in the PJM markets. Those Participants notified by PJMSettlement that they have been selected for review shall, upon 14 calendar days notice, provide a copy of their current governing risk control policies, procedures and controls applicable to their PJM market activities and shall also provide such further information or documentation pertaining to the Participants' activities in the PJM markets as PJMSettlement may reasonably request. Participants selected for risk management verification through a random process and satisfactorily verified by PJMSettlement shall be excluded from such verification process based on a random selection for the subsequent two years. PJMSettlement shall annually randomly select for review no more than 20% of the Participants in each member sector.

Each selected Participant's continued eligibility to participate in the PJM markets is conditioned upon PJMSettlement notifying the Participant of successful completion of PJMSettlement's verification of the Participant's risk management policies, practices and procedures, as discussed

herein. However, if PJMSettlement notifies the Participant in writing that it could not successfully complete the verification process, PJMSettlement shall allow such Participant 14 calendar days to provide sufficient evidence for verification prior to declaring the Participant as ineligible to continue to participate in PJM's markets, which declaration shall be in writing with an explanation of why PJMSettlement could not complete the verification. If, prior to the expiration of such 14 calendar days, the Participant demonstrates to PJMSettlement that it has filed with the Federal Energy Regulatory Commission an appeal of PJMSettlement's risk management verification determination, then the Participant shall retain its transaction rights, pending the Commission's determination on the Participant's appeal. PJMSettlement may retain outside expertise to perform the review and verification function described in this paragraph. PJMSettlement and any third party it may retain will treat as confidential the documentation provided by a Participant under this paragraph, consistent with the applicable provisions of the Operating Agreement. If PJMSettlement retains such outside expertise, a Participant may direct in writing that PJMSettlement perform the risk management review and verification for such Participant instead of utilizing a third party, provided however, that employees and contract employees of PJMSettlement and PJM shall not be considered to be such outside expertise or third parties.

Participants are solely responsible for the positions they take and the obligations they assume in PJM markets. PJMSettlement hereby disclaims any and all responsibility to any Participant or PJM Member associated with Participant's submitting or failure to submit its annual certification or PJMSettlement's review and verification of an FTR Participant's risk policies, procedures and controls. Such review and verification is limited to demonstrating basic compliance by an FTR Participant with the representation it makes under paragraph 3.b of its annual certification showing the existence of written policies, procedures and controls to limit its risk in PJM's FTR markets and does not constitute an endorsement of the efficacy of such policies, procedures or controls.

## **C. Capitalization**

In addition to the Annual Certification requirements in Appendix 1 to this Attachment Q, a Participant must demonstrate that it meets the minimum financial requirements appropriate for the PJM market(s) in which it transacts by satisfying either the Minimum Capitalization or the Provision of Collateral requirements listed below:

### **1. Minimum Capitalization**

FTR Participants must demonstrate a tangible net worth in excess of \$1 million or tangible assets in excess of \$10 million. Other Participants must demonstrate a tangible net worth in excess of \$500,000 or tangible assets in excess of \$5 million.

- a. In either case, consideration of "tangible" assets and net worth shall exclude assets (net of any matching liabilities, assuming the result is a positive value) which PJMSettlement reasonably believes to be restricted, highly risky, or potentially unavailable to settle a claim in the event of default. Examples include, but are not



limited to, restricted assets and Affiliate assets, derivative assets, goodwill, and other intangible assets.

- b. Demonstration of “tangible” assets and net worth may be satisfied through presentation of an acceptable Corporate Guaranty, provided that both:
  - (i) the guarantor is an affiliate company that satisfies the tangible net worth or tangible assets requirements herein, and;
  - (ii) the Corporate Guaranty is either unlimited or at least \$500,000.

If the Corporate Guaranty presented by the Participant to satisfy these Capitalization requirements is limited in value, then the Participant’s resulting Unsecured Credit Allowance shall be the lesser of:

- (1) the applicable Unsecured Credit Allowance available to the Participant by the Corporate Guaranty pursuant to the creditworthiness provisions of this Credit Policy, or:
- (2) the face value of the Corporate Guaranty, reduced by \$500,000 and further reduced by 10%. (For example, a \$10.5 million Corporate Guaranty would be reduced first by \$500,000 to \$10 million and then further reduced 10% more to \$9 million. The resulting \$9 million would be the Participant’s Unsecured Credit Allowance available through the Corporate Guaranty).

In the event that a Participant provides collateral in addition to a limited Corporate Guaranty to increase its available credit, the value of such collateral shall be reduced by 10%. This reduced value shall be deemed Financial Security and available to satisfy the requirements of this Credit Policy.

Demonstrations of capitalization must be presented in the form of audited financial statements for the Participant’s most recent fiscal year.

## **2. Provision of Collateral**

If a Participant does not demonstrate compliance with its applicable Minimum Capitalization Requirements above, it may still qualify to participate in PJM’s markets by posting additional collateral, subject to the terms and conditions set forth herein.

Any collateral provided by a Participant unable to satisfy the Minimum Capitalization Requirements above will be restricted in the following manner:

- i. Collateral provided by FTR Participants shall be reduced by \$500,000 and then further reduced by 10%. This reduced amount shall be considered the Financial Security provided by the Participant and available to satisfy requirements of this Credit Policy.
- ii. Collateral provided by other Participants that engage in Virtual Transactions or Export Transactions shall be reduced by \$200,000 and then further reduced by 10%. This reduced value shall be considered Financial Security available to satisfy requirements of this Credit Policy.
- iii. Collateral provided by other Participants that do not engage in Virtual Transactions or Export Transactions shall be reduced by 10%, and this reduced value shall be considered Financial Security available to satisfy requirements of this Credit Policy.

In the event a Participant that satisfies the Minimum Participation Requirements through provision of collateral also provides a Corporate Guaranty to increase its available credit, then the Participant's resulting Unsecured Credit Allowance conveyed through such Guaranty shall be the lesser of:

- (1) the applicable Unsecured Credit Allowance available to the Participant by the Corporate Guaranty pursuant to the creditworthiness provisions of this credit policy, or,
- (2) the face value of the Guaranty, reduced by 10%.

## **II. CREDIT ALLOWANCE AND WORKING CREDIT LIMIT**

PJMSettlement's credit evaluation process will include calculating a Credit Score for each Participant. The credit score will be utilized to determine a Participant's Unsecured Credit Allowance.

Participants who do not qualify for an Unsecured Credit Allowance will be required to provide Financial Security based on their Peak Market Activity, as provided below.

A corresponding Working Credit Limit will be established based on the Unsecured Credit Allowance and/or the Financial Security provided.

Where Participant of PJM are considered Affiliates, Unsecured Credit Allowances and Working Credit Limits will be established for each individual Participant, subject to an aggregate maximum amount for all Affiliates as provided for in §II.F of this policy.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness.

## A. Credit Score

For participants with credit ratings, a Credit Score will be assigned based on their senior unsecured credit rating and credit watch status as shown in the table below. If an explicit senior unsecured rating is not available, PJMSettlement may impute an equivalent rating from other ratings that are available. For Participants without a credit rating, but who wish to be considered for unsecured Credit, a Credit Score will be generated from PJMSettlement's review and analysis of various factors that are predictors of financial strength and creditworthiness. Key factors in the scoring process include, financial ratios, and years in business. PJMSettlement will consistently apply the measures it uses in determining Credit Scores. The credit scoring methodology details are included in a supplementary document available on OASIS.

### Rated Entities Credit Scores

Rating	Score	Score Modifier	
		Credit Watch Negative	Credit Watch Positive
AAA	100	-1.0	0.0
AA+	99	-1.0	0.0
AA	99	-1.0	0.0
AA-	98	-1.0	0.0
A+	97	-1.0	0.0
A	96	-2.0	0.0
A-	93	-3.0	1.0
BBB+	88	-4.0	2.0
BBB	78	-4.0	2.0
BBB-	65	-4.0	2.0
BB+ and below	0	0.0	0.0

## B. Unsecured Credit Allowance

PJMSettlement will determine a Participant's Unsecured Credit Allowance based on its Credit Score and the parameters in the table below. The maximum Unsecured Credit Allowance is the lower of:

- 1) A percentage of the Participant's Tangible Net Worth, as stated in the table below, with the percentage based on the Participant's credit score; and
- 2) A dollar cap based on the credit score, as stated in the table below:

<b>Credit Score</b>	<b>Tangible Net Worth Factor</b>	<b>Maximum Unsecured Credit Allowance</b>  <b>(\$ Million)</b>
91-100	2.125 – 2.50%	\$50
81-90	1.708 – 2.083%	\$42
71-80	1.292 – 1.667%	\$33
61-70	0.875 – 1.25%	\$7
51-60	0.458 – 0.833%	\$0-\$2
50 and Under	0%	\$0

If a Corporate Guaranty is utilized to establish an Unsecured Credit Allowance for a Participant, the value of a Corporate Guaranty will be the lesser of:

- The limit imposed in the Corporate Guaranty;
- The Unsecured Credit Allowance calculated for the Guarantor; and
- A portion of the Unsecured Credit Allowance calculated for the Guarantor in the case of Affiliated Participants.

PJMSettlement has the right at any time to modify any Unsecured Credit Allowance and/or require additional Financial Security as may be deemed reasonably necessary to support current market activity. Failure to pay the required amount of additional Financial Security within two Business Days shall be an event of default.

PJMSettlement will maintain a posting of each Participant's unsecured Credit Allowance, along with certain other credit related parameters, on the PJM web site in a secure, password-protected location. Such information will be updated at least weekly. Each Participant will be responsible for monitoring such information and recognizing changes that may occur.

### **C. Seller Credit**

Participants that have maintained a Net Sell Position for each of the prior 12 months are eligible for Seller Credit, which is an additional form of Unsecured Credit. A Participant's Seller Credit will be equal to sixty percent of the Participant's thirteenth smallest weekly Net Sell Position invoiced in the past 52 weeks.

Each Participant receiving Seller Credit must maintain both its Seller Credit and its Total Net Sell Position equal to or greater than the Participant's aggregate credit requirements, less any Financial Security or other sources of credit provided.

For Participants receiving Seller Credit, PJMSettlement may forecast the Participant's Total Net Sell Position considering the Participant's current Total Net Sell Position, recent trends in the Participant's Total Net Sell Position, and other information available to PJMSettlement, such as, but not limited to, known generator outages, changes in load responsibility, and bilateral

transactions impacting the Participant. If PJMSettlement's forecast ever indicates that the Participant's Total Net Sell Position may in the future be less than the Participant's aggregate credit requirements, less any Financial Security or other sources of credit provided, then PJMSettlement may require Financial Security as needed to cover the difference. Failure to pay the required amount of additional Financial Security within two Business Days shall be an event of default.

Any Financial Security required by PJMSettlement pursuant to these provisions for Seller Credit will be returned once the requirement for such Financial Security has ended. Seller Credit may not be conveyed to another entity through use of a guaranty. Seller Credit shall be subject to the cap on available Unsecured Credit set forth in Section II.F.

#### **D. Peak Market Activity and Financial Security Requirement**

A PJM Participant or Applicant that has an insufficient Unsecured Credit Allowance to satisfy its Peak Market Activity will be required to provide Financial Security such that its Unsecured Credit Allowance and Financial Security together are equal to its Peak Market Activity in order to secure its transactional activity in the PJM Market.

Peak Market Activity for Participants will be determined semi-annually beginning in the first complete billing week in the months of April and October. Peak Market Activity shall be the greater of the initial Peak Market Activity, as explained below, or the greatest amount invoiced for the Participant's transaction activity for all PJM markets and services in any rolling one, two, or three week period, ending within a respective semi-annual period. However, Peak Market Activity shall not exceed the greatest amount invoiced for the Participant's transaction activity for all PJM markets and services in any rolling one, two or three week period in the prior 52 weeks.

Peak Market Activity shall exclude FTR Net Activity, Virtual Transactions Net Activity, and Export Transactions Net Activity.

The initial Peak Market Activity for Applicants will be determined by PJMSettlement based on a review of an estimate of their transactional activity for all PJM markets and services over the next 52 weeks, which the Applicant shall provide to PJMSettlement.

The initial Peak Market Activity for Participants, calculated at the beginning of each respective semi-annual period, shall be the three-week average of all non-zero invoice totals over the previous 52 weeks. This calculation shall be performed and applied within three business days following the day the invoice is issued for the first full billing week in the current semi-annual period.

Prepayments shall not affect Peak Market Activity unless otherwise agreed to in writing pursuant to this Credit Policy.

All Peak Market Activity calculations shall take into account reductions of invoice values effectuated by early payments which are applied to reduce a Participant's Peak Market Activity

as contemplated by other terms of the Credit Policy; provided that the initial Peak Market Activity shall not be less than the average value calculated using the weeks for which no early payment was made.

A Participant may reduce its Financial Security Requirement by agreeing in writing (in a form acceptable to PJMSettlement) to make additional payments, including prepayments, as and when necessary to ensure that such Participant's Total Net Obligation at no time exceeds such reduced Financial Security Requirement.

PJMSettlement may, at its discretion, adjust a Participant's Financial Security Requirement if PJMSettlement determines that the Peak Market Activity is not representative of such Participant's expected activity, as a consequence of known, measurable, and sustained changes. Such changes may include the loss (without replacement) of short-term load contracts, when such contracts had terms of three months or more and were acquired through state-sponsored retail load programs, but shall not include short-term buying and selling activities.

PJMSettlement may waive the Financial Security Requirement for a Participant that agrees in writing that it shall not, after the date of such agreement, incur obligations under any of the Agreements. Such entity's access to all electronic transaction systems administered by PJM shall be terminated.

PJMSettlement will maintain a posting of each Participant's Financial Security Requirement on the PJM web site in a secure, password-protected location. Such information will be updated at least weekly. Each Participant will be responsible for monitoring such information and recognizing changes that may occur.

#### **E. Working Credit Limit**

PJMSettlement will establish a Working Credit Limit for each Participant against which its **Total Net Obligation** will be monitored. The Working Credit Limit is defined as 75% of the Financial Security provided to PJMSettlement and/or 75% of the Unsecured Credit Allowance determined by PJMSettlement based on a credit evaluation, as reduced by any applicable credit requirement determinants defined in this policy. A Participant's Total Net Obligation should not exceed its Working Credit Limit.

Example: After a credit evaluation by PJMSettlement, a Participant is deemed able to support an Unsecured Credit Allowance of \$10.0 million. The Participant will be assigned a Working Credit Limit of \$8.5 million. PJMSettlement will monitor the Participant's Total Net Obligations against the Working Credit Limit.

A Participant with an Unsecured Credit Allowance may choose to provide Financial Security in order to increase its Working Credit Limit. A Participant with no Unsecured Credit Allowance may also choose to increase its Working Credit Limit by providing Financial Security in an amount greater than its Peak Market Activity.

If a Participant's Total Net Obligation approaches its Working Credit Limit, PJMSettlement may require the Participant to make an advance payment or increase its Financial Security in order to maintain its Total Net Obligation below its Working Credit Limit. Except as explicitly provided

below, advance payments shall not serve to reduce the Participant's Peak Market Activity for the purpose of calculating credit requirements.

Example: After 10 days, and with 5 days remaining before the bill is due to be paid, a Participant approaches its \$4.0 million Working Credit Limit. PJMSettlement may require a prepayment of \$2.0 million in order that the Total Net Obligation will not exceed the Working Credit Limit.

If a Participant exceeds its Working Credit Limit or is required to make advance payments more than ten times during a 52-week period, PJMSettlement may require Financial Security in an amount as may be deemed reasonably necessary to support its Total Net Obligation.

A Participant receiving unsecured credit may make early payments up to ten times in a rolling 52-week period in order to reduce its Peak Market Activity for credit requirement purposes. Imputed Peak Market Activity reductions for credit purposes will be applied to the billing period for which the payment was received. Payments used as the basis for such reductions must be received prior to issuance or posting of the invoice for the relevant billing period. The imputed Peak Market Activity reduction attributed to any payment may not exceed the amount of Unsecured Credit for which the Participant is eligible.

#### **F. Credit Limit Setting For Affiliates**

If two or more Participants are Affiliates and each is being granted an Unsecured Credit Allowance and a corresponding Working Credit Limit, PJMSettlement will consider the overall creditworthiness of the Affiliated Participants when determining the Unsecured Credit Allowances and Working Credit Limits in order not to grant more Unsecured Credit than the overall corporation could support.

**Example:** Participants A and B each have a \$10.0 million Corporate Guaranty from their common parent, a holding company with an Unsecured Credit Allowance calculation of \$12.0 million. PJMSettlement may limit the Unsecured Credit Allowance for each Participant to \$6.0 million, so the total Unsecured Credit Allowance does not exceed the corporate total of \$12.0 million.

PJMSettlement will work with Affiliated Participants to allocate the total Unsecured Credit Allowance among the Affiliates while assuring that no individual Participant, nor common guarantor, exceeds the Unsecured Credit Allowance appropriate for its credit strength. The aggregate Unsecured Credit for a Participant, including Unsecured Credit Allowance granted based on its own creditworthiness and any Unsecured Credit Allowance conveyed through a Guaranty shall not exceed \$50 million. The aggregate Unsecured Credit for a group of Affiliates shall not exceed \$50 million. A group of Affiliates subject to this cap shall request PJMSettlement to allocate the maximum Unsecured Credit and Working Credit Limit amongst the group, assuring that no individual Participant or common guarantor, shall exceed the Unsecured Credit level appropriate for its credit strength and activity.

#### **G. Working Credit Limit Violations**

##### **1) Notification**

A Participant is subject to notification when its Total Net Obligation to PJMSettlement approaches the Participant's established Working Credit Limit.

## **2) Suspension**

A Participant that exceeds its Working Credit Limit is subject to suspension from participation in the PJM markets and from scheduling any future Transmission Service unless and until Participant's credit standing is brought within acceptable limits. A Participant will have two Business Days from notification to remedy the situation in a manner deemed acceptable by PJMSettlement. Additionally, PJMSettlement, in coordination with PJM, will take such actions as may be required or permitted under the Agreements, including but not limited to the termination of the Participant's ongoing Transmission Service and participation in PJM Markets. Failure to comply with this policy will be considered an event of default under this credit policy.

## **H. PJM Administrative Charges**

Financial Security held by PJMSettlement shall also secure obligations to PJM for PJM administrative charges.

## **I. Pre-existing Financial Security**

PJMSettlement's credit requirements are applicable as of the effective date of the filing on May 5, 2010 by PJM and PJMSettlement of amendments to Attachment Q. Financial Security held by PJM prior to the effective date of such amendments shall be held by PJM for the benefit of PJMSettlement.

## **III. VIRTUAL TRANSACTION SCREENING**

### **A. Credit and Financial Security**

PJMSettlement does not require a Market Participant to establish separate or additional credit for submitting Virtual Transactions. If a Market Participant chooses to establish additional Financial Security and/or Unsecured Credit Allowance in order to increase its Credit Available for Virtual Transactions, the Market Participant's Working Credit Limit for Virtual Transactions shall be increased in accordance with the definition thereof. The Financial Security and/or Unsecured Credit Allowance available to increase a Market Participant's Credit Available for Virtual Transactions shall be the amount of Financial Security and/or Unsecured Credit Allowance available after subtracting any credit required for Minimum Participation Requirements, FTR, Export Transactions, or other credit requirement determinants as defined in this policy, as applicable.

If a Market Participant chooses to provide additional Financial Security in order to increase its **Credit Available for Virtual Transactions PJMSettlement** may establish a reasonable timeframe, not to exceed three months, for which such Financial Security must be maintained. PJMSettlement will not impose such restriction on a deposit unless a Market Participant is



notified prior to making the deposit. Such restriction, if applied, shall be applied to all future deposits by all Market Participants engaging in Virtual Transactions.

A Market Participant wishing to increase its Credit Available for Virtual Transactions by providing additional Financial Security may make the appropriate arrangements with PJMSettlement. PJMSettlement will make a good faith effort to make new Financial Security available as Credit Available for Virtual Transactions as soon as practicable after confirmation of receipt. In any event, however, Financial Security received and confirmed by noon on a business day will be applied (as provided under this policy) to Credit Available for Virtual Transactions no later than 10:00 am on the following business day. Receipt and acceptance of wired funds for cash deposit shall mean actual receipt by PJMSettlement's bank, deposit into PJMSettlement's customer deposit account, and confirmation by PJMSettlement that such wire has been received and deposited. Receipt and acceptance of letters of credit shall mean receipt of the original letter of credit or amendment thereto, and confirmation from PJMSettlement's credit and legal staffs that such letter of credit or amendment thereto conforms to PJMSettlement's requirements, which confirmation shall be made in a reasonable and practicable timeframe. To facilitate this process, bidders wiring funds for the purpose of increasing their Credit Available for Virtual Transactions are advised to specifically notify PJMSettlement that a wire is being sent for such purpose.

## **B. Virtual Transaction Screening Process**

All Virtual Transactions submitted to PJM shall be subject to a credit screen prior to acceptance in the Day-ahead Energy Market auction. The credit screen process will automatically reject Virtual Transactions submitted by the PJM market participant if the participant's Credit Available for Virtual Transactions is exceeded by the **Virtual Credit Exposure** that is calculated based on the participant's submitted Virtual Transactions as described below.

A Participant's Virtual Credit Exposure will be calculated on a daily basis for all Virtual Transactions submitted by the market participant for the next market day using the following equation:

Virtual Credit Exposure = INC and DEC Exposure + Up-to Congestion Exposure

Where:

1) INC and DEC Exposure is calculated as:

(a) ((the total MWh bid or offered, whichever is greater, hourly at each node) x the Nodal Reference Price x 1 day) summed over all nodes and all hours; plus (b) ((the difference between the total bid MWh cleared and total offered MWh cleared hourly at each node) x Nodal Reference Price) summed over all nodes and all hours for the previous cleared Day-ahead Energy Market.

2) Up-to Congestion Exposure is calculated as:

(a) Total MWh bid hourly for each Up-to Congestion Transaction x (price bid – Up-to Congestion Reference Price) summed over all Up-to Congestion Transactions and all hours; plus (b) Total MWh cleared hourly for each Up-to Congestion Transaction x (cleared price – Up-to Congestion Reference Price) summed over all Up-to Congestion Transactions and all hours for the previous cleared Day-ahead Energy Market, provided that hours for which the calculation for an Up-to Congestion Transaction is negative, it shall be deemed to have a zero contribution to the sum.

If a Market Participant's Virtual Transactions are rejected as a result of the credit screen process, the Market Participant will be notified via an eMKT error message. A Market Participant whose Virtual Transactions are rejected may alter its Virtual Transactions so that its Virtual Credit Exposure does not exceed its Credit Available for Virtual Transactions, and may resubmit them. Virtual Transactions may be submitted in one or more groups during a day. If one or more groups of Virtual Transactions is submitted and accepted, and a subsequent group of submitted Virtual Transactions causes the total submitted Virtual Transactions to exceed the Virtual Credit Exposure, then only that subsequent set of Virtual Transactions will be rejected. Previously accepted Virtual Transactions will not be affected, though the Market Participant may choose to withdraw them voluntarily.

#### **IV. RELIABILITY PRICING MODEL AUCTION AND PRICE RESPONSIVE DEMAND CREDIT REQUIREMENTS**

Settlement during any Delivery Year of cleared positions resulting or expected to result from any Reliability Pricing Model Auction shall be included as appropriate in Peak Market Activity, and the provisions of this Attachment Q shall apply to any such activity and obligations arising therefrom. In addition, the provisions of this section shall apply to any entity seeking to participate in any RPM Auction, to address credit risks unique to such auctions. The provisions of this section also shall apply under certain circumstances to PRD Providers that seek to commit Price Responsive Demand pursuant to the provisions of the Reliability Assurance Agreement.

##### **A. Applicability**

A Market Seller seeking to submit a Sell Offer in any Reliability Pricing Model Auction based on any Capacity Resource for which there is a materially increased risk of non-performance must satisfy the credit requirement specified in section IV.B before submitting such Sell Offer. A PRD Provider seeking to commit Price Responsive Demand for which there is a materially increased risk of non-performance must satisfy the credit requirement specified in section IV.B before it may commit the Price Responsive Demand. A Wholesale Entity seeking to submit a WLR Bid based on any WLR Load or WEEL for which there is a materially increased risk of non-performance must satisfy the credit requirement in section IV.F for WLR Loads and section IV.G for WEELs before submitting such WLR Bid. Credit must be maintained until such risk of non-performance is substantially eliminated, but may be reduced commensurate with the reduction in such risk, as set forth in Section IV.C.

For purposes of this provision, a resource for which there is a materially increased risk of non-performance shall mean: (i) a Planned Generation Capacity Resource; (ii) a Planned Demand

Resource or an Energy Efficiency Resource; (iii) a Qualifying Transmission Upgrade; (iv) an existing or Planned Generation Capacity Resource located outside the PJM Region that at the time it is submitted in a Sell Offer has not secured firm transmission service to the border of the PJM Region sufficient to satisfy the deliverability requirements of the Reliability Assurance Agreement; (v) a Planned WLR Load; (vi) a Wholesale Energy Efficiency Load; or (vii) Price Responsive Demand to the extent the responsible PRD Provider has not registered PRD-eligible load at a PRD Substation level to satisfy its Nominal PRD Value commitment, in accordance with Schedule 6.1 of the Reliability Assurance Agreement.

## **B. Reliability Pricing Model Auction and Price Responsive Demand Credit Requirement**

Except as provided for Credit-Limited Offers below, for any resource specified in Section IV.A, other than WLR Load, Wholesale Energy Efficiency Load, and Price Responsive Demand, the credit requirement shall be the RPM Auction Credit Rate, as provided in Section IV.D, times the megawatts to be offered for sale from such resource in a Reliability Pricing Model Auction. *For Qualified Transmission Upgrades, the credit requirements shall be based on the Locational Deliverability Area in which such upgrade was to increase the Capacity Emergency Transfer Limit.* The RPM Auction Credit Requirement for each Market Seller shall be the sum of the credit requirements for all such resources to be offered by such Market Seller in the auction or, as applicable, cleared by such Market Seller from the relevant auctions. For Price Responsive Demand specified in section IV.A, the credit requirement shall be based on the Nominal PRD Value (stated in Unforced Capacity terms) times the Price Responsive Demand Credit Rate as set forth in section IV.E. For WLR Load specified in Section IV.A, the credit requirement shall be based on the Nominal WLR Value (stated in Unforced Capacity terms) times the WLR Credit Rate as set forth in Section IV.F. For Wholesale Energy Efficiency Load specified in Section IV.A, the credit requirement shall be based on the Nominal WEEL Value (stated in Unforced Capacity terms) times the WEEL Credit Rate as set forth in Section IV.G.

Except for Credit-Limited Offers, the RPM Auction Credit Requirement for a Market Seller will be reduced for any Delivery Year to the extent less than all of such Market Seller's offers clear in the Base Residual Auction or any Incremental Auction for such Delivery Year. Such reduction shall be proportional to the quantity, in megawatts, that failed to clear in such Delivery Year.

A Sell Offer based on a Planned Generation Capacity Resource, Planned Demand Resource, or Energy Efficiency Resource or a WLR Bid based on a Planned WLR Load or a Wholesale Energy Efficiency Load may be submitted as a Credit-Limited Offer. An entity-Market Seller electing this option shall specify a maximum amount of Unforced Capacity or load reduction (in Unforced Capacity terms), in megawatts, and a maximum credit requirement, in dollars, applicable to the Sell Offer or WLR Bid. A Credit-Limited Offer or WLR Bid shall clear the RPM Auction in which it is submitted (to the extent it otherwise would clear based on the other offer parameters and the system's need for the offered capacity) only to the extent of the lesser of: (i) the quantity of Unforced Capacity or load reduction (in Unforced Capacity terms) that is the quotient of the division of the specified maximum credit requirement by the Auction Credit Rate resulting from section IV.D.b.; and (ii) the maximum amount of Unforced Capacity or load reduction (in Unforced Capacity terms) specified in the Sell Offer or WLR Bid. For an entity

Market Seller electing this alternative, the RPM Auction Credit Requirement applicable prior to the posting of results of the auction shall be the maximum credit requirement specified in its Credit-Limited Offer or WLR Bid, and the RPM Auction Credit Requirement subsequent to posting of the results will be the Auction Credit Rate, as provided in Section IV.D.b, c, or d, or Sections IV.F or IV.G as applicable, times the amount of Unforced Capacity or load reduction (in Unforced Capacity terms) from such Sell Offer or WLR Bid that cleared or was accepted in the auction. The availability and operational details of Credit-Limited Offers and WLR Bids shall be as described in the PJM Manuals.

As set forth in Sections IV.D, IV.F, and IV.G, ~~a Market Seller's~~ the Auction Credit Requirement for a Market Seller, a WLR Provider, or a WEEL Provider shall be determined separately for each Delivery Year.

### **C. Reduction in Credit Requirement**

As specified in Section IV.D for Capacity Resources, Section IV.E for Price Responsive Demand, and Section IV.F for WLR Load, and Section IV.G for Wholesale Energy Efficiency Load, the RPM Auction Credit Rate may be reduced under certain circumstances after the auction has closed.

The Price Responsive Demand credit requirement shall be reduced as and to the extent the PRD Provider registers PRD-eligible load at a PRD Substation level to satisfy its Nominal PRD Value commitment, in accordance with Schedule 6.1 of the Reliability Assurance Agreement.

In addition, the RPM Auction Credit Requirement for a Participant for any given Delivery Year shall be reduced periodically, provided the Participant successfully meets progress milestones that reduce the risk of non-performance, as follows:

a. For Planned Demand Resources and Energy Efficiency Resources, the RPM Auction Credit Requirement will be reduced in direct proportion to the megawatts of such Demand Resource that the Resource Provider qualifies as a Capacity Resource, in accordance with the procedures established under the Reliability Assurance Agreement.

b. For Existing Generation Capacity Resources located outside the PJM Region that have not secured sufficient firm transmission to the border of the PJM Region prior to the auction in which such resource is first offered, the RPM Credit Requirement shall be reduced in direct proportion to the megawatts of firm transmission service secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement.

c. For Planned Generation Capacity Resources, the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B beginning as of the effective date of an Interconnection Service Agreement, and shall be reduced to zero on the date of commencement of Interconnection Service.

d. For Planned Generation Capacity Resources located outside the PJM Region, the RPM Credit Requirement shall be reduced *by 50%* once the conditions in both b and c above are met, i.e., the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B when 1) the equivalent of an Interconnection Service Agreement *becomes effective*, and 2) 50% or more megawatts of firm transmission service have been secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement. The RPM Credit Requirement for a Planned Generation Capacity Resource located outside the PJM Region shall be reduced to zero when 1) the resource commences Interconnection Service and 2) 100% of the megawatts of firm transmission service have been secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement.

e. For Qualifying Transmission Upgrades, the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B beginning as of the effective date of the latest associated Interconnection Service Agreement (or, when a project will have no such agreement, an Upgrade Construction Service Agreement), and shall be reduced to zero on the date the Qualifying Transmission Upgrade is placed in service. In addition, a Qualifying Transmission Upgrade will be allowed a reduction in its RPM Credit Requirement equal to the amount of collateral currently posted with PJM for the facility construction when the Qualifying Transmission Upgrade meets the following requirements: the Upgrade Construction Service Agreement has been fully executed, the full estimated cost to complete as most recently determined or updated by PJM has been fully paid or collateralized, and all regulatory and other required approvals (except those that must await construction completion) have been obtained. Such reduction in RPM Credit Requirement may not be transferred across different projects.

f. For Planned WLR Load, the WLR Credit Requirement will be reduced in direct proportion to the megawatts of such WLR Load that the WLR Provider qualifies as a WLR Load, in accordance with the procedures established under the Reliability Assurance Agreement.

g. For Wholesale Energy Efficiency Load, the WEEL Credit Requirement will be reduced in direct proportion to the megawatts of such Wholesale Energy Efficiency Load that the WEEL Provider qualifies as a Wholesale Energy Efficiency Load, in accordance with the procedures established under the Reliability Assurance Agreement.

#### **D. RPM Auction Credit Rate**

As set forth in the PJM Manuals, a separate Auction Credit Rate shall be calculated for each Delivery Year prior to each Reliability Pricing Model Auction for such Delivery Year, as follows:

\_\_\_\_\_  
\_\_\_\_\_

a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the Auction Credit Rate shall be:

(i) *For all Capacity Resources other than Capacity Performance Resources, (the greater of (A) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (B) \$20 per MW-day) times the number of days in such Delivery Year; and*

(ii) *For Capacity Performance Resources, the greater of ((A) 0.5 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (B) \$20 per MW-day) times the number of days in such Delivery Year.*

b. Subsequent to the posting of the results from a Base Residual Auction, the Auction Credit Rate used for ongoing credit requirements for supply committed in such auction shall be:

(i) *For all Capacity Resources other than Capacity Performance Resources, (the greater of (A) \$20/MW-day or (B) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year; and*

(ii) *For Capacity Performance Resources, the (greater of [(A) \$20/MW-day or (B) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) or (C) the lesser of (i) 0.5 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in \$/MW-day or (ii) 1.5 times the Net Cost of New Entry (stated on an installed capacity basis) for the PJM Region for such Delivery year, in \$/MW-day minus (the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located)] times the number of days in such Delivery Year).*

c. For any resource not previously committed for a Delivery Year that seeks to participate in an Incremental Auction, the Auction Credit Rate shall be:

(i) *For all Capacity Resources other than Capacity Performance Resources, (the greater of (A) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (B) 0.24 times the Capacity Resource Clearing Price in the Base Residual Auction for such Delivery Year for the Locational Deliverability Area within which the resource is located or (C) \$20 per MW-day) times the number of days in such Delivery Year; and*

(ii) *For Capacity Performance Resources, the (greater of (A) 0.5 times Net Cost of New Entry or (B) \$20/MW-day) times the number of days in such Delivery Year.*

d. Subsequent to the posting of the results of an Incremental Auction, the Auction Credit Rate used for ongoing credit requirements for supply committed in such auction shall be:

(i) *For Base Capacity Resources: (the greater of (A) \$20/MW-day or (B) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year, but no greater than the Auction Credit Rate*

previously established for such resource's participation in such Incremental Auction pursuant to subsection (c) above) times the number of days in such Delivery Year; and

- (ii) *For Capacity Performance Resources, the greater of [(A) \$20/MW-day or (B) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) or (C) the lesser of (i) 0.5 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in \$/MW-day or (ii) 1.5 times the Net Cost of New Entry (stated on an installed capacity basis) for the PJM Region for such Delivery Year, in \$/MW-day minus (the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located)] times the number of days in such Delivery Year).*

#### **E. Price Responsive Demand Credit Rate**

- a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the Price Responsive Demand Credit Rate shall be (the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) \$20 per MW-day) times the number of days in such Delivery Year;
- b. Subsequent to the posting of the results from a Base Residual Auction, the Price Responsive Demand Credit Rate used for ongoing credit requirements for Price Responsive Demand registered prior to such auction shall be (the greater of (i) \$20/MW-day or (ii) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the PRD load is located) times the number of days in such Delivery Year times a final price uncertainty factor of 1.05;
- c. For any additional Price Responsive Demand that seeks to commit in a Third Incremental Auction in response to a qualifying change in the final LDA load forecast, the Price Responsive Demand Credit Rate shall be the same as the rate for Price Responsive Demand that had cleared in the Base Residual Auction;
- d. Subsequent to the posting of the results of the Third Incremental Auction, the Price Responsive Demand Credit Rate used for ongoing credit requirements for all Price Responsive Demand, shall be (the greater of (i) \$20/MW-day or (ii) 0.2 times the Final Zonal Capacity Price for the Locational Deliverability Area within which the Price Responsive Demand is located) times the number of days in such Delivery Year, but no greater than the Price Responsive Demand Credit Rate previously established under subsections (a), (b), or (c) of this section for such Delivery Year.

#### **F. WLR Credit Rate**

- a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the WLR Credit Rate shall be:



- (i) For all WLR Loads other than Capacity Performance WLR Loads, (the greater of (A) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (B) \$20 per MW-day) times the number of days in such Delivery Year; and
  - (ii). For Capacity Performance WLR Loads, (the greater of (A) 0.5 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (B) \$20 per MW-day) times the number of days in such Delivery Year.
- b. Subsequent to the posting of the results from a Base Residual Auction, the WLR Credit Rate used for ongoing credit requirements for supply committed in such auction shall be:
  - (i) For Base Capacity WLR Loads, (the greater of (A) \$20 per MW-day or (B) 0.2 times the applicable WLR Value determined in such auction for the Locational Deliverability Area within which the WLR Load is located) times the number of days in such Delivery Year; and
  - (ii) For Capacity Performance WLR Loads, [the greater of (A) \$20 per MW-day or (B) 0.2 times the applicable WLR Value determined in such auction for the Locational Deliverability Area within which the resource is located or (C) the lesser of (i) 0.5 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in \$/MW-day or (ii) 1.5 times the Net Cost of New Entry (stated on an installed capacity basis) for the PJM Region for such Delivery year, in \$ per MW-day minus (the applicable WLR Value determined in such auction for the Locational Deliverability Area within which the WLR Load is located)] times the number of days in such Delivery Year.

**G. WEEL Credit Rate**

- a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the WEEL Credit Rate shall be:
  - (i) For all WEEL other than Capacity Performance WEEL, (the greater of (A) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (B) \$20 per MW-day) times the number of days in such Delivery Year; and
  - (ii). For Capacity Performance WEEL, (the greater of (A) 0.5 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (B) \$20 per MW-day) times the number of days in such Delivery Year.
- b. Subsequent to the posting of the results from a Base Residual Auction, the WEEL Credit Rate used for ongoing credit requirements for supply committed in such auction shall be:
  - (i) For all Base Capacity WEEL, (the greater of (A) \$20 per MW-day or (B) 0.2 times the applicable WLR Value in such auction for the Locational Deliverability



Area within which the WEEL is located) times the number of days in such Delivery Year; and

- (ii) For Capacity Performance WEEL, [the greater of (A) \$20 per MW-day or (B) 0.2 times the applicable WLR Value determined in such auction for the Locational Deliverability Area within which the WEEL is located or (C) the lesser of (i) 0.5 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in \$ per MW-day or (ii) 1.5 times the Net Cost of New Entry (stated on an installed capacity basis) for the PJM Region for such Delivery year, in \$/MW-day minus (the applicable WLR Value determined in such auction for the Locational Deliverability Area within which the WEEL is located)] times the number of days in such Delivery Year.

#### **FH. RPM Seller Credit - Additional Form of Unsecured Credit for RPM**

In addition to the forms of credit specified elsewhere in this Attachment Q, RPM Seller Credit shall be available to Market Sellers, but solely for purposes of satisfying RPM Auction Credit Requirements. If a supplier has a history of being a net seller into PJM markets, on average, over the past 12 months, then PJMSettlement will count as available Unsecured Credit twice the average of that participant's total net monthly PJMSettlement bills over the past 12 months. This RPM Seller Credit shall be subject to the cap on available Unsecured Credit as established in Section II.F.

#### **GI. Credit Responsibility for Traded Planned RPM Capacity Resources**

PJMSettlement may require that credit and financial responsibility for planned RPM Capacity Resources that are traded remain with the original party (which for these purposes, means the party bearing credit responsibility for the planned RPM Capacity Resource immediately prior to trade) unless the receiving party independently establishes consistent with the PJM credit policy, that it has sufficient credit with PJMSettlement and agrees by providing written notice to PJMSettlement that it will fully assume the credit responsibility associated with the traded planned RPM Capacity Resource.

### **V. FINANCIAL TRANSMISSION RIGHT AUCTIONS**

#### **A. FTR Credit Limit.**

PJMSettlement will establish an FTR Credit Limit for each Participant. Participants must maintain their FTR Credit Limit at a level equal to or greater than their FTR Credit Requirement. FTR Credit Limits will be established only by a Participant providing Financial Security.

#### **B. FTR Credit Requirement.**

For each Participant with FTR activity, PJMSettlement shall calculate an FTR Credit Requirement based on FTR cost less a discounted historical value. FTR Credit Requirements shall be further adjusted by ARR credits available and by an amount based on portfolio

diversification, if applicable. The requirement will be based on individual monthly exposures which are then used to derive a total requirement.

The FTR Credit Requirement shall be calculated by first adding for each month the FTR Monthly Credit Requirement Contribution for each submitted, accepted, and cleared FTR and then subtracting the prorated value of any ARRs held by the Participant for that month. The resulting twelve monthly subtotals represent the expected value of net payments between PJMSettlement and the Participant for FTR activity each month during the Planning Period. Subject to later adjustment by an amount based on portfolio diversification, if applicable, the FTR Credit Requirement shall be the sum of the individual positive monthly subtotals, representing months in which net payments to PJMSettlement are expected.

**C. Rejection of FTR Bids.**

Bids submitted into an auction will be rejected if the Participant's FTR Credit Requirement including such submitted bids would exceed the Participant's FTR Credit Limit, or if the Participant fails to establish additional credit as required pursuant to provisions related to portfolio diversification.

**D. FTR Credit Collateral Returns.**

A Market Participant may request from PJMSettlement the return of any collateral no longer required for the FTR auctions. PJMSettlement is permitted to limit the frequency of such requested collateral returns, provided that collateral returns shall be made by PJMSettlement at least once per calendar quarter, if requested by a Market Participant.

**E. Credit Responsibility for Traded FTRs.**

PJMSettlement may require that credit responsibility associated with an FTR traded within PJM's eFTR system remain with the original party (which for these purposes, means the party bearing credit responsibility for the FTR immediately prior to trade) unless and until the receiving party independently establishes, consistent with the PJM credit policy, sufficient credit with PJMSettlement and agrees through confirmation of the FTR trade within the eFTR system that it will meet in full the credit requirements associated with the traded FTR.

**F. Portfolio Diversification.**

Subsequent to calculating a tentative cleared solution for an FTR auction (or auction round), PJM shall both:

1. Determine the FTR Portfolio Auction Value, including the tentative cleared solution. Any Participants with such FTR Portfolio Auction Values that are negative shall be deemed FTR Flow Undiversified.
2. Measure the geographic concentration of the FTR Flow Undiversified portfolios by testing such portfolios using a simulation model including, one at a time, each planned

transmission outage or other network change which would substantially affect the network for the specific auction period. A list of such planned outages or changes anticipated to be modeled shall be posted prior to commencement of the auction (or auction round). Any FTR Flow Undiversified portfolio that experiences a net reduction in calculated congestion credits as a result of any one or more of such modeled outages or changes shall be deemed FTR Geographically Undiversified.

For portfolios that are FTR Flow Undiversified but not FTR Geographically Undiversified, PJMSettlement shall increment the FTR Credit Requirement by an amount equal to twice the absolute value of the FTR Portfolio Auction Value, including the tentative cleared solution. For Participants with portfolios that are both FTR Flow Undiversified and FTR Geographically Undiversified, PJMSettlement shall increment the FTR Credit Requirement by an amount equal to three times the absolute value of the FTR Portfolio Auction Value, including the tentative cleared solution. For portfolios that are FTR Flow Undiversified in months subsequent to the current planning year, these incremental amounts, calculated on a monthly basis, shall be reduced (but not below zero) by an amount up to 25% of the monthly value of ARR credits that are held by a Participant. Subsequent to the ARR allocation process preceding an annual FTR auction, such ARRs credits shall be reduced to zero for months associated with that ARR allocation process. PJMSettlement may recalculate such ARR credits at any time, but at a minimum shall do so subsequent to each annual FTR auction. If a reduction in such ARR credits at any time increases the amount of credit required for the Participant beyond its credit available for FTR activity, the Participant must increase its credit to eliminate the shortfall.

If the FTR Credit Requirement for any Participant exceeds its credit available for FTRs as a result of these diversification requirements for the tentatively cleared portfolio of FTRs, PJMSettlement shall immediately issue a demand for additional credit, and such demand must be fulfilled before 4:00 p.m. on the business day following the demand. If any Participant does not timely satisfy such demand, PJMSettlement, in coordination with PJM, shall cause the removal that Participant's entire set of bids for that FTR auction (or auction round) and a new cleared solution shall be calculated for the entire auction (or auction round).

If necessary, PJM shall repeat the auction clearing calculation. PJM shall repeat these portfolio diversification calculations subsequent to any such secondary clearing calculation, and PJMSettlement shall require affected Participants to establish additional credit.

#### **G. FTR Administrative Charge Credit Requirement**

In addition to any other credit requirements, PJMSettlement may apply a credit requirement to cover the maximum administrative fees that may be charged to a Participant for its bids and offers.

#### **H. Long-Term FTR Credit Recalculation**

Long-term FTR Credit Requirement calculations shall be updated annually for known history, consistent with updating of historical values used for FTR Credit Requirement calculations in the annual auctions.

## **VI. EXPORT TRANSACTION SCREENING**

Export Transactions in the Real-time Energy Market shall be subject to Export Transaction Screening. Export Transaction Screening may be performed either for the duration of the entire Export Transaction, or separately for each time interval comprising an Export Transaction. PJM will deny or curtail all or a portion (based on the relevant time interval) of an Export Transaction if that Export Transaction, or portion thereof, would otherwise cause the Market Participant's Export Credit Exposure to exceed its Credit Available for Export Transactions. Export Transaction Screening shall be applied separately for each Operating Day and shall also be applied to each Export Transaction one or more times prior to the market clearing process for each relevant time interval. Export Transaction Screening shall not apply to transactions established directly by and between PJM and a neighboring Balancing Authority for the purpose of maintaining reliability.

A Market Participant's credit exposure for an individual Export Transaction shall be the MWh volume of the Export Transaction for each relevant time interval multiplied by each relevant Export Transaction Price Factor and summed over all relevant time intervals of the Export Transaction.

## **VII. FORMS OF FINANCIAL SECURITY**

Participants that provide Financial Security must provide the security in a PJMSettlement approved form and amount according to the guidelines below.

Financial Security which is no longer required to be maintained under provisions of the Agreements shall be returned at the request of a participant no later than two Business Days following determination by PJMSettlement within a commercially reasonable period of time that such collateral is not required.

Except when an event of default has occurred, a Participant may substitute an approved PJMSettlement form of Financial Security for another PJMSettlement approved form of Financial Security of equal value. The Participant must provide three (3) Business Days notice to PJMSettlement of its intent to substitute the Financial Security. PJMSettlement will release the replaced Financial Security with interest, if applicable, within (3) Business Days of receiving an approved form of substitute Financial Security.

### **A. Cash Deposit**

Cash provided by a Participant as Financial Security will be held in a depository account by PJMSettlement with interest earned at PJMSettlement's overnight bank rate, and accrued to the Participant. PJMSettlement also may establish an array of investment options among which a Participant may choose to invest its cash deposited as Financial Security. Such investment options shall be comprised of high quality debt instruments, as determined by PJMSettlement, and may include obligations issued by the federal government and/or federal government sponsored enterprises. These investment options will reside in accounts held in PJMSettlement's

name in a banking or financial institution acceptable to PJMSettlement. Where practicable, PJMSettlement may establish a means for the Participant to communicate directly with the bank or financial institution to permit the Participant to direct certain activity in the PJMSettlement account in which its Financial Security is held. PJMSettlement will establish and publish procedural rules, identifying the investment options and respective discounts in collateral value that will be taken to reflect any liquidation, market and/or credit risk presented by such investments. PJMSettlement has the right to liquidate all or a portion of the account balances at its discretion to satisfy a Participant's Total Net Obligation to PJMSettlement in the event of default under this credit policy or one or more of the Agreements.

## **B. Letter Of Credit**

An unconditional, irrevocable standby letter of credit can be utilized to meet the Financial Security requirement. As stated below, the form, substance, and provider of the letter of credit must all be acceptable to PJMSettlement.

- The letter of credit will only be accepted from U.S.-based financial institutions or U.S. branches of foreign financial institutions ("financial institutions") that have a minimum corporate debt rating of "A" by Standard & Poor's or Fitch Ratings, or "A2" from Moody's Investors Service, or an equivalent short term rating from one of these agencies. PJMSettlement will consider the lowest applicable rating to be the rating of the financial institution. If the rating of a financial institution providing a letter of credit is lowered below A/A2 by any rating agency, then PJMSettlement may require the Participant to provide a letter of credit from another financial institution that is rated A/A2 or better, or to provide a cash deposit. If a letter of credit is provided from a U.S. branch of a foreign institution, the U.S. branch must itself comply with the terms of this credit policy, including having its own acceptable credit rating.
- The letter of credit shall state that it shall renew automatically for successive one-year periods, until terminated upon at least ninety (90) days prior written notice from the issuing financial institution. If PJM or PJMSettlement receives notice from the issuing financial institution that the current letter of credit is being cancelled, the Participant will be required to provide evidence, acceptable to PJMSettlement, that such letter of credit will be replaced with appropriate Financial Security, effective as of the cancellation date of the letter of credit, no later than thirty (30) days before the cancellation date of the letter of credit, and no later than ninety (90) days after the notice of cancellation. Failure to do so will constitute a default under this credit policy and one of more of the Agreements.
- The letter of credit must clearly state the full names of the "Issuer", "Account Party" and "Beneficiary" (PJMSettlement), the dollar amount available for drawings, and shall specify that funds will be disbursed upon presentation of the drawing certificate in accordance with the instructions stated in the letter of credit. The letter of credit should specify any statement that is required to be on the drawing certificate, and any other terms and conditions that apply to such drawings.

- The PJMSettlement Credit Application contains an acceptable form of a letter of credit that should be utilized by a Participant choosing to meet its Financial Security requirement with a letter of credit. If the letter of credit varies in any way from the PJMSettlement format, it must first be reviewed and approved by PJMSettlement. All costs associated with obtaining and maintaining a letter of credit and meeting the policy provisions are the responsibility of the Participant
- PJMSettlement may accept a letter of credit from a Financial Institution that does not meet the credit standards of this policy provided that the letter of credit has third-party support, in a form acceptable to PJMSettlement, from a financial institution that does meet the credit standards of this policy.

### **VIII. POLICY BREACH AND EVENTS OF DEFAULT**

A Participant will have two Business Days from notification of Breach (including late payment notice) or notification of a Collateral Call to remedy the Breach or satisfy the Collateral Call in a manner deemed acceptable by PJMSettlement. Failure to remedy the Breach or satisfy such Collateral Call within such two Business Days will be considered an event of default. If a Participant fails to meet the requirements of this policy but then remedies the Breach or satisfies a Collateral Call within the two Business Day cure period, then the Participant shall be deemed to have complied with the policy. Any such two Business Day cure period will expire at 4:00 p.m. eastern prevailing time on the final day.

Only one cure period shall apply to a single event giving rise to a breach or default. Application of Financial Security towards a non-payment Breach shall not be considered a satisfactory cure of the Breach if the Participant fails to meet all requirements of this policy after such application.

Failure to comply with this policy (except for the responsibility of a Participant to notify PJMSettlement of a Material change) shall be considered an event of default. Pursuant to § 15.1.3(a) of the Operating Agreement of PJM Interconnection, L.L.C. and § I.7.3 of the PJM Open Access Transmission Tariff, non-compliance with the PJMSettlement credit policy is an event of default under those respective Agreements. In event of default under this credit policy or one or more of the Agreements, PJMSettlement, in coordination with PJM, will take such actions as may be required or permitted under the Agreements, including but not limited to the termination of the Participant's ongoing Transmission Service and participation in PJM Markets. PJMSettlement has the right to liquidate all or a portion of a Participant's Financial Security at its discretion to satisfy Total Net Obligations to PJMSettlement in the event of default under this credit policy or one or more of the Agreements.

PJMSettlement may hold a defaulting Participant's Financial Security for as long as such party's positions exist and consistent with the PJM credit policy in this Attachment Q, in order to protect PJM's membership from default.

No payments shall be due to a Participant, nor shall any payments be made to a Participant, while the Participant is in default or has been declared in Breach of this policy or the Agreements, or while a Collateral Call is outstanding. PJMSettlement may apply towards an

ongoing default any amounts that are held or later become available or due to the defaulting Participant through PJM's markets and systems.

In order to cover Obligations, PJMSettlement may hold a Participant's Financial Security through the end of the billing period which includes the 90th day following the last day a Participant had activity, open positions, or accruing obligations (other than reconciliations and true-ups), and until such Participant has satisfactorily paid any obligations invoiced through such period. Obligations incurred or accrued through such period shall survive any withdrawal from PJM. In event of non-payment, PJMSettlement may apply such Financial Security to such Participant's Obligations, even if Participant had previously announced and effected its withdrawal from PJM.

## **IX. DEFINITIONS:**

All capitalized terms in this Attachment Q that are not otherwise defined herein shall have the same meaning as they are defined in the Agreements.

### **Affiliate**

Affiliate is defined in the PJM Operating Agreement, §1.2.

### **Agreements**

Agreements are the Operating Agreement of PJM Interconnection, L.L.C., the PJM Open Access Transmission Tariff, the Reliability Assurance Agreement, the Reliability Assurance Agreement – West, and/or other agreements between PJM Interconnection, L.L.C. and its Members.

### **Applicant**

Applicant is an entity desiring to become a PJM Member, or to take Transmission Service that has submitted the PJMSettlement Credit Application, PJMSettlement Credit Agreement and other required submittals as set forth in this policy.

### **Breach**

Breach is the status of a Participant that does not currently meet the requirements of this policy or other provisions of the Agreements.

### **Business Day**

A Business Day is a day in which the Federal Reserve System is open for business and is not a scheduled PJM holiday.

### **Canadian Guaranty**

Canadian Guaranty is a Corporate Guaranty provided by an Affiliate of a Participant that is domiciled in Canada, and meets all of the provisions of this credit policy.

### **Capacity**

Capacity is the installed capacity requirement of the Reliability Assurance Agreement or similar such requirements as may be established.

### **Collateral Call**

Collateral Call is a notice to a Participant that additional Financial Security, or possibly early payment, is required in order to remain in, or to regain, compliance with this policy.

### **Corporate Guaranty**

Corporate Guaranty is a legal document used by one entity to guaranty the obligations of another entity.

### **Credit Available for Export Transactions**

Credit Available for Export Transactions is a set-aside of credit to be used for Export Transactions that is allocated by each Market Participant from its Credit Available for Virtual Transactions, and which reduces the Market Participant's Credit Available for Virtual Transactions accordingly.

### **Credit Available for Virtual Transactions**

A Market Participant's Credit Available for Virtual Transactions is the Market Participant's Working Credit Limit for Virtual Transactions calculated on its credit provided in compliance with its Peak Market Activity requirement plus available credit submitted above that amount, less any unpaid billed and unbilled amounts owed to PJMSettlement, plus any unpaid unbilled amounts owed by PJMSettlement to the Market Participant, less any applicable credit required for Minimum Participation Requirements, FTR, Export Transactions, or other credit requirement determinants as defined in this policy.

### **Credit-Limited Offer**

Credit-Limited Offer shall mean a Sell Offer that is submitted by a Market Seller in an RPM Auction subject to a maximum credit requirement specified by such Market Seller.

### **Credit Score**

Credit Score is a composite numerical score scaled from 0-100 as calculated by PJMSettlement that incorporates various predictors of creditworthiness.

### **Export Credit Exposure**

Export Credit Exposure is determined for each Market Participant for a given Operating Day, and is the sum of credit exposures for the Market Participant's Export Transactions for that Operating Day and for the preceding Operating Day.

### **Export Nodal Reference Price**

The Export Nodal Reference Price at each location is the 97th percentile real-time hourly integrated price experienced over the corresponding two-month period in the preceding calendar year, calculated separately for peak and off-peak time periods. The two-month time periods used in this calculation shall be January and February, March and April, May and June, July and August, September and October, and November and December.

### **Export Transaction**

An Export Transaction is a transaction by a Market Participant that results in the transfer of energy from within the PJM Control Area to outside the PJM Control Area. Coordinated



External Transactions that result in the transfer of energy from the PJM Control Area to an adjacent Control Area are one form of Export Transaction.

### **Export Transactions Net Activity**

Export Transactions Net Activity shall mean the aggregate net total, resulting from Export Transactions, of (i) Spot Market Energy charges, (ii) Transmission Congestion Charges, and (iii) Transmission Loss Charges, calculated as set forth in Attachment K-Appendix. Export Transactions Net Activity may be positive or negative.

### **Export Transaction Price Factor**

The Export Transaction Price Factor for a prospective time interval shall be the greater of (i) PJM's forecast price for the time interval, if available, or (ii) the Export Nodal Reference Price, but shall not exceed the Export Transaction's dispatch ceiling price cap, if any, for that time interval. The Export Transaction Price Factor for a past time interval shall be calculated in the same manner as for a prospective time interval, except that the Export Transaction Price Factor may use a tentative or final settlement price, as available. If an Export Nodal Reference Price is not available for a particular time interval, PJM may use an Export Transaction Price Factor for that time interval based on an appropriate alternate reference price.

### **Export Transaction Screening**

Export Transaction Screening is the process PJM uses to review the Export Credit Exposure of Export Transactions against the Credit Available for Export Transactions, and deny or curtail all or a portion of an Export Transaction, if the credit required for such transactions is greater than the credit available for the transactions.

### **Financial Security**

Financial Security is a cash deposit or letter of credit in an amount and form determined by and acceptable to PJMSettlement, provided by a Participant to PJMSettlement as security in order to participate in the PJM Markets or take Transmission Service.

### **Foreign Guaranty**

Foreign Guaranty is a Corporate Guaranty provided by an Affiliate of a Participant that is domiciled in a foreign country, and meets all of the provisions of this credit policy.

### **FTR Credit Limit**

FTR Credit Limit will be equal to the amount of credit established with PJMSettlement that a Participant has specifically designated to PJMSettlement to be set aside and used for FTR activity. Any such credit so set aside shall not be considered available to satisfy any other credit requirement the Participant may have with PJMSettlement.

### **FTR Credit Requirement**

FTR Credit Requirement is the amount of credit that a Participant must provide in order to support the FTR positions that it holds and/or is bidding for. The FTR Credit Requirement shall not include months for which the invoicing has already been completed, provided that PJMSettlement shall have up to two Business Days following the date of the invoice completion to make such adjustments in its credit systems.

**FTR Flow Undiversified**

FTR Flow Undiversified shall have the meaning established in section V.G of this Attachment Q.

**FTR Geographically Undiversified**

FTR Geographically Undiversified shall have the meaning established in section V.G of this Attachment Q.

**FTR Historical Value**

FTR Historical Value – For each FTR for each month, this is the historical weighted average value over three years for the FTR path using the following weightings: 50% - most recent year; 30% - second year; 20% - third year. FTR Historical Values shall be calculated separately for on-peak, off-peak, and 24-hour FTRs for each month of the year. FTR Historical Values shall be adjusted by plus or minus ten percent (10%) for cleared counterflow or normal flow FTRs, respectively, in order to mitigate exposure due to uncertainty and fluctuations in actual FTR value.

**FTR Monthly Credit Requirement Contribution**

FTR Monthly Credit Requirement Contribution - For each FTR for each month, this is the total FTR cost for the month, prorated on a daily basis, less the FTR Historical Value for the month. For cleared FTRs, this contribution may be negative; prior to clearing, FTRs with negative contribution shall be deemed to have zero contribution.

**FTR Net Activity**

FTR Net Activity shall mean the aggregate net value of the billing line items for auction revenue rights credits, FTR auction charges, FTR auction credits, and FTR congestion credits, and shall also include day-ahead and balancing/real-time congestion charges up to a maximum net value of the sum of the foregoing auction revenue rights credits, FTR auction charges, FTR auction credits and FTR congestion credits.

**FTR Participant**

FTR Participant shall mean any Market Participant that is required to provide Financial Security in order to participate in PJM's FTR auctions.

**FTR Portfolio Auction Value**

FTR Portfolio Auction Value shall mean for each Participant (or Participant account), the sum, calculated on a monthly basis, across all FTRs, of the FTR price times the FTR volume in MW.

**Market Participant**

Market Participant shall have the meaning provided in the Operating Agreement.

**Material**

For these purposes, material is defined in §I.B.3, Material Changes. For the purposes herein, the use of the term "material" is not necessarily synonymous with use of the term by governmental agencies and regulatory bodies.

**Member**

Member shall have the meaning provided in the Operating Agreement.

**Minimum Participation Requirements**

A set of minimum training, risk management, communication and capital or collateral requirements required for Participants in the PJM markets, as set forth herein and in the Form of Annual Certification set forth as Appendix 1 to this Attachment Q. Participants transacting in FTRs in certain circumstances will be required to demonstrate additional risk management procedures and controls as further set forth in the Annual Certification found in Appendix 1 to this Attachment Q.

**Net Obligation**

Net Obligation is the amount owed to PJMSettlement and PJM for purchases from the PJM Markets, Transmission Service, (under both Part II and Part III of the O.A.T.T.), and other services pursuant to the Agreements, after applying a deduction for amounts owed to a Participant by PJMSettlement as it pertains to monthly market activity and services. Should other markets be formed such that Participants may incur future Obligations in those markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

**Net Sell Position**

Net Sell Position is the amount of Net Obligation when Net Obligation is negative.

**Nodal Reference Price**

The Nodal Reference Price at each location is the 97th percentile price differential between hourly day-ahead and real-time prices experienced over the corresponding two-month reference period in the prior calendar year. In order to capture seasonality effects and maintain a two-month reference period, reference months will be grouped by two, starting with January (e.g., Jan-Feb, Mar-Apr, ... , Jul-Aug, ... Nov-Dec). For any given current-year month, the reference period months will be the set of two months in the prior calendar year that include the month corresponding to the current month. For example, July and August 2003 would each use July-August 2002 as their reference period.

**Obligation**

Obligation is all amounts owed to PJMSettlement for purchases from the PJM Markets, Transmission Service, (under both Part II and Part III of the O.A.T.T.), and other services or obligations pursuant to the Agreements. In addition, aggregate amounts that will be owed to PJMSettlement in the future for Capacity purchases within the PJM Capacity markets will be added to this figure. Should other markets be formed such that Participants may incur future Obligations in those markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

**Operating Agreement of PJM Interconnection, L.L.C., (“Operating Agreement”)**

The Amended and Restated Operating Agreement of PJM Interconnection, L.L.C., dated as of June 2, 1997, on file with the Federal Energy Regulatory Commission, and as revised from time to time.

**Participant**

A Participant is a Market Participant and/or Transmission Customer and/or Applicant requesting to be an active Market Participant and/or Transmission Customer.

**Peak Market Activity**

Peak Market Activity is a measure of exposure for which credit is required, involving peak exposures in rolling three-week periods over a year timeframe, with two semi-annual reset points, pursuant to provisions of section II.D of this Credit Policy.

**PJM Markets**

The PJM Markets are the PJM Interchange Energy Market and the PJM Capacity markets as established by the Operating Agreement. Also any other markets that exist or may be established in the future wherein Participants may incur Obligations to PJMSettlement.

**PJM Open Access Transmission Tariff (“O.A.T.T.”)**

The Open Access Transmission Tariff of PJM Interconnection, L.L.C., on file with the Federal Energy Regulatory Commission, and as revised from time to time.

**Reliability Assurance Agreement (“R.A.A.”)**

See the definition of the Reliability Assurance Agreement (“R.A.A.”) in the Operating Agreement.

**RPM Seller Credit**

RPM Seller Credit is an additional form of Unsecured Credit defined in section IV of this document.

**Seller Credit**

A Seller Credit is a form of Unsecured Credit extended to Participants that have a consistent long-term history of selling into PJM Markets, as defined in this document.

**Tangible Net Worth**

Tangible Net Worth is all assets (not including any intangible assets such as goodwill) less all liabilities. Any such calculation may be reduced by PJMSettlement upon review of the available financial information.

**Total Net Obligation**

Total Net Obligation is all unpaid billed Net Obligations plus any unbilled Net Obligation incurred to date, as determined by PJMSettlement on a daily basis, plus any other Obligations owed to PJMSettlement at the time.

**Total Net Sell Position**

Total Net Sell Position is all unpaid billed Net Sell Positions plus any unbilled Net Sell Positions accrued to date, as determined by PJMSettlement on a daily basis.

**Transmission Customer**

Transmission Customer is a Transmission Customer is an entity taking service under Part II or Part III of the O.A.T.T.

### **Transmission Service**

Transmission Service is any or all of the transmission services provided by PJM pursuant to Part II or Part III of the O.A.T.T.

### **Uncleared Bid Exposure**

Uncleared Bid Exposure is a measure of exposure from Increment Offers and Decrement Bids activity relative to a Participant's established credit as defined in this policy. It is used only as a pre-screen to determine whether a Participant's Increment Offers and Decrement Bids should be subject to Increment Offer and Decrement Bid Screening.

### **Unsecured Credit**

Unsecured Credit is any credit granted by PJMSettlement to a Participant that is not secured by a form of Financial Security.

### **Unsecured Credit Allowance**

Unsecured Credit Allowance is Unsecured Credit extended by PJMSettlement in an amount determined by PJMSettlement's evaluation of the creditworthiness of a Participant. This is also defined as the amount of credit that a Participant qualifies for based on the strength of its own financial condition without having to provide Financial Security. See also: "Working Credit Limit."

### **Up-to Congestion Counterflow Transaction**

An Up-to Congestion Transaction will be deemed an Up-to Congestion Counterflow Transaction if the following value is negative: (a) when bidding, the lower of the bid price and the prior Up-to Congestion Historical Month's average real-time value for the transaction; or (b) for cleared Virtual Transactions, the cleared day-ahead price of the Virtual Transactions.

### **Up-to Congestion Historical Month**

An Up-to Congestion Historical Month is a consistently-defined historical period nominally one month long that is as close to a calendar month as PJM determines is practical.

### **Up-to Congestion Prevailing Flow Transaction**

An Up-to Congestion Transaction will be deemed an Up-to Congestion Prevailing Flow Transaction if it is not an Up-to Congestion Counterflow Transaction.

### **Up-to Congestion Reference Price**

The Up-to Congestion Reference Price for an Up-to Congestion Transaction is the specified percentile price differential between source and sink (defined as sink price minus source price) for hourly real-time prices experienced over the prior Up-to Congestion Historical Month, averaged with the same percentile value calculated for the second prior Up-to Congestion Historical Month. Up-to Congestion Reference Prices shall be calculated using the following historical percentiles:

For Up-to Congestion Prevailing Flow Transactions: 30<sup>th</sup> percentile

For Up-to Congestion Counterflow Transactions when bid: 20<sup>th</sup> percentile  
For Up-to Congestion Counterflow Transactions when cleared: 5<sup>th</sup> percentile

**Virtual Credit Exposure**

Virtual Credit Exposure is the amount of potential credit exposure created by a market participant's bid submitted into the Day-ahead market, as defined in this policy.

**Virtual Transaction Screening**

Virtual Transaction Screening is the process of reviewing the Virtual Credit Exposure of submitted Virtual Transactions against the Credit Available for Virtual Transactions. If the credit required is greater than credit available, then the Virtual Transactions will not be accepted.

**Virtual Transactions Net Activity**

Virtual Transactions Net Activity shall mean the aggregate net total, resulting from Virtual Transactions, of (i) Spot Market Energy charges, (ii) Transmission Congestion Charges, and (iii) Transmission Loss Charges, calculated as set forth in Attachment K-Appendix. Virtual Transactions Net Activity may be positive or negative.

**Working Credit Limit**

Working Credit Limit amount is 75% of the Market Participant's Unsecured Credit Allowance and/or 75% of the Financial Security provided by the Market Participant to PJMSettlement. The Working Credit Limit establishes the maximum amount of Total Net Obligation that a Market Participant may have outstanding at any time. The calculation of Working Credit Limit shall take into account applicable reductions for Minimum Participation Requirements, FTR, or other credit requirement determinants as defined in this policy.

**Working Credit Limit for Virtual Transactions**

The Working Credit Limit for Virtual Transactions shall be calculated as 75% of the Market Participant's Unsecured Credit Allowance and/or 75% of the Financial Security provided by the Market Participant to PJMSettlement when the Market Participant is at or below its Peak Market Activity credit requirements as specified in section II.D of this Credit Policy. When the Market Participant provides additional Unsecured Credit Allowance and/or Financial Security in excess of its Peak Market Activity credit requirements, such additional Unsecured Credit Allowance and/or Financial Security shall not be discounted by 25% when calculating the Working Credit Limit for Virtual Transactions. The Working Credit Limit for Virtual Transactions is a component in the calculation of Credit Available for Virtual Transactions. The calculation of Working Credit Limit for Virtual Transactions shall take into account applicable reductions for Minimum Participation Requirements, FTR, or other credit requirement determinants as defined in this policy.

## **Appendix 1 to Attachment Q**

**PJM MINIMUM PARTICIPATION CRITERIA  
OFFICER CERTIFICATION FORM**

Participant Name: _____ ("Participant")
---

I, \_\_\_\_\_, a duly authorized officer of Participant, understanding that PJM Interconnection, L.L.C. and PJM Settlement, Inc. ("PJMSettlement") are relying on this certification as evidence that Participant meets the minimum requirements set forth in Attachment Q to the PJM Open Access Transmission Tariff ("PJM Tariff"), hereby certify that I have full authority to represent on behalf of Participant and further represent as follows, as evidenced by my initialing each representation in the space provided below:

1. All employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Amended and Restated Operating Agreement ("PJM Operating Agreement") on behalf of the Participant have received appropriate<sup>1</sup> training and are authorized to transact on behalf of Participant. \_\_\_\_\_
2. Participant has written risk management policies, procedures, and controls, approved by Participant's independent risk management function<sup>2</sup> and applicable to transactions in the PJM markets in which it participates and for which employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Operating Agreement have been trained, that provide an appropriate, comprehensive risk management framework that, at a minimum, clearly identifies and documents the range of risks to which Participant is exposed, including, but not limited to credit risks, liquidity risks and market risks. \_\_\_\_\_
3. An FTR Participant (as defined in Attachment Q to the PJM Tariff) must make either the following 3.a. or 3.b. additional representations, evidenced by the undersigned officer initialing either the one 3.a. representation or the six 3.b. representations in the spaces provided below:
  - 3.a. Participant transacts in PJM's FTR markets with the sole intent to hedge congestion risk in connection with either obligations Participant has to serve load or rights Participant has to generate electricity in the PJM Region ("physical

<sup>1</sup> As used in this representation, the term "appropriate" as used with respect to training means training that is (i) comparable to generally accepted practices in the energy trading industry, and (ii) commensurate and proportional in sophistication, scope and frequency to the volume of transactions and the nature and extent of the risk taken by the participant.

<sup>2</sup> As used in this representation, a Participant's "independent risk management function" can include appropriate corporate persons or bodies that are independent of the Participant's trading functions, such as a risk management committee, a risk officer, a Participant's board or board committee, or a board or committee of the Participant's parent company.



transactions”) and monitors all of the Participant’s FTR market activity to endeavor to ensure that its FTR positions, considering both the size and pathways of the positions, are either generally proportionate to or generally do not exceed the Participant’s physical transactions, and remain generally consistent with the Participant’s intention to hedge its physical transactions.\_\_\_\_\_

- 3.b. On no less than a weekly basis, Participant values its FTR positions and engages in a probabilistic assessment of the hypothetical risk of such positions using analytically based methodologies, predicated on the use of industry accepted valuation methodologies.\_\_\_\_\_

Such valuation and risk assessment functions are performed either by persons within Participant’s organization independent from those trading in PJM’s FTR markets or by an outside firm qualified and with expertise in this area of risk management.\_\_\_\_\_

Having valued its FTR positions and quantified their hypothetical risks, Participant applies its written policies, procedures and controls to limit its risks using industry recognized practices, such as value-at-risk limitations, concentration limits, or other controls designed to prevent Participant from purposefully or unintentionally taking on risk that is not commensurate or proportional to Participant’s financial capability to manage such risk.\_\_\_\_\_

Exceptions to Participant’s written risk policies, procedures and controls applicable to Participant’s FTR positions are documented and explain a reasoned basis for the granting of any exception.\_\_\_\_\_

Participant has provided to PJMSettlement, in accordance with Section I A. of Attachment Q to the PJM Tariff, a copy of its current governing risk management policies, procedures and controls applicable to its FTR trading activities.\_\_\_\_\_

If the risk management policies, procedures and controls applicable to Participant’s FTR trading activities submitted to PJMSettlement were submitted prior to the current certification, Participant certifies that no substantive changes have been made to such policies, procedures and controls applicable to its FTR trading activities since such submission.\_\_\_\_\_

4. Participant has appropriate personnel resources, operating procedures and technical abilities to promptly and effectively respond to all PJM communications and directions.\_\_\_\_\_
5. Participant has demonstrated compliance with the Minimum Capitalization criteria set forth in Attachment Q of the PJM Open Access Transmission Tariff that are applicable to the PJM market(s) in which Participant transacts, and is not aware of any change having occurred or being imminent that would invalidate such compliance.\_\_\_\_\_

6. All Participants must certify and initial in at least one of the four sections below:

- a. I certify that Participant qualifies as an “appropriate person” as that term is defined under Section 4(c)(3), or successor provision, of the Commodity Exchange Act or an “eligible contract participant” as that term is defined under Section 1a(18), or successor provision, of the Commodity Exchange Act. I certify that Participant will cease transacting in PJM’s Markets and notify PJMSettlement immediately if Participant no longer qualifies as an “appropriate person” or “eligible contract participant.” \_\_\_\_\_

If providing financial statements to support Participant’s certification of qualification as an “appropriate person:”

I certify, to the best of my knowledge and belief, that the financial statements provided to PJMSettlement present fairly, pursuant to such disclosures in such financial statements, the financial position of Participant as of the date of those financial statements. Further, I certify that Participant continues to maintain the minimum \$1 million total net worth and/or \$5 million total asset levels reflected in these financial statements as of the date of this certification. I acknowledge that both PJM and PJMSettlement are relying upon my certification to maintain compliance with federal regulatory requirements. \_\_\_\_\_

If providing financial statements to support Participant’s certification of qualification as an “eligible contract participant:”

I certify, to the best of my knowledge and belief, that the financial statements provided to PJMSettlement present fairly, pursuant to such disclosures in such financial statements, the financial position of Participant as of the date of those financial statements. Further, I certify that Participant continues to maintain the minimum \$1 million total net worth and/or \$10 million total asset levels reflected in these financial statements as of the date of this certification. I acknowledge that both PJM and PJMSettlement are relying upon my certification to maintain compliance with federal regulatory requirements. \_\_\_\_\_

- b. I certify that Participant has provided an unlimited Corporate Guaranty in a form acceptable to PJM as described in Section I.C of Attachment Q from an issuer that has at least \$1 million of total net worth or \$5 million of total assets per Participant per Participant for which the issuer has issued an unlimited Corporate Guaranty. I certify that Participant will cease transacting PJM’s Markets and notify PJMSettlement immediately if issuer of the unlimited Corporate Guaranty for Participant no longer has at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty. \_\_\_\_\_

I certify that the issuer of the unlimited Corporate Guaranty to Participant continues to have at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty. I acknowledge that PJM and PJMSettlement are relying upon my certifications to maintain compliance with federal regulatory requirements.\_\_\_\_\_

c. I certify that Participant fulfills the eligibility requirements of the Commodity Futures Trading Commission exemption order (78 F.R. 19880 – April 2, 2013) by being in the business of at least one of the following in the PJM Region as indicated below (initial those applicable):

1. Generating electric energy, including Participants that resell physical energy acquired from an entity generating electric energy:\_\_\_\_\_
2. Transmitting electric energy:\_\_\_\_\_
3. Distributing electric energy delivered under Point-to-Point or Network Integration Transmission Service, including scheduled import, export and wheel through transactions:\_\_\_\_\_
4. Other electric energy services that are necessary to support the reliable operation of the transmission system:\_\_\_\_\_

Description only if c(4) is initialed:

---

Further, I certify that Participant will cease transacting in PJM's Markets and notify PJMSettlement immediately if Participant no longer performs at least one of the functions noted above in the PJM Region. I acknowledge that PJM and PJMSettlement are relying on my certification to maintain compliance with federal energy regulatory requirements.\_\_\_\_\_

- d. I certify that Participant has provided a letter of credit of \$5 million or more to PJMSettlement in a form acceptable to PJMSettlement as described in Section VI.B of Attachment Q that the Participant acknowledges cannot be utilized to meet its credit requirements to PJMSettlement. I acknowledge that PJM and PJMSettlement are relying on the provision of this letter of credit and my certification to maintain compliance with federal regulatory requirements.\_\_\_\_\_
7. I acknowledge that I have read and understood the provisions of Attachment Q of the PJM Tariff applicable to Participant's business in the PJM markets, including those provisions describing PJM's minimum participation requirements and the enforcement actions available to PJMSettlement of a Participant not satisfying those requirements. I acknowledge that the information provided herein is true and accurate to the best of my belief and knowledge after due investigation. In addition, by signing this Certification, I

acknowledge the potential consequences of making incomplete or false statements in this  
Certification. \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_  
(Signature)

Print Name:

Title:

\_\_\_\_\_  
\_\_\_\_\_

## 1. INTRODUCTION

This Attachment sets forth the terms and conditions governing the Reliability Pricing Model for the PJM Region. In the event of a conflict between this Attachment DD and Attachment M and its Appendix with respect to the responsibilities of the Market Monitoring Unit, the provisions of Attachment M and its Appendix shall control. As more fully set forth in this Attachment and the PJM Manuals, and in conjunction with the Reliability Assurance Agreement, the Reliability Pricing Model provides:

- (a) support for LSEs in satisfying Daily Unforced Capacity Obligations for future Delivery Years through Self Supply of Capacity Resources;
- (b) a competitive auction mechanism to secure the forward commitment of additional Capacity Resources and Qualifying Transmission Upgrades as necessary to satisfy the portion of LSEs' Unforced Capacity Obligations not satisfied through Self-Supply, in order to ensure the reliability of the PJM Region for future Delivery Years;
- (c) long-term pricing signals for the development of Capacity Resources, including demand resources and planned generation resources, to ensure the reliability of the PJM Region;
- (d) recognition for the locational benefits of Capacity Resources;
- (e) deficiency charges to ensure progress toward, and fulfillment of, forward commitments by demand and generation resources to satisfy capacity requirements;
- (f) measures to identify and mitigate capacity market structure deficiencies; and
- (g) a Reliability Backstop mechanism to ensure that sufficient generation, transmission and demand response solutions will be available to preserve system reliability.

Notwithstanding any other provision of this Attachment DD, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **2. DEFINITIONS**

Definitions specific to this Attachment are set forth below. In addition, any capitalized terms used in this Attachment not defined herein shall have the meaning given to such terms elsewhere in this Tariff or in the *Operating Agreement or RAA*. References to section numbers in this Attachment DD refer to sections of this attachment, unless otherwise specified.

### **2.1 Annual Demand Resource**

“Annual Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.1A Annual Energy Efficiency Resource**

*“Annual Energy Efficiency Resource” shall have the meaning specified in the Reliability Assurance Agreement.*

#### **2.1B Annual Resource**

“Annual Resource” shall mean a Generation Capacity Resource, an *Annual Energy Efficiency Resource* or an Annual Demand Resource.

#### **2.1C Annual Resource Price Adder**

“Annual Resource Price Adder” shall mean, for Delivery Years starting June 1, 2014 and ending May 31, 2017, an addition to the marginal value of Unforced Capacity and the Extended Summer Resource Price Adder as necessary to reflect the price of Annual Resources required to meet the applicable Minimum Annual Resource Requirement.

#### **2.1D Annual Revenue Rate**

“Annual Revenue Rate” shall mean the rate employed to assess a compliance penalty charge on a Curtailment Service Provider under section 11.

### **2.2 Avoidable Cost Rate**

“Avoidable Cost Rate” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

#### **2.2A Base Capacity Demand Resource**

*“Base Capacity Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.*

#### **2.2B Base Capacity Demand Resource Constraint**

*“Base Capacity Demand Resource Constraint” for the PJM Region or an LDA, shall mean, for the 2018/2019 and 2019/2020 Delivery Years, the maximum Unforced Capacity amount, determined by PJM, of Base Capacity Demand Resources and Base Capacity Energy Efficiency Resources that is consistent with the maintenance of reliability. As more fully set forth in the PJM Manuals, PJM calculates the Base Capacity Demand Resource Constraint for the PJM Region or an LDA, by first determining a reference annual loss of load expectation (“LOLE”) assuming no Base Capacity Resources, including no Base Capacity Demand Resources or Base Capacity Energy Efficiency Resources. The calculation for the PJM Region uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast and iteratively shifting the load distributions to result in the Installed Reserve Margin established for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). The calculation for each relevant LDA uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). For the relevant LDA calculation, the weekly capacity distributions are adjusted to reflect the Capacity Emergency Transfer Limit for the Delivery Year in question.*

*For both the PJM Region and LDA analyses, PJM then models the commitment of varying amounts of Base Capacity Demand Resources and Base Capacity Energy Efficiency Resources (displacing otherwise committed generation) as interruptible from June 1 through September 30 and unavailable the rest of the Delivery Year in question and calculates the LOLE at each DR and EE level. The Base Capacity Demand Resource Constraint is the combined amount of Base Capacity Demand Resources and Base Capacity Energy Efficiency Resources, stated as a percentage of the unrestricted annual peak load, that produces no more than a five percent increase in the LOLE, compared to the reference value. The Base Capacity Demand Resource Constraint shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].*

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **2.2C Base Capacity Demand Resource Price Decrement**

*“Base Capacity Demand Resource Price Decrement” shall mean, for the 2018/2019 and 2019/2020 Delivery Years, a difference between the clearing price for Base Capacity Demand Resources and Base Capacity Energy Efficiency Resources and the clearing price for Base Capacity Resources and Capacity Performance Resources, representing the cost to procure*

*additional Base Capacity Resources or Capacity Performance Resources out of merit order when the Base Capacity Demand Resource Constraint is binding.*

## **2.2D Base Capacity Energy Efficiency Resource**

*“Base Capacity Energy Efficiency Resource” shall have the meaning specified in the Reliability Assurance Agreement.*

## **2.2E Base Capacity Resource**

*“Base Capacity Resource” shall mean a Capacity Resource as described in section 5.5A(b).*

## **2.2F Base Capacity Resource Constraint**

*“Base Capacity Resource Reliability Constraint” for the PJM Region or an LDA, shall mean, for the 2018/2019 and 2019/2020 Delivery Years, the maximum Unforced Capacity amount, determined by PJM, of Base Capacity Resources, including Base Capacity Demand Resources and Base Capacity Energy Efficiency Resources, that is consistent with the maintenance of reliability. As more fully set forth in the PJM Manuals, PJM calculates the above Base Capacity Resource Constraint for the PJM Region or an LDA, by first determining a reference annual loss of load expectation (“LOLE”) assuming no Base Capacity Resources, including no Base Capacity Demand Resources or Base Capacity Energy Efficiency Resources. The calculation for the PJM Region uses the weekly load distribution from the Installed Reserve Margin study for the Delivery Year in question (based on the most recent load forecast and iteratively shifting the load distributions to result in the Installed Reserve Margin established for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). The calculation for each relevant LDA uses a weekly load distribution (based on the Installed Reserve Margin study and the most recent load forecast for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). For the relevant LDA calculation, the weekly capacity distributions are adjusted to reflect the Capacity Emergency Transfer Limit for the Delivery Year in question. Additionally, for the PJM Region and relevant LDA calculation, the weekly capacity distributions are adjusted to reflect winter ratings.*

*For both the PJM Region and LDA analyses, PJM models the commitment of an amount of Base Capacity Demand Resources and Base Capacity Energy Efficiency Resources equal to the Base Capacity Demand Resource Constraint (displacing otherwise committed generation). PJM then models the commitment of varying amounts of Base Capacity Resources (displacing otherwise committed generation) as unavailable during the peak week of winter and available the rest of the Delivery Year in question and calculates the LOLE at each Base Capacity Resource level. The Base Capacity Resource Constraint is the combined amount of Base Capacity Demand Resources, Base Capacity Energy Efficiency Resources and Base Capacity Resources, stated as a percentage of the unrestricted annual peak load, that produces no more than a ten percent increase in the LOLE, compared to the reference value. The Base Capacity Resource Constraint shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA*



and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [one minus the pool-wide average EFORD] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

“Base Capacity Resource Price Decrement” shall mean, for the 2018/2019 and 2019/2020 Delivery Years, a difference between the clearing price for Base Capacity Resources and the clearing price for Capacity Performance Resources, representing the cost to procure additional Capacity Performance Resources out of merit order when the Base Capacity Resource Constraint is binding.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **2.2G Base Capacity Resource Price Decrement**

“Base Capacity Resource Price Decrement” shall mean, for the 2018/2019 and 2019/2020 Delivery Years, a difference between the clearing price for Base Capacity Resources and the clearing price for Capacity Performance Resources, representing the cost to procure additional Capacity Performance Resources out of merit order when the Base Capacity Resource Constraint is binding.

## **2.2H Base Capacity WEEL**

“Base Capacity WEEL” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.2I Base Capacity WLR Load**

“Base Capacity WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.2J Base Capacity WLR Load Constraint**

“Base Capacity WLR Load Constraint” for the PJM Region or an LDA, shall mean, for the 2018/2019 and 2019/2020 Delivery Years, the maximum Unforced Capacity amount, determined by PJM, of Base Capacity WLR Load and Base Capacity WEEL that is consistent with the maintenance of reliability. As more fully set forth in the PJM Manuals, PJM calculates the Base Capacity WLR Load Constraint for the PJM Region or an LDA, by first determining a reference annual LOLE assuming no Base Capacity Resources and no Base Capacity WLR Load or Base Capacity WEEL. The calculation for the PJM Region uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast and iteratively shifting the load distributions to result in the Installed Reserve Margin established for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability

distributions developed for the Installed Reserve Margin study for the Delivery Year in question). The calculation for each relevant LDA uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). For the relevant LDA calculation, the weekly capacity distributions are adjusted to reflect the Capacity Emergency Transfer Limit for the Delivery Year in question.

For both the PJM Region and LDA analyses, PJM then models the commitment of varying amounts of Base Capacity WLR Loads and Base Capacity WEEL (displacing otherwise committed generation) as interruptible from June 1 through September 30 and unavailable the rest of the Delivery Year in question and calculates the LOLE at each WLR Load and WEEL level. The Base Capacity WLR Load Constraint is the combined amount of Base Capacity WLR Loads and Base Capacity WEEL, stated as a percentage of the unrestricted annual peak load, that produces no more than a five percent increase in the LOLE, compared to the reference value. The Base Capacity WLR Load Constraint shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

## **2.3 Base Load Generation Resource**

“Base Load Generation Resource” shall mean a Generation Capacity Resource that operates at least 90 percent of the hours that it is available to operate, as determined by the Office of the Interconnection in accordance with the PJM Manuals.

## **2.4 Base Offer Segment**

“Base Offer Segment” shall mean a component of a Sell Offer based on an existing Generation Capacity Resource, equal to the Unforced Capacity of such resource, as determined in accordance with the PJM Manuals. If the Sell Offers of multiple Market Sellers are based on a single Existing Generation Capacity Resource, the Base Offer Segments of such Market Sellers shall be determined pro rata based on their entitlements to Unforced Capacity from such resource.

## **2.5 Base Residual Auction**

“Base Residual Auction” shall mean the auction conducted three years prior to the start of the Delivery Year to secure commitments from Capacity Resources as necessary to satisfy any portion of the Unforced Capacity Obligation of the PJM Region not satisfied through Self-Supply.

## **2.6 Buy Bid**

“Buy Bid” shall mean a bid to buy Capacity Resources in any Incremental Auction.

## **2.6A Compliance Aggregation Area (CAA)**

“Compliance Aggregation Area” or “CAA” shall mean a geographic area of Zones or sub-Zones that are electrically-contiguous and experience for the relevant Delivery Year, based on Resource Clearing Prices of, *for Delivery Years through May 31, 2018, Annual Resources and for the 2018/2019 Delivery Year and subsequent Delivery Years, Capacity Performance Resources*, the same locational price separation in the Base Residual Auction, the same locational price separation in the First Incremental Auction, the same locational price separation in the Second Incremental Auction, or the same locational price separation in the Third Incremental Auction.

## **2.7 Capacity Credit**

“Capacity Credit” shall have the meaning specified in Schedule 11 of the Operating Agreement, including Capacity Credits obtained prior to the termination of such Schedule applicable to periods after the termination of such Schedule.

## **2.8 Capacity Emergency Transfer Limit**

“Capacity Emergency Transfer Limit” or “CETL” shall have the meaning provided in the Reliability Assurance Agreement.

## **2.9 Capacity Emergency Transfer Objective**

“Capacity Emergency Transfer Objective” or “CETO” shall have the meaning provided in the Reliability Assurance Agreement.

## **2.9A Capacity Export Transmission Customer**

“Capacity Export Transmission Customer” shall mean a customer taking point to point transmission service under Part II of this Tariff to export capacity from a generation resource located in the PJM Region that has qualified for an exception to the RPM must-offer requirement as described in section 6.6(g).

## **2.9B Capacity Import Limit**

“Capacity Import Limit” shall have the meaning provided in the Reliability Assurance Agreement.

## **2.10 Capacity Market Buyer**

“Capacity Market Buyer” shall mean a Member that submits bids to buy Capacity Resources in any Incremental Auction.

## **2.11 Capacity Market Seller**

“Capacity Market Seller” shall mean a Member that owns, or has the contractual authority to control the output or load reduction capability of, a Capacity Resource, that has not transferred such authority to another entity, and that offers such resource in the Base Residual Auction or an Incremental Auction.

#### **2.11A Capacity Performance Resource**

“Capacity Performance Resource” shall mean a Capacity Resource as described in section 5.5A(a).

#### **2.11B Capacity Performance Transition Incremental Auction**

“Capacity Performance Transition Incremental Auction” shall have the meaning specified in section 5.14D.

#### **2.11C Capacity Performance WEEL**

“Capacity Performance WEEL” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.11D Capacity Performance WLR Load**

“Capacity Performance WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.12 Capacity Resource**

“Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.13 Capacity Resource Clearing Price**

“Capacity Resource Clearing Price” shall mean the price calculated for a Capacity Resource that offered and cleared in a Base Residual Auction or Incremental Auction, in accordance with Section 5.

#### **2.13A Capacity Storage Resource**

“Capacity Storage Resource” shall mean any hydroelectric power plant, flywheel, battery storage, or other such facility solely used for short term storage and injection of energy at a later time to participate in the PJM energy and/or Ancillary Services markets and which participates in the Reliability Pricing Model.

#### **2.14 Capacity Transfer Right**

“Capacity Transfer Right” shall mean a right, allocated to LSEs serving load in a Locational Deliverability Area, to receive payments, based on the transmission import capability into such

Locational Deliverability Area, that offset, in whole or in part, the charges attributable to the Locational Price Adder, if any, included in the Zonal Capacity Price calculated for a Locational Delivery Area.

#### **2.14A Conditional Incremental Auction**

“Conditional Incremental Auction” shall mean an Incremental Auction conducted for a Delivery Year if and when necessary to secure commitments of additional capacity to address reliability criteria violations arising from the delay in a Backbone Transmission upgrade that was modeled in the Base Residual Auction for such Delivery Year.

#### **2.15 CONE Area**

“CONE Area” shall mean the areas listed in section 5.10(a)(iv)(A) and any LDAs established as CONE Areas pursuant to section 5.10(a)(iv)(B).

#### **2.16 Cost of New Entry**

“Cost of New Entry” or “CONE” shall mean the nominal levelized cost of a Reference Resource, as determined in accordance with section 5.

#### **2.16A Credit-Limited Offer**

“Credit-Limited Offer” shall have the meaning provided in Attachment Q to this Tariff.

#### **2.17 Daily Deficiency Rate**

“Daily Deficiency Rate” shall mean the rate employed to assess certain deficiency charges under sections 7, 8, 9, or 13.

#### **2.18 Daily Unforced Capacity Obligation**

“Daily Unforced Capacity Obligation” shall mean the capacity obligation of a Load Serving Entity during the Delivery Year, determined in accordance with Schedule 8 of the Reliability Assurance Agreement.

#### **2.19 Delivery Year**

Delivery Year shall mean the Planning Period for which a Capacity Resource is committed pursuant to the auction procedures specified in Section 5.

#### **2.20 Demand Resource**

“Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.21 Demand Resource Factor or DR Factor**

“Demand Resource Factor” or “*DR Factor*” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.22 [Reserved for Future Use]**

## **2.23 EFORD**

“EFORD” shall have the meaning specified in the PJM Reliability Assurance Agreement.

### **2.23A Emergency Action**

*“Emergency Action” shall mean any emergency action for locational or system-wide capacity shortages that either utilizes pre-emergency mandatory load management reductions or other emergency capacity, or initiates a more severe action including, but not limited to, a Voltage Reduction Warning, Voltage Reduction Action, Manual Load Dump Warning, or Manual Load Dump Action.*

## **2.24 Energy Efficiency Resource**

“Energy Efficiency Resource” shall have the meaning specified in the PJM Reliability Assurance Agreement.

### **2.24.01 Existing WLR Load**

“Existing WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.24A Extended Summer Demand Resource**

“Extended Summer Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.24B Extended Summer Resource Price Adder**

“Extended Summer Resource Price Adder” shall mean, *for Delivery Years through May 31, 2018*, an addition to the marginal value of Unforced Capacity as necessary to reflect the price of Annual Resources and Extended Summer Demand Resources required to meet the applicable Minimum Extended Summer Resource Requirement.

### **2.24C Sub-Annual Resource Reliability Target**

“Sub-Annual Reliability Target” for the PJM Region or an LDA, shall mean the maximum amount of the combination of Extended Summer Demand Resources and Limited Demand Resources in Unforced Capacity determined by PJM to be consistent with the maintenance of reliability, stated in Unforced Capacity, that shall be used to calculate the Minimum Annual Resource Requirement for Delivery Years through May 31, 2017 and the Sub-Annual Resource Constraint for *the 2017/2018* Delivery Year. As more fully set forth in the PJM Manuals, PJM

calculates the Sub-Annual Resource Reliability Target, by first determining a reference annual loss of load expectation (“LOLE”) assuming no Demand Resources. The calculation for the unconstrained portion of the PJM Region uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast and iteratively shifting the load distributions to result in the Installed Reserve Margin established for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). The calculation for each relevant LDA uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Capacity Emergency Transfer Objective study for the Delivery Year in question). For the relevant LDA calculation, the weekly capacity distributions are adjusted to reflect the Capacity Emergency Transfer Limit for the Delivery Year in question.

For both the PJM Region and LDA analyses, PJM then models the commitment of varying amounts of DR (displacing otherwise committed generation) as interruptible from May 1 through October 31 and unavailable from November 1 through April 30 and calculates the LOLE at each DR level. The Extended Summer DR Reliability Target is the DR amount, stated as a percentage of the unrestricted peak load, that produces no more than a ten percent increase in the LOLE, compared to the reference value. The Sub-Annual Resource Reliability Target shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the DR Factor] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

## **2.25 Sub-Annual Resource Constraint**

“Sub-Annual Resource Constraint” shall mean, *for the 2017/2018 Delivery Year*, for the PJM Region or for each LDA for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for a Delivery Year, a limit on the total amount of Unforced Capacity that can be committed as Limited Demand Resources and Extended Summer Demand Resources for *the 2017/2018 Delivery Year* in the PJM Region or in such LDA, calculated as the Sub-Annual Resource Reliability Target for the PJM Region or for such LDA, respectively, minus the Short-Term Resource Procurement Target for the PJM Region or for such LDA, respectively.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **2.26 Final RTO Unforced Capacity Obligation**

“Final RTO Unforced Capacity Obligation” shall mean the capacity obligation for the PJM Region, determined in accordance with Schedule 8 of the Reliability Assurance Agreement.

#### **2.26A [Reserved]**

#### **2.27 First Incremental Auction**

“First Incremental Auction” shall mean an Incremental Auction conducted 20 months prior to the start of the Delivery Year to which it relates.

#### **2.28 Forecast Pool Requirement**

“Forecast Pool Requirement” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.29 [Reserved]**

#### **2.30 [Reserved]**

#### **2.31 Generation Capacity Resource**

“Generation Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.32 Generator Forced Outage**

*“Generator Forced Outage” shall have the meaning specified in the Operating Agreement.*

#### **2.33 Generator Maintenance Outage**

*“Generator Maintenance Outage” shall have the meaning specified in the Operating Agreement.*

#### **2.33A Generator Planned Outage**

*“Generator Planned Outage” shall have the meaning specified in the Operating Agreement.*

#### **2.34 Incremental Auction**

“Incremental Auction” shall mean any of several auctions conducted for a Delivery Year after the Base Residual Auction for such Delivery Year and before the first day of such Delivery Year, including the First Incremental Auction, Second Incremental Auction, Third Incremental Auction or Conditional Incremental Auction. Incremental Auctions (other than the Conditional Incremental Auction), shall be held for the purposes of:

- (i) allowing Market Sellers that committed Capacity Resources in the Base Residual Auction for a Delivery Year, which subsequently are determined to be unavailable to deliver the



committed Unforced Capacity in such Delivery Year (due to resource retirement, resource cancellation or construction delay, resource derating, EFORd increase, a decrease in the Nominated Demand Resource Value of a Planned Demand Resource, delay or cancellation of a Qualifying Transmission Upgrade, or similar occurrences) to submit Buy Bids for replacement Capacity Resources; and

(ii) allowing the Office of the Interconnection to reduce or increase the amount of committed capacity secured in prior auctions for such Delivery Year if, as a result of changed circumstances or expectations since the prior auction(s), there is, respectively, a significant excess or significant deficit of committed capacity for such Delivery Year, for the PJM Region or for an LDA.

### **2.35 Incremental Capacity Transfer Right**

“Incremental Capacity Transfer Right” shall mean a Capacity Transfer Right allocated to a Generation Interconnection Customer or Transmission Interconnection Customer obligated to fund a transmission facility or upgrade, to the extent such upgrade or facility increases the transmission import capability into a Locational Deliverability Area, or a Capacity Transfer Right allocated to a Responsible Customer in accordance with Schedule 12A of the Tariff.

### **2.36 Intermittent Resource**

*“Intermittent Resource” shall mean a Generation Capacity Resource with output that can vary as a function of its energy source, such as wind, solar, run of river hydroelectric power and other renewable resources.*

### **2.36A Limited Demand Resource**

“Limited Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.36B Limited Demand Resource Reliability Target**

“Limited Demand Resource Reliability Target” for the PJM Region or an LDA, shall mean the maximum amount of Limited Demand Resources determined by PJM to be consistent with the maintenance of reliability, stated in Unforced Capacity that shall be used to calculate the Minimum Extended Summer Demand Resource Requirement for Delivery Years through May 31, 2017 and the Limited Resource Constraint for *the 2017/2018* Delivery Year for the PJM Region or such LDA. As more fully set forth in the PJM Manuals, PJM calculates the Limited Demand Resource Reliability Target by first: i) testing the effects of the ten-interruption requirement by comparing possible loads on peak days under a range of weather conditions (from the daily load forecast distributions for the Delivery Year in question) against possible generation capacity on such days under a range of conditions (using the cumulative capacity distributions employed in the Installed Reserve Margin study for the PJM Region and in the Capacity Emergency Transfer Objective study for the relevant LDAs for such Delivery Year) and, by varying the assumed amounts of DR that is committed and displaces committed

generation, determines the DR penetration level at which there is a ninety percent probability that DR will not be called (based on the applicable operating reserve margin for the PJM Region and for the relevant LDAs) more than ten times over those peak days; ii) testing the six-hour duration requirement by calculating the MW difference between the highest hourly unrestricted peak load and seventh highest hourly unrestricted peak load on certain high peak load days (e.g., the annual peak, loads above the weather normalized peak, or days where load management was called) in recent years, then dividing those loads by the forecast peak for those years and averaging the result; and (iii) (for the 2016/2017 and 2017/2018 Delivery Years) testing the effects of the six-hour duration requirement by comparing possible hourly loads on peak days under a range of weather conditions (from the daily load forecast distributions for the Delivery Year in question) against possible generation capacity on such days under a range of conditions (using a Monte Carlo model of hourly capacity levels that is consistent with the capacity model employed in the Installed Reserve Margin study for the PJM Region and in the Capacity Emergency Transfer Objective study for the relevant LDAs for such Delivery Year) and, by varying the assumed amounts of DR that is committed and displaces committed generation, determines the DR penetration level at which there is a ninety percent probability that DR will not be called (based on the applicable operating reserve margin for the PJM Region and for the relevant LDAs) for more than six hours over any one or more of the tested peak days. Second, PJM adopts the lowest result from these three tests as the Limited Demand Resource Reliability Target. The Limited Demand Resource Reliability Target shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the DR Factor] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

### **2.36C Limited Resource Constraint**

“Limited Resource Constraint” shall mean, *for the 2017/2018 Delivery Year*, for the PJM Region or each LDA for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for a Delivery Year, a limit on the total amount of Unforced Capacity that can be committed as Limited Demand Resources for *the 2017/2018 Delivery Year* in the PJM Region or in such LDA, calculated as the Limited Demand Resource Reliability Target for the PJM Region or such LDA, respectively, minus the Short Term Resource Procurement Target for the PJM Region or such LDA, respectively.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### **2.36D Limited Resource Price Decrement**

“Limited Resource Price Decrement” shall mean, for the *2017/2018 Delivery Year*, a difference between the clearing price for Limited Demand Resources and the clearing price for Extended Summer Demand Resources and Annual Resources, representing the cost to procure additional

Extended Summer Demand Resources or Annual Resources out of merit order when the Limited Resource Constraint is binding.

### **2.37 Load Serving Entity (LSE)**

“Load Serving Entity” or “LSE” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.38 Locational Deliverability Area (LDA)**

“Locational Deliverability Area” or “LDA” shall mean a geographic area within the PJM Region that has limited transmission capability to import capacity to satisfy such area’s reliability requirement, as determined by the Office of the Interconnection in connection with preparation of the Regional Transmission Expansion Plan, and as specified in Schedule 10.1 of the Reliability Assurance Agreement.

### **2.39 Locational Deliverability Area Reliability Requirement**

“Locational Deliverability Area Reliability Requirement” shall mean the projected internal capacity in the Locational Deliverability Area plus the Capacity Emergency Transfer Objective for the Delivery Year, as determined by the Office of the Interconnection in connection with preparation of the Regional Transmission Expansion Plan, less the minimum internal resources required for all FRR Entities in such Locational Deliverability Area.

### **2.40 Locational Price Adder**

“Locational Price Adder” shall mean an addition to the marginal value of Unforced Capacity within an LDA as necessary to reflect the price of Capacity Resources required to relieve applicable binding locational constraints.

### **2.41 Locational Reliability Charge**

“Locational Reliability Charge” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.41A Locational UCAP**

“Locational UCAP” shall mean unforced capacity that a Member with available uncommitted capacity sells in a bilateral transaction to a Member that previously committed capacity or load reduction through an RPM Auction but now requires replacement capacity to fulfill its RPM Auction commitment. The Locational UCAP Seller retains responsibility for performance of the resource providing such replacement capacity. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and

subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **2.41B Locational UCAP Seller**

“Locational UCAP Seller” shall mean a Member that sells Locational UCAP.

#### **2.41C Market Seller Offer Cap**

“Market Seller Offer Cap” shall mean a maximum offer price applicable to certain Market Sellers under certain conditions, as determined in accordance with section 6 of Attachment DD and section II.E of Attachment M - Appendix.

#### **2.41D Minimum Annual Resource Requirement**

“Minimum Annual Resource Requirement” shall mean, for Delivery Years through May 31, 2017, the minimum amount of capacity that PJM will seek to procure from Annual Resources for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. For the PJM Region, the Minimum Annual Resource Requirement shall be equal to the RTO Reliability Requirement minus [the Sub-Annual Resource Reliability Target for the RTO in Unforced Capacity]. For an LDA, the Minimum Annual Resource Requirement shall be equal to the LDA Reliability Requirement minus [the LDA CETL] minus [the Sub-Annual Resource Reliability Target for such LDA in Unforced Capacity]. The LDA CETL may be adjusted pro rata for the amount of load served under the FRR Alternative.

#### **2.41E Minimum Extended Summer Resource Requirement**

“Minimum Extended Summer Resource Requirement” shall mean, for Delivery Years through May 31, 2017, the minimum amount of capacity that PJM will seek to procure from Extended Summer Demand Resources and Annual Resources for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. For the PJM Region, the Minimum Extended Summer Resource Requirement shall be equal to the RTO Reliability Requirement minus [the Limited Demand Resource Reliability Target for the PJM Region in Unforced Capacity]. For an LDA, the Minimum Extended Summer Resource Requirement shall be equal to the LDA Reliability Requirement minus [the LDA CETL] minus [the Limited Demand Resource Reliability Target for such LDA in Unforced Capacity]. The LDA CETL may be adjusted pro rata for the amount of load served under the FRR Alternative. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **2.42 Net Cost of New Entry**

“Net Cost of New Entry” shall mean the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset, as defined in Section 5.

## **2.43 Nominated Demand Resource Value**

“Nominated Demand Resource Value” shall mean the amount of load reduction that a Demand Resource commits to provide either through direct load control, firm service level or guaranteed load drop programs. For existing Demand Resources, the maximum Nominated Demand Resource Value is limited, in accordance with the PJM Manuals, to the value appropriate for the method by which the load reduction would be accomplished, at the time the Base Residual Auction or Incremental Auction is being conducted.

## **2.43A Nominated Energy Efficiency Value**

“Nominated Energy Efficiency Value” shall mean the amount of load reduction that an Energy Efficiency Resource commits to provide through installation of more efficient devices or equipment or implementation of more efficient processes or systems.

## **2.43B Nominated WLR Quantity**

“Nominated WLR Quantity” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.44 Nominated WEEL Quantity~~[Reserved]~~**

“Nominated WEEL Quantity” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.45 Opportunity Cost**

“Opportunity Cost” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

## **2.46 Peak-Hour Dispatch**

“Peak-Hour Dispatch” shall mean, for purposes of calculating the Energy and Ancillary Services Revenue Offset under section 5 of this Attachment, an assumption, as more fully set forth in the PJM Manuals, that the Reference Resource is committed in the Day-Ahead Energy Market in four distinct blocks of four hours of continuous output for each block from the peak-hour period beginning with the hour ending 0800 EPT through to the hour ending 2300 EPT for any day when the average day-ahead LMP for the area for which the Net Cost of New Entry is being determined is greater than, or equal to, the cost to generate (including the cost for a complete start and shutdown cycle) for at least two hours during each four-hour block, where such blocks

shall be assumed to be committed independently; provided that, if there are not at least two economic hours in any given four-hour block, then the Reference Resource shall be assumed not to be committed for such block; and to the extent not committed in any such block in the Day-Ahead Energy Market under the above conditions based on Day-Ahead LMPs, is dispatched in the Real-Time Energy Market for such block if the Real-Time LMP is greater than or equal to the cost to generate under the same conditions as described above for the Day-Ahead Energy Market.

## **2.47 Peak Season**

“Peak Season” shall mean the weeks containing the 24th through 36th Wednesdays of the calendar year. Each such week shall begin on a Monday and end on the following Sunday, except for the week containing the 36th Wednesday, which shall end on the following Friday.

## **2.48 Percentage Internal Resources Required**

“Percentage Internal Resources Required” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.48A Performance Assessment Hour**

“Performance Assessment Hour” shall mean each whole or partial clock-hour for which an Emergency Action has been declared by the Office of the Interconnection, provided, however, that Performance Assessment Hours for a Base Capacity Resource shall not include any hours outside the calendar months of June through September.

## **2.49 Planned Demand Resource**

“Planned Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.50 Planned External Generation Capacity Resource**

“Planned External Generation Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.50A Planned Generation Capacity Resource**

“Planned Generation Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.50B Planned WLR Load**

“Planned WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.51 Planning Period**

“Planning Period” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.52 PJM Region**

“PJM Region” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.53 PJM Region Installed Reserve Margin**

“PJM Region Installed Reserve Margin” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.54 PJM Region Peak Load Forecast**

“PJM Region Peak Load Forecast” shall mean the peak load forecast used by the Office of the Interconnection in determining the PJM Region Reliability Requirement, and shall be determined on both a preliminary and final basis as set forth in section 5.

## **2.55 PJM Region Reliability Requirement**

“PJM Region Reliability Requirement” shall mean, for purposes of the Base Residual Auction, the Forecast Pool Requirement multiplied by the Preliminary PJM Region Peak Load Forecast, less the sum of all Preliminary Unforced Capacity Obligations of FRR Entities in the PJM Region; and, for purposes of the Incremental Auctions, the Forecast Pool Requirement multiplied by the updated PJM Region Peak Load Forecast, less the sum of all updated Unforced Capacity Obligations of FRR Entities in the PJM Region.

## **2.56 Projected PJM Market Revenues**

“Projected PJM Market Revenues” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

## **2.57 Qualifying Transmission Upgrade**

“Qualifying Transmission Upgrade” shall mean a proposed enhancement or addition to the Transmission System that: (a) will increase the Capacity Emergency Transfer Limit into an LDA by a megawatt quantity certified by the Office of the Interconnection; (b) the Office of the Interconnection has determined will be in service on or before the commencement of the first Delivery Year for which such upgrade is the subject of a Sell Offer in the Base Residual Auction; (c) is the subject of a Facilities Study Agreement executed before the conduct of the Base Residual Auction for such Delivery Year and (d) a New Service Customer is obligated to fund through a rate or charge specific to such facility or upgrade.

## **2.58 Reference Resource**

“Reference Resource” shall mean a combustion turbine generating station, configured with two General Electric Frame 7FA turbines with inlet air cooling to 50 degrees, Selective Catalytic Reduction technology all CONE Areas, dual fuel capability, and a heat rate of 10.096 Mmbtu/MWh.

## **2.59 Reliability Assurance Agreement**

“Reliability Assurance Agreement” shall mean that certain “Reliability Assurance Agreement Among Load-Serving Entities in the PJM Region,” on file with FERC as PJM Interconnection, L.L.C. Rate Schedule FERC No.44.

## **2.60 Reliability Pricing Model Auction**

“Reliability Pricing Model Auction” or “RPM Auction” shall mean the Base Residual Auction or any Incremental Auction, *or, for the 2016/2017 and 2017/2018 Delivery Years, any Capacity Performance Transition Incremental Auction.*

### **2.60A Repowered / Repowering**

“Repowering” or “Repowered” shall refer to a partial or total replacement of existing steam production equipment with new technology or a partial or total replacement of steam production process and power generation equipment, or an addition of steam production and/or power generation equipment, or a change in the primary fuel being used at the plant. A resource can be considered Repowered whether or not such aforementioned replacement, addition, or fuel change provides an increase in installed capacity, and whether or not the pre-existing plant capability is formally deactivated or retired.

## **2.61 Resource Substitution Charge**

“Resource Substitution Charge” shall mean a charge assessed on Capacity Market Buyers in an Incremental Auction to recover the cost of replacement Capacity Resources.

### **2.61A Scheduled Incremental Auctions**

“Scheduled Incremental Auctions” shall refer to the First, Second, or Third Incremental Auction.

## **2.62 Second Incremental Auction**

“Second Incremental Auction” shall mean an Incremental Auction conducted ten months before the Delivery Year to which it relates.

## **2.63 Sell Offer**

“Sell Offer” shall mean an offer to sell Capacity Resources in a Base Residual Auction, Incremental Auction, or Reliability Backstop Auction.



## **2.64 [Reserved for Future Use]**

## **2.65 Self-Supply**

“Self-Supply” shall mean Capacity Resources secured by a Load-Serving Entity, by ownership or contract, outside a Reliability Pricing Model Auction, and used to meet obligations under this Attachment or the Reliability Assurance Agreement through submission in a Base Residual Auction or an Incremental Auction of a Sell Offer indicating such Market Seller’s intent that such Capacity Resource be Self-Supply. Self-Supply may be either committed regardless of clearing price or submitted as a Sell Offer with a price bid. A Load Serving Entity’s Sell Offer with a price bid for an owned or contracted Capacity Resource shall not be deemed “Self-Supply,” unless it is designated as Self-Supply and used by the LSE to meet obligations under this Attachment or the Reliability Assurance Agreement.

### **2.65A Short-Term Resource Procurement Target**

“Short-Term Resource Procurement Target” shall mean, *for Delivery Years through May 31, 2018*, as to the PJM Region, for purposes of the Base Residual Auction, 2.5% of the PJM Region Reliability Requirement determined for such Base Residual Auction, for purposes of the First Incremental Auction, 2% of the of the PJM Region Reliability Requirement as calculated at the time of the Base Residual Auction; and, for purposes of the Second Incremental Auction, 1.5% of the of the PJM Region Reliability Requirement as calculated at the time of the Base Residual Auction; and, as to any Zone, an allocation of the PJM Region Short-Term Resource Procurement Target based on the Preliminary Zonal Forecast Peak Load, reduced by the amount of load served under the FRR Alternative. For any LDA, the LDA Short-Term Resource Procurement Target shall be the sum of the Short-Term Resource Procurement Targets of all Zones in the LDA.

### **2.65B Short-Term Resource Procurement Target Applicable Share**

“Short-Term Resource Procurement Target Applicable Share” shall mean, *for Delivery Years through May 31, 2018*: (i) for the PJM Region, as to the First and Second Incremental Auctions, 0.2 times the Short-Term Resource Procurement Target used in the Base Residual Auction and, as to the Third Incremental Auction for the PJM Region, 0.6 times such target; and (ii) for an LDA, as to the First and Second Incremental Auctions, 0.2 times the Short-Term Resource Procurement Target used in the Base Residual Auction for such LDA and, as to the Third Incremental Auction, 0.6 times such target.

#### **2.65B.01 Small Commercial Customer**

“Small Commercial Customer,” as used in Schedule 6 of the RAA and Attachment DD-1 of the Tariff, shall mean a commercial retail electric end-use customer of an electric distribution company that participates in a mass market demand response program under the jurisdiction of a RERRA and satisfies the definition of a “small commercial customer” under the terms of the applicable RERRA’s program, provided that the customer has an annual peak demand no greater than 100kW.

## **2.65C Sub-Annual Resource Price Decrement**

“Sub-Annual Resource Price Decrement” shall mean, for the 2017/2018 Delivery Year, a difference between the clearing price for Extended Summer Demand Resources and the clearing price for Annual Resources, representing the cost to procure additional Annual Resources out of merit order when the Sub-Annual Resource Constraint is binding.

## **2.66 Third Incremental Auction**

“Third Incremental Auction” shall mean an Incremental Auction conducted three months before the Delivery Year to which it relates.

## **2.67 [Reserved for Future Use]**

## **2.68 Unconstrained LDA Group**

“Unconstrained LDA Group” shall mean a combined group of LDAs that form an electrically contiguous area and for which a separate Variable Resource Requirement Curve has not been established under Section 5.10 of Attachment DD. Any LDA for which a separate Variable Resource Requirement Curve has not been established under Section 5.10 of Attachment DD shall be combined with all other such LDAs that form an electrically contiguous area.

## **2.69 Unforced Capacity**

“Unforced Capacity” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.69A Updated VRR Curve**

“Updated VRR Curve” shall mean the Variable Resource Requirement Curve as defined in section 5.10(a) of this Attachment for use in the Base Residual Auction of the relevant Delivery Year, updated to reflect any change in the Reliability Requirement from the Base Residual Auction to such Incremental Auction, *and for Delivery Years through May 31, 2018, the Short-term Resource Procurement Target applicable to the relevant Incremental Auction.*

## **2.69B Updated VRR Curve Increment**

“Updated VRR Curve Increment” shall mean the portion of the Updated VRR Curve to the right of a vertical line at the level of Unforced Capacity on the x-axis of such curve equal to the net Unforced Capacity committed to the PJM Region as a result of all prior auctions conducted for such Delivery Year *and adjusted, if applicable, by the reduction in Unforced Capacity commitments associated with the transition provision of section 5.14C of this Attachment DD.*

## **2.69C Updated VRR Curve Decrement**

“Updated VRR Curve Decrement” shall mean the portion of the Updated VRR Curve to the left of a vertical line at the level of Unforced Capacity on the x-axis of such curve equal to the net Unforced Capacity committed to the PJM Region as a result of all prior auctions conducted for such Delivery Year *and adjusted, if applicable, by the reduction in Unforced Capacity commitments associated with the transition provision of section 5.14C of this attachment DD.*

## **2.70 Variable Resource Requirement Curve**

“Variable Resource Requirement Curve” shall mean a series of maximum prices that can be cleared in a Base Residual Auction for Unforced Capacity, corresponding to a series of varying resource requirements based on varying installed reserve margins, as determined by the Office of the Interconnection for the PJM Region and for certain Locational Deliverability Areas in accordance with the methodology provided in Section 5.

### **2.70A WEEL Provider**

“WEEL Provider” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.70B Wholesale Energy Efficiency Load or WEEL**

“Wholesale Energy Efficiency Load or WEEL” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.70C Wholesale Entity**

“Wholesale Entity” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.70D Wholesale Load Reduction or WLR**

“Wholesale Load Reduction or WLR” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.70E WLR Bid**

“WLR Bid” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.70F WLR Bid Price**

“WLR Bid Price” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.70G WLR Load**

“WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.70H WLR Provider**

“WLR Provider” shall have the meaning specified in the Reliability Assurance Agreement.

**2.70I WLR Value**

“WLR Value” shall have the meaning specified in the Reliability Assurance Agreement.

**2.71 Zonal Capacity Price**

“Zonal Capacity Price” shall mean the clearing price required in each Zone to meet the demand for Unforced Capacity and satisfy Locational Deliverability Requirements for the LDA or LDAs associated with such Zone. 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. RESPONSIBILITIES OF THE OFFICE OF THE INTERCONNECTION**

#### **3.1 Support for Self-Supply and Bilateral Transactions**

The Office of the Interconnection shall:

(a) support electronic tools to facilitate communication by Market Sellers and Market Buyers of information to the Office of the Interconnection concerning Self-Supply arrangements;

(b) support an electronic bulletin board providing a forum for prospective buyers and sellers to transact Capacity Resources outside the Reliability Pricing Model Auctions, including Locational UCAP transactions (including mechanisms to allow prospective Sellers with partial-year resources to explore voluntary opportunities to combine their resources such that they can be offered together for a full Delivery Year) and support electronic tools to report bilateral capacity transactions and bilateral load reduction transactions between Market Participants to the Office of the Interconnection, in accordance with procedures set forth in the PJM Manuals; and

(c) define one or more capacity trading hubs and determine and publicize values for such hubs based on the capacity prices determined for one or more Locational Deliverability Areas, in accordance with the PJM Manuals.

#### **3.2 Administration of the Base Residual Auction and Incremental Auctions**

The Office of the Interconnection shall conduct and administer the Base Residual Auction and Incremental Auctions in accordance with this Attachment, the Operating Agreement, and the Reliability Assurance Agreement. Administration of the Base Residual Auction and Incremental Auctions shall include, but not be limited to, the following:

a) Determining the qualification of entities to become Capacity Market Sellers, ~~and~~ Capacity Market Buyers, and Wholesale Entities;

b) Determining PJM Region Peak Load Forecasts and Locational Deliverability Area Reliability Requirements;

c) Determining the Minimum Annual Resource Requirements and the Minimum Extended Summer Resource Requirements for the PJM Region and applicable LDAs for Delivery Years starting June 1, 2014 and ending May 31, 2017;

d) Determining Limited Resource Constraints and Sub-Annual Resource Constraints for the 2017/2018 Delivery Year;

e) *Determining Base Capacity Demand Resource Constraints, ~~and~~ Base Capacity Resource Constraints, and Base Capacity WLR Load Constraints for the 2018/2019 and 2019/2020 Delivery Years;*

- f) Determining the need, if any, for a Conditional Incremental Auction and providing appropriate prior notice of any such auction
- g) Calculating the EFORD for each Generation Capacity Resource in the PJM Region to be used in the Third Incremental Auction;
- h) Receiving WLR Bids, Buy Bids, and Sell Offers, determining Locational Deliverability Requirements and Variable Resource Requirement Curves, and determining the clearing price that reflects all such inputs;
- i) Conducting settlements for auction transactions, including but not limited to rendering bills to, receiving payments from, and disbursing payments to, participants in Base Residual Auctions and Incremental Auctions.
- j) Maintaining such records of WLR Bids, Sell Offers, and Buy Bids, clearing price determinations, and other aspects of auction transactions, as may be appropriate to the administration of Base Residual Auctions and Incremental Auctions; and
- k) Posting of selected non-confidential data used in Reliability Pricing Model Auctions to calculate clearing prices, WLR Values, and other auction results, as appropriate to inform market participants of auction conditions.

### 3.3 Records and Reports

The Office of the Interconnection shall prepare and maintain such records as are required for the administration of the Base Residual Auction and Incremental Auctions. For each auction conducted, the Office of the Interconnection shall, consistent with section 18.17 of the Operating Agreement, publish the following: (i) Zonal Capacity Prices for each LDA; (ii) Capacity Resource Clearing Prices for each LDA; (iii) Locational Price Adders; (iv) the total megawatts of Unforced Capacity that cleared; and (v) such other auction data as may be appropriate to the efficient and competitive conduct of the Base Residual Auction and Incremental Auctions. Such information shall be available on the PJM internet site through the end of the Delivery Year to which such auctions apply.

### 3.4 Counterparty

- (a) PJMSettlement shall be the Counterparty to the transactions arising from the cleared Base Residual Auctions and Incremental Auctions; provided, however, PJMSettlement shall not be a contracting party to (i) any bilateral transactions between Market Participants, or (ii) with respect to Self-Supply for which designation of Self-Supply has been reported to the Office of the Interconnection.
- (b) Charges. PJMSettlement shall be the Counterparty with respect to the obligations to pay, and the payment of, charges pursuant to this Attachment DD.

## **4. GENERAL PROVISIONS**

### **4.1 Capacity Market Sellers**

Only Capacity Market Sellers shall be eligible to submit Sell Offers into the Base Residual Auction and Incremental Auctions. Capacity Market Sellers shall comply with the terms and conditions of all Sell Offers, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M - Appendix and the Operating Agreement.

### **4.2 Capacity Market Buyers**

Only Capacity Market Buyers shall be eligible to submit Buy Bids into an Incremental Auction. Capacity Market Buyers shall comply with the terms and conditions of all Buy Bids, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M - Appendix and the Operating Agreement.

#### **4.2A Wholesale Entity**

Only Wholesale Entities shall be eligible to submit WLR Bids into a Base Residual Auction. Wholesale Entities shall comply with the terms and conditions of all WLR Bids, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M – Appendix, and the Reliability Assurance Agreement.

### **4.3 Agents**

A Capacity Market Seller or Wholesale Entity may participate in a Base Residual Auction or Incremental Auction through an Agent, provided that the Capacity Market Seller or Wholesale Entity informs the Office of the Interconnection in advance in writing of the appointment and authority of such Agent. A Capacity Market Buyer or Wholesale Entity may participate in an Incremental Auction through an Agent, provided that the Capacity Market Buyer informs the Office of the Interconnection in advance in writing of the appointment and authority of such Agent. A Wholesale Entity, Capacity Market Buyer, or Capacity Market Seller participating in such an auction through an Agent shall be bound by all of the acts or representations of such Agent with respect to transactions in such auction. Any written instrument establishing the authority of such Agent shall provide that any such Agent shall comply with the requirements of this Attachment, the Reliability Assurance Agreement, and the Operating Agreement, as applicable.

### **4.4 General Obligations of Wholesale Entities, Capacity Market Buyers, and Capacity Market Sellers**

Each Wholesale Entity, Capacity Market Buyer, and Capacity Market Seller shall comply with all laws and regulations applicable to the operation of the Base Residual and Incremental Auctions and the use of these auctions shall comply with all applicable provisions of this Attachment, Attachment M, Attachment M - Appendix, the Operating Agreement, and the Reliability Assurance Agreement, and all procedures and requirements for the conduct of the

Base Residual and Incremental Auctions and the PJM Region established by the Office of the Interconnection in accordance with the foregoing.

#### **4.5 Confidentiality**

The following information submitted to the Office of the Interconnection in connection with any Base Residual Auction, Incremental Auction, Reliability Backstop Auction, *or Capacity Performance Transition Incremental Auction* shall be deemed confidential information for purposes of Section 18.17 of the Operating Agreement, Attachment M and Attachment M - Appendix: (i) the terms and conditions of the WLR Bids, Sell Offers, and Buy Bids; and (ii) the terms and conditions of any bilateral transactions for Capacity Resources, Wholesale Load Reductions, or Wholesale Energy Efficiency Loads.

#### **4.6 Bilateral Capacity Transactions**

(a) Unit-Specific Internal Capacity Bilateral Transaction Transferring All Rights and Obligations (“Section 4.6(a) Bilateral”).

(i) Market Participants may enter into unit-specific internal bilateral capacity contracts for the purchase and sale of title and rights to a specified amount of installed capacity from a specific generating unit or units. Such bilateral capacity contracts shall be for the transfer of rights to capacity to and from a Market Participant and shall be reported to the Office of the Interconnection in accordance with this Attachment DD and the Office of the Interconnection’s rules related to its eRPM tools.

(ii) For purposes of clarity, with respect to all Section 4.6(a) Bilateral transactions, the rights to, and obligations regarding, the capacity that is the subject of the transaction shall pass to the buyer under the contract at the location of the unit and further transactions and rights and obligations associated with such capacity shall be the responsibility of the buyer under the contract. Such obligations include any charges, including penalty charges, relating to the capacity under this Attachment DD. In no event shall the purchase and sale of the rights to capacity pursuant to a Section 4.6(a) Bilateral constitute a transaction with the Office of the Interconnection or PJMSettlement or a transaction in any auction under this Attachment DD.

(iii) All payments and related charges associated with a Section 4.6(a) Bilateral shall be arranged between the parties to the transaction and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The Office of the Interconnection, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Section 4.6(a) Bilateral reported to the Office of the Interconnection under this Attachment DD.

(iv) With respect to capacity that is the subject of a Section 4.6(a) Bilateral that has cleared an auction under this Attachment DD prior to a transfer, the buyer of the cleared capacity shall be considered in the Delivery Year the party to a transaction with PJMSettlement as Counterparty for the cleared capacity at the Capacity Resource Clearing Price published for the applicable auction.



(v) A buyer under a Section 4.6(a) Bilateral contract shall pay any penalties or charges associated with the capacity transferred under the contract. To the extent the capacity that is the subject of a Section 4.6(a) Bilateral contract has cleared an auction under this Attachment DD prior to a transfer, then the seller under the contract also shall guarantee and indemnify the Office of the Interconnection, PJMSettlement, and the Members for the buyer's obligation to pay any penalties or charges associated with the capacity and for which payment is not made to PJMSettlement by the buyer as determined by the Office of the Interconnection. All claims regarding a default of a buyer to a seller under a Section 4.6(a) Bilateral contract shall be resolved solely between the buyer and the seller.

(vi) To the extent the capacity that is the subject of the Section 4.6(a) Bilateral transaction already has cleared an auction under this Attachment DD, such bilateral capacity transactions shall be subject to the prior consent of the Office of the Interconnection and its determination that sufficient credit is in place for the buyer with respect to the credit exposure associated with such obligations.

(b) Bilateral Capacity Transaction Transferring Title to Capacity But Not Transferring Performance Obligations ("Section 4.6(b) Bilateral").

(i) Market Participants may enter into bilateral capacity transactions for the purchase and sale of a specified megawatt quantity of capacity that has cleared an auction pursuant to this Attachment DD. The parties to a Section 4.6(b) Bilateral transaction shall identify (1) each unit from which the transferred megawatts are being sold, and (2) the auction in which the transferred megawatts cleared. Such bilateral capacity transactions shall transfer title and all rights with respect to capacity and shall be reported to the Office of the Interconnection on an annual basis prior to each Delivery Year in accordance with this Attachment DD and pursuant to the Office of the Interconnection's rules related to its eRPM tools. Reported transactions with respect to a unit will be accepted by the Office of the Interconnection only to the extent that the total of all bilateral sales from the reported unit (including Section 4.6(a) Bilaterals, Section 4.6(b) Bilaterals, and Locational UCAP bilaterals) do not exceed the unit's cleared unforced capacity.

(ii) For purposes of clarity, with respect to all Section 4.6(b) Bilateral transactions, the rights to the capacity shall pass to the buyer at the location of the unit(s) specified in the reported transaction. In no event shall the purchase and sale of the rights to capacity pursuant to a Section 4.6(b) Bilateral constitute a transaction with PJMSettlement or the Office of the Interconnection or a transaction in any auction under this Attachment DD.

(iii) With respect to a Section 4.6(b) Bilateral, the buyer of the cleared capacity shall be considered in the Delivery Year the party to a transaction with PJMSettlement as Counterparty for the cleared capacity at the Capacity Resource Clearing Price published for the applicable auction; provided, however, with respect to all Section 4.6(b) Bilateral transactions, such transactions do not effect a novation of the seller's obligations to make RPM capacity available to PJM pursuant to the terms and conditions originally agreed to by the seller; provided further, however, the buyer shall indemnify PJMSettlement, the LLC, and the Members for any

failure by a seller under a Section 4.6(b) Bilateral to meet any resulting obligations, including the obligation to pay deficiency penalties and charges owed to PJMSettlement, associated with the capacity.

(iv) All payments and related charges associated with a Section 4.6(b) Bilateral shall be arranged between the parties to the contract and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The Office of the Interconnection, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Section 4.6(b) Bilateral capacity contract reported to the Office of the Interconnection under this Attachment DD.

(v) All claims regarding a default of a buyer to a seller under a Section 4.6(b) Bilateral shall be resolved solely between the buyer and the seller.

(c) Locational UCAP Bilateral Transactions ~~Between Capacity Sellers.~~

(i) Market Participants may enter into Locational UCAP bilateral transactions as defined in, and pursuant to the rules set forth in, section 5.3A of this Attachment DD, which shall be reported to the Office of the Interconnection in accordance with this Attachment DD and the LLC's rules related to its eRPM tools.

(ii) For purposes of clarity, with respect to all Locational UCAP bilateral transactions, the rights to the Locational UCAP that are the subject of the Locational UCAP bilateral transaction shall pass to the buyer under the Locational UCAP bilateral contract subject to the provisions of section 5.3A. In no event, shall the purchase and sale of Locational UCAP pursuant to a Locational UCAP bilateral transaction constitute a transaction with the Office of the Interconnection or PJMSettlement, or a transaction in any auction under this Attachment DD.

(iii) A Locational UCAP Seller shall have the obligation to make the capacity available to PJM in the same manner as capacity that has cleared an auction under this Attachment DD and the Locational UCAP Seller shall have all obligations for charges and penalties associated with the capacity that is the subject of the Locational UCAP bilateral contract; provided, however, the buyer shall indemnify PJMSettlement, the LLC, and the Members for any failure by a seller to meet any resulting obligations, including the obligation to pay deficiency penalties and charges owed to PJMSettlement, associated with the capacity. All claims regarding a default of a buyer to a seller under a Locational UCAP bilateral contract shall be resolved solely between the buyer and the seller.

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

(d) The bilateral transactions provided for in this section 4.6 shall be for the physical transfer of capacity to or from a Market Participant and shall be reported to and coordinated with the Office of the Interconnection in accordance with this Attachment DD and pursuant to the Office of the Interconnection's rules relating to its eRPM tools. Bilateral transactions that do not contemplate the physical transfer of capacity to and from a Market Participant are not subject to this Attachment DD and shall not be reported to and coordinated with the Office of the Interconnection. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## 5.1 Introduction

In accordance with the Reliability Assurance Agreement, each Load Serving Entity is obligated to pay a Locational Reliability Charge for each Zone in which it serves load based on the Daily Unforced Capacity Obligation of its loads in such Zone. An LSE may offset the Locational Reliability charge for a Delivery Year, in whole or in part, by: (a) Self-Supply of Capacity Resources in the Base Residual Auction or an Incremental Auction; (b) offering and clearing Capacity Resources in the Base Residual Auction or an Incremental Auction (but only to the extent of the additional resources committed to meet Unforced Capacity Obligations through such Incremental Auction); (c) receiving payments from Capacity Transfer Rights; ~~or~~ (d) offering and clearing Qualifying Transmission Upgrades in the Base Residual Auction; or (e) bidding and clearing WLR Load(s) or Wholesale Energy Efficiency Load(s) in the Base Residual Auction.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## 5.2 Nomination of Self Supplied Capacity Resources

A Capacity Market Seller, including a Load Serving Entity, may designate a Capacity Resource as Self-Supply for a Delivery year by submitting a Sell Offer for such resource in the Base Residual Auction or an Incremental Auction in accordance with the procedure and time schedule set forth in the PJM Manuals. The LSE shall indicate its intent in the Sell Offer that the Capacity Resource be deemed Self-Supply and shall indicate whether it is committing the resource regardless of clearing price or with a price bid. Any such Sell Offer shall be subject to the minimum offer price rule set forth in section 5.14(h). Upon receipt of a Self-Supply Sell Offer, the Office of the Interconnection will verify that the designated Capacity Resource is available, in accordance with Section 5.6, and, if the LSE indicated that it is committing the resource regardless of clearing price, will treat such Capacity Resource as committed in the clearing process of the Reliability Pricing Model Auction for which it was offered for such Delivery Year. To address capacity obligation quantity uncertainty associated with the Variable Resource Requirement Curve, a Load Serving Entity may submit a Sell Offer with a contingent designation of a portion of its Capacity Resources as either Self-Supply (to the extent required to meet a portion (as specified by the LSE) of the LSE's peak load forecast in each transmission zone) or as not Self-Supply (to the extent not so required) and subject to an offer price, in accordance with the PJM Manuals. PJMSettlement shall not be the Counterparty with respect to a Capacity Resource designated as Self-Supply. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### 5.3A Locational UCAP Bilateral Transactions

A Member that has committed capacity or load reduction through an RPM Auction for a Delivery Year may purchase Locational UCAP as replacement capacity from a Member with available uncommitted capacity for such Delivery Year in accordance with the terms of this section and the PJM Manuals. Locational UCAP may not be sold or purchased prior to the date that the final EFORD is established for such Delivery Year, and if designated to PJM by the Locational UCAP Seller as sold prior to the Third Incremental Auction for a Delivery Year must be confirmed by the buyer prior to such Third Incremental Auction as purchased for replacement capacity, or such transaction shall be rejected. In accordance with procedures specified in the PJM Manuals, the parties to a Locational UCAP transaction must notify PJM of such transaction, which notification must specify: i) the buyer, ii) the Locational UCAP Seller, iii) the start and end dates of the transaction (which may not be retroactive), iv) the Locational UCAP amount (no less than 0.1 megawatts), v) the demand or generation resource with available uncommitted capacity that is the basis for the sale, and vi) the Locational Delivery Area in which the resource is located. The Locational UCAP Seller shall be responsible for any charges imposed under sections 7, 8, 9, 10, 10A, 11, or 13, as applicable, for such Delivery Year, with respect to the increment of capacity sold as Locational UCAP; any other settlement of charges under the Locational UCAP transaction shall be between the parties. A purchaser of Locational UCAP may not offer such capacity into an RPM Auction. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## 5.4 Reliability Pricing Model Auctions

The Office of the Interconnection shall conduct the following Reliability Pricing Model Auctions:

a) Base Residual Auction.

PJM shall conduct for each Delivery Year a Base Residual Auction to secure commitments of Capacity Resources, WLR Loads, and Wholesale Energy Efficiency Loads as needed to satisfy the portion of the RTO Unforced Capacity Obligation not satisfied through Self-Supply of Capacity Resources for such Delivery Year. All Self-Supply Capacity Resources must be offered in the Base Residual Auction. As set forth in section 6.6, all other Capacity Resources, and certain other existing generation resources, must be offered in the Base Residual Auction. The Base Residual Auction shall be conducted in the month of May that is three years prior to the start of such Delivery Year. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement from Load Serving Entities through the Locational Reliability Charge during such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and the payments, by Load Serving Entities; provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

b) Scheduled Incremental Auctions.

PJM shall conduct for each Delivery Year a First, a Second, and a Third Incremental Auction for the purposes set forth in section 2.34. The First Incremental Auction shall be conducted in the month of September that is twenty months prior to the start of the Delivery Year; the Second Incremental Auction shall be conducted in the month of July that is ten months prior to the start of the Delivery Year; and the Third Incremental Auction shall be conducted in the month of February that is three months prior to the start of the Delivery Year.

c) Adjustment through Scheduled Incremental Auctions of Capacity Previously Committed.

The Office of the Interconnection shall recalculate the PJM Region Reliability Requirement and each LDA Reliability Requirement prior to each Scheduled Incremental Auction, based on an updated peak load forecast, updated Installed Reserve Margin, WLR Bids that cleared in the Base Residual Auction for that Delivery Year, any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year, and an updated Capacity Emergency Transfer Objective; shall update such reliability requirements for the Third Incremental Auction to reflect any change from such recalculation; and shall update such reliability requirements for the First Incremental Auction or Second Incremental Auction only if the change is greater than or equal to the lesser of: (i) 500 MW or (ii) one percent of the applicable prior reliability requirement. Based on such update, the Office of the Interconnection shall, under certain conditions, seek through the Scheduled

Incremental Auction to secure additional commitments of capacity or release sellers from prior capacity commitments. Specifically, the Office of the Interconnection shall:

1) seek additional capacity commitments to serve the PJM Region or an LDA if the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year (including any reductions to such reliability requirements as a result of any WLR Bids that cleared in the Base Residual Auction for that Delivery Year and any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year) is less than, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; provided, however, that in the First Incremental Auction or Second Incremental Auction the Office of the Interconnection shall seek such additional capacity commitments only if such shortfall is in an amount greater than or equal to the lesser of: (i) 500 MW or (ii) one percent of the applicable prior reliability requirement;

LDA if:

2) seek additional capacity commitments to serve the PJM Region or an

i) the updated PJM Region Reliability Requirement less, *for Delivery Years through May 31, 2018*, the PJM Region Short-Term Resource Procurement Target utilized in the most recent auction conducted for the Delivery Year, or if the LDA Reliability Requirement less, *for Delivery Years through May 31, 2018*, the LDA Short Term Resource Procurement Target applicable to such auction, exceeds the total capacity committed in all prior auctions in such region or area, respectively, for such Delivery Year by an amount greater than or equal to the lesser of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement; or

ii) PJM conducts a Conditional Incremental Auction for such Delivery Year and does not obtain all additional commitments of Capacity Resources sought in such Conditional Incremental Auction, in which case, PJM shall seek in the Incremental Auction the commitments that were sought in the Conditional Incremental Auction but not obtained.

3) seek agreements to release prior capacity commitments to the PJM Region or to an LDA if:

i) the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year (including any reductions to such reliability requirements as a result of any WLR Bids that cleared in the Base Residual Auction for that Delivery Year and any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year) exceeds, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; provided, however, that in the First Incremental Auction or Second Incremental Auction the Office of the Interconnection shall seek such



agreements only if such excess is in an amount greater than or equal to the lesser of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement; or

ii) PJM obtains additional commitments of Capacity Resources in a Conditional Incremental Auction, in which case PJM shall seek release of an equal number of megawatts (comparing the total purchase amount for all LDAs and the PJM Region related to the delay in Backbone Transmission with the total sell amount for all LDAs and the PJM Region related to the delay in Backbone Transmission) of prior committed capacity that would not have been committed had the delayed Backbone Transmission upgrade that prompted the Conditional Incremental Auction not been assumed, at the time of the Base Residual Auction, to be in service for the relevant Delivery Year; and if PJM obtains additional commitments of capacity in an incremental auction pursuant to subsection c.2.ii above, PJM shall seek in such Incremental Auction to release an equal amount of capacity (in total for all LDAs and the PJM Region related to the delay in Backbone Transmission) previously committed that would not have been committed absent the Backbone Transmission upgrade.

4) The cost of payments to Market Sellers for additional Capacity Resources cleared in such auctions, and the credits from payments from Market Sellers for the release of previously committed Capacity Resources, shall be apportioned to Load Serving Entities in the PJM Region or LDA, as applicable, through adjustments to the Locational Reliability Charge for such Delivery Year.

5) PJMSettlement shall be the Counterparty to the sales (including releases) of Capacity Resources that clear in such auctions and to the obligations to pay, and the payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

d) Commitment of Replacement Capacity through Scheduled Incremental Auctions.

Each Scheduled Incremental Auction for each Delivery Year shall allow Capacity Market Sellers that committed Capacity Resources in any prior Reliability Pricing Model Auction for such Delivery Year and Wholesale Entities that committed WLR Loads or Wholesale Energy Efficiency Loads in the Base residual Auction for such Delivery Year to submit Buy Bids for replacement Capacity Resources. Capacity Market Sellers and Wholesale Entities that submit Buy Bids into an Incremental Auction must specify the type of Unforced Capacity desired, i.e., Annual Resource, Extended Summer Demand Resource, or Limited Demand Resource. The need to purchase replacement Capacity Resources may arise for any reason, including but not limited to resource retirement, resource cancellation or construction delay, resource derating, EFORd increase, a decrease in the Nominated Demand Resource Value of a Planned Demand Resource, delay or cancellation of a Qualifying Transmission Upgrade, a decrease in the Nominated WLR Quantity of a WLR Load, or similar occurrences. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement from Capacity Market Buyers and

| Wholesale Entities that purchase replacement Capacity Resources in such auction. PJMSettlement shall be the Counterparty to the sales and purchases that clear in such auction, provided, however, PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

e) Conditional Incremental Auction.

PJM shall conduct for any Delivery Year a Conditional Incremental Auction if the in service date of a Backbone Transmission Upgrade that was modeled in the Base Residual Auction is announced as delayed by the Office of the Interconnection beyond July 1 of the Delivery Year for which it was modeled and if such delay causes a reliability criteria violation. If conducted, the Conditional Incremental Auction shall be for the purpose of securing commitments of additional capacity for the PJM Region or for any LDA to address the identified reliability criteria violation. If PJM determines to conduct a Conditional Incremental Auction, PJM shall post on its website the date and parameters for such auction (including whether such auction is for the PJM Region or for an LDA, *and the type of Capacity Resources required*) at least one month prior to the start of such auction. The cost of payments to Market Sellers for Capacity Resources cleared in such auction shall be collected by PJMSettlement from Load Serving Entities in the PJM Region or LDA, as applicable, through an adjustment to the Locational Reliability Charge for such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

## 5.5 Eligibility for Participation in RPM Auctions

A Capacity Market Seller may submit a Sell Offer for a Capacity Resource in a Base Residual Auction, Incremental Auction, or Capacity Performance Transition Incremental Auction only if such seller owns or has the contractual authority to control the output or load reduction capability of such resource and has not transferred such authority to another entity *prior to submitting such Sell Offer*. Capacity Resources must satisfy the capability and deliverability requirements of Schedules 9 and 10 of the PJM Reliability Assurance Agreement, the requirements for Demand Resources or Energy Efficiency Resources in Attachment DD-1 and Schedule 6 of the Reliability Assurance Agreement, *as applicable, and, for the 2018/2019 Delivery Year and subsequent Delivery Years, the criteria in section 5.5A.*

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **5.5A Capacity Resource Types**

### **a) Capacity Performance Resources**

*Capacity Performance Resources are Capacity Resources which, to the extent such resources cleared in a Reliability Pricing Model Auction or are otherwise committed as a Capacity Resource, are obligated to deliver energy during the relevant Delivery Year as scheduled and/or dispatched by the Office of Interconnection during the Performance Assessment Hours. As further detailed in Section 10A of this Attachment, Capacity Performance Resources that fail to meet this obligation will be subject to a Non-Performance Assessment Charge, unless excused pursuant to Section 10A(d) of this Attachment. Subject to 5.5A(a)(i)-(ii), the following types of Capacity Resources are eligible to submit a Sell Offer as a Capacity Performance Resource: internal or external Generation Capacity Resources; Annual Demand Resources; Capacity Storage Resources; Annual Energy Efficiency Resources; and Qualifying Transmission Upgrades. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.*

#### **i). Capacity Performance Resource Sell Offer Representations**

*In submitting a Sell Offer for a Capacity Performance Resource in an RPM Auction for a Delivery Year, a Capacity Market Seller is representing that it:*

- A. has made, or is capable of demonstrating that it will make, the necessary investment to ensure the Capacity Resource has the capability for the entire such Delivery Year to provide energy at any time when called upon by the Office of the Interconnection;*
- B. shall be capable of complying with the performance obligations specified in this Attachment DD and in Schedule 1 of the Operating Agreement by the relevant Delivery Year;*
- C. meets the criteria for obtaining an exception to the Capacity Import Limit as contained in section 1.7A of the Reliability Assurance Agreement, to the extent the underlying Capacity Resource is an external Generation Capacity Resource; and*
- D. contemplates the physical delivery of the Capacity Performance Resource underlying such Sell Offer by no later than the commencement of the applicable Delivery Year. A Sell Offer shall not meet the standard of physical delivery, for purposes of this section, if at the time it is submitted in an RPM Auction, the Capacity Market Seller intends to satisfy its obligation for the*

*applicable Delivery Year by subsequently securing a replacement Capacity Performance Resource through either an Incremental Auction or bilateral transaction(s). Capacity Market Sellers acknowledge and agree that the Office of the Interconnection will rely on this representation to meet the physical capacity resource adequacy objectives upon which RPM is based. A Capacity Market Seller that is unable to make such representation shall not submit a Sell Offer for that resource into an RPM Auction. Capacity Market Sellers are cautioned that representations made hereunder that are knowingly false or otherwise inconsistent with the requirements of this section may constitute a violation of, and may subject the Capacity Market Seller to penalties under, the PJM Market Rules and the FERC Market Rules.*

**ii). *Process for Support and Review of Capacity Performance Resource Offers***

- A. The Capacity Market Seller shall provide to the Office of the Interconnection and the Market Monitoring Unit, upon their request, all supporting data and information requested by either the Office of the Interconnection or the Market Monitoring Unit to evaluate whether the underlying Capacity Resource can meet the operational and performance requirements of Capacity Performance Resources. 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.*
- B. The Office of the Interconnection and the Market Monitoring Unit shall review any requested supporting data and information, and the Office of the Interconnection, considering advice and recommendation from the Market Monitoring Unit, shall reject a request for a resource to offer as a Capacity Performance Resource if the Capacity Market Seller does not demonstrate to the satisfaction of the Office of the Interconnection that the resource meets the necessary requirements. The Office of Interconnection shall provide its determination to reject eligibility of the resource as a Capacity Performance Resource, and notify the Market Monitoring Unit, by no later than sixty-five (65) days prior to the date on which the offer period for the applicable RPM Auction commences. 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.*

**b) *Base Capacity Resources***

*For the 2018/2019 and 2019/2020 Delivery Years, following types of Capacity Resources*

*eligible to submit a Sell Offer as a Base Capacity Resource: Generation Capacity Resources, Capacity Storage Resources, Annual Demand Resources, Base Capacity Demand Resources, and Base Capacity Energy Efficiency Resources. Each resource that clears a RPM Auction as a Base Capacity Resource must provide energy output to PJM if called during Performance Assessment Hours occurring in the calendar months of June through September, including any necessary recall of such capacity and energy from service to areas outside the PJM Region. As further detailed in Section 10A of this Attachment, Base Capacity Resources that fail to meet this obligation will be subject to a Non-Performance Assessment Charge, unless excused pursuant to Section 10A(d) of this section.* Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## 5.6 Sell Offers

Sell Offers shall be submitted or withdrawn via the internet site designated by the Office of the Interconnection, *under* the procedures and time schedule set forth in the PJM Manuals.

### 5.6.1 Specifications

A Sell Offer shall state quantities in increments of 0.1 megawatts and shall specify, as appropriate:

- a) Identification of the Generation Capacity Resource, Demand Resource, *Capacity Storage Resource* or Energy Efficiency Resource on which such Sell Offer is based;
- b) Minimum and maximum megawatt quantity of installed capacity that the Capacity Market Seller is willing to offer (notwithstanding such specification, the product offered shall be Unforced Capacity), or designate as Self-Supply, from a Generation Capacity Resource;
  - i) Price, in dollars and cents per megawatt-day, that will be accepted by the Capacity Market Seller for the megawatt quantity of Unforced Capacity offered from such Generation Capacity Resource.
  - ii) The Sell Offer may take the form of offer segments with varying price-quantity pairs for varying output levels from the underlying resource, but may not take the form of an offer curve with nonzero slope.
- c) EFORD of each Generation Capacity Resource offered.
  - i) If a Capacity Market Seller is offering such resource in a Base Residual Auction, First Incremental Auction, Second Incremental Auction, or Conditional Incremental Auction occurring before the Third Incremental Auction, the Capacity Market Seller shall specify the EFORD to apply to the offer.
  - ii) If a Capacity Market Seller is committing the resource as Self-Supply, the Capacity Market Seller shall specify the EFORD to apply to the commitment.
  - iii) The EFORD applied to the Third Incremental Auction will be the final EFORD established by the Office of the Interconnection six (6) months prior to the Delivery Year, based on the actual EFORD in the PJM Region during the 12-month period ending September 30 that last precedes such Delivery Year.
- d) The Nominated Demand Resource Value for each Demand Resource offered and the Nominated Energy Efficiency Value for each Energy Efficiency Resource offered. The Office of the Interconnection shall, in both cases, convert such value to an Unforced Capacity basis by multiplying such value by the DR Factor (*for Delivery Years through May 31, 2018*) times the Forecast Pool Requirement. Demand Resources shall specify the LDA in which the

Demand Resource is located, including the location of such resource within any Zone that includes more than one LDA as identified on Schedule 10.1 of the RAA.

e) *For Delivery Years through May 31, 2018, a Demand Resource with the potential to qualify as two or more of a Limited Demand Resource, Extended Summer Demand Resource or Annual Demand Resource may submit separate but coupled Sell Offers for each Demand Resource type for which it qualifies at different prices and the auction clearing algorithm will select the Sell Offer that yields the least-cost solution. For such coupled Demand Resource offers, the offer price of an Annual Demand Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Extended Summer Demand Resource offer and the offer price of a Extended Summer Demand Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Limited Demand Resource offer.*

f) *For a Qualifying Transmission Upgrade, the Sell Offer shall identify such upgrade, and the Office of the Interconnection shall determine and certify the increase in CETL provided by such upgrade. The Capacity Market Seller may offer the upgrade with an associated increase in CETL to an LDA in accordance with such certification, including an offer price that will be accepted by the Capacity Market Seller, stated in dollars and cents per megawatt-day as a price difference between a Capacity Resource located outside such an LDA and a Capacity Resource located inside such LDA; and the increase in CETL into such LDA to be provided by such Qualifying Transmission Upgrade, as certified by the Office of the Interconnection.*

g) *For the 2018/2019 and 2019/2020 Delivery Years, each Capacity Market Seller owning or controlling a resource that qualifies as both a Base Capacity Resource and a Capacity Performance Resource may submit separate but coupled Sell Offers for such resource as a Base Capacity Resource and as a Capacity Performance Resource, at different prices, and the auction clearing algorithm will select the Sell Offer that yields the least-cost solution. Submission of a coupled Base Capacity Resource Sell Offer shall be mandatory for any Capacity Performance Resource Sell Offer that exceeds a Sell Offer Price equal to the applicable Net Cost of New Entry. For such coupled Sell Offers, the offer price of a Capacity Performance Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Base Capacity Resource offer.*

(h) *For the 2018/2019 Delivery Year and subsequent Delivery Years, a Capacity Market Seller that owns or controls one or more Capacity Storage Resources, Intermittent Resources, Demand Resources, or Energy Efficiency Resources located within the same Locational Deliverability Area may submit a Sell Offer which represents the aggregated Unforced Capacity value of such resources. For the 2018/2019 and 2019/2020 Delivery Years, any such offer may be submitted as Capacity Performance Resource, Base Capacity Resource, or as a coupled offer for Capacity Performance Resource and Base Capacity Resource, provided that, for any such coupled Sell Offers, the offer price of a Capacity Performance Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Base Capacity Resource offer. For the 2020/2021 Delivery Year and subsequent Delivery Years, any such offer must be submitted as a Capacity Performance Resource.*

|



(i) Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **5.6.2 Compliance with PJM Credit Policy**

Capacity Market Sellers shall comply with the provisions of the PJM Credit Policy as set forth in Attachment Q to this Tariff, including the provisions specific to the Reliability Pricing Model, prior to submission of Sell Offers in any Reliability Pricing Model Auction. A Capacity Market Seller desiring to submit a Credit-Limited Offer shall specify in its Sell Offer the maximum auction credit requirement, in dollars, and the maximum amount of Unforced Capacity, in megawatts, applicable to its Sell Offer.

#### **5.6.3 [reserved]**

#### **5.6.4 Qualifying Transmission Upgrades**

A Qualifying Transmission Upgrade may not be the subject of any Sell Offer in a Base Residual Auction unless it has been approved by the Office of the Interconnection, including certification of the increase in Import Capability to be provided by such Qualifying Transmission Upgrade, no later than 45 days prior to such Base Residual Auction. No such approval shall be granted unless, at a minimum, a Facilities Study Agreement has been executed with respect to such upgrade, and such upgrade conforms to all applicable standards of the Regional Transmission Expansion Plan process.

#### **5.6.5 Market-based Sell Offers**

Subject to section 6, a Market Seller authorized by FERC to sell electric generating capacity at market-based prices, or that is not required to have such authorization, may submit Sell Offers that specify market-based prices in any Base Residual Auction or Incremental Auction.

#### **5.6.6 Availability of Capacity Resources for Sale**

(a) The Office of the Interconnection shall determine the quantity of megawatts of available installed capacity that each Capacity Market Seller must offer in any RPM Auction pursuant to Section 6.6 of Attachment DD, through verification of the availability of megawatts of installed capacity from: (i) all Generation Capacity Resources owned by or under contract to the Capacity Market Seller, including all Generation Capacity Resources obtained through bilateral contract; (ii) the results of prior Reliability Pricing Model Auctions, if any, for such Delivery Year (including consideration of any restriction imposed as a consequence of a prior failure to offer); and (iii) such other information as may be available to the Office of the Interconnection. The Office of the Interconnection shall reject Sell Offers or portions of Sell Offers for Capacity Resources in excess of the quantity of installed capacity *from such Capacity Market Seller's Capacity Resource* that it determines to be available for sale.

(b) The Office of the Interconnection shall determine the quantity of installed capacity available for sale in a Base Residual Auction or Incremental Auction as of the beginning of the period during which Buy Bids and Sell Offers are accepted for such auction, as applicable, in accordance with the time schedule set forth in the PJM Manuals. Removal of a resource from Capacity Resource status shall not be reflected in the determination of available installed capacity unless the associated unit-specific bilateral transaction is approved, the designation of such resource (or portion thereof) as a network resource for the external load is demonstrated to the Office of the Interconnection, or equivalent evidence of a firm external sale is provided prior to the deadline established therefor. The determination of available installed capacity shall also take into account, as they apply in proportion to the share of each resource owned or controlled by a Capacity Market Seller, any approved capacity modifications, and existing capacity commitments established in a prior RPM Auction, an FRR Capacity Plan, Locational UCAP transactions and/or replacement capacity transactions under this Attachment DD. To enable the Office of the Interconnection to make this determination, no bilateral transactions for Capacity Resources applicable to the period covered by an auction will be processed from the beginning of the period for submission of Sell Offers and Buy Bids, as appropriate, for that auction until completion of the clearing determination for such auction. Processing of such bilateral transactions will reconvene once clearing for that auction is completed. A Generation Capacity Resource located in the PJM Region shall not be removed from Capacity Resource status to the extent the resource is committed to service of PJM loads as a result of an RPM Auction, FRR Capacity Plan, Locational UCAP transaction and/or by designation as a replacement resource under this Attachment DD.

(c) In order for a bilateral transaction for the purchase and sale of a Capacity Resource to be processed by the Office of the Interconnection, both parties to the transaction must notify the Office of the Interconnection of the transfer of the Capacity Resource from the seller to the buyer in accordance with procedures established by the Office of the Interconnection and set forth in the PJM Manuals. If a material change with respect to any of the prerequisites for the application of Section 5.6.6 to the Generation Capacity Resource occurs, the Capacity Resource Owner shall immediately notify the Market Monitoring Unit and the Office of the Interconnection.

## **5.9 Time Standard**

| All deadlines for the submission or withdrawal of Sell Offers, WLR Bids, or Buy Bids, or for other purposes specified in this Attachment, shall be determined by the prevailing time observed in the Eastern Time zone.

## 5.10 Auction Clearing Requirements

The Office of the Interconnection shall clear each Base Residual Auction and Incremental Auction for a Delivery Year in accordance with the following:

a) Variable Resource Requirement Curve

The Office of the Interconnection shall determine Variable Resource Requirement Curves for the PJM Region and for such Locational Deliverability Areas as determined appropriate in accordance with subsection (a)(iii) for such Delivery Year to establish the level of Capacity Resources that will provide an acceptable level of reliability consistent with the Reliability Principles and Standards. It is recognized that the variable resource requirement reflected in the Variable Resource Requirement Curve can result in an optimized auction clearing in which the level of Capacity Resources committed for a Delivery Year exceeds the PJM Region Reliability Requirement (*for Delivery Years through May 31, 2018*, less the Short-Term Resource Procurement Target) or Locational Deliverability Area Reliability Requirement (*for Delivery Year through May 31, 2018*, less the Short-Term Resource Procurement Target for the Zones associated with such LDA) for such Delivery Year. For any auction, the Updated Forecast Peak Load, and Short-Term Resource Procurement Target applicable to such auction, shall be used, and Price Responsive Demand from any applicable approved PRD Plan, including any associated PRD Reservation Prices, shall be reflected in the derivation of the Variable Resource Requirement Curves, in accordance with the methodology specified in the PJM Manuals.

i) Methodology to Establish the Variable Resource Requirement Curve

Prior to the Base Residual Auction, in accordance with the schedule in the PJM Manuals, the Office of the Interconnection shall establish the Variable Resource Requirement Curve for the PJM Region as follows:

- Each Variable Resource Requirement Curve shall be plotted on a graph on which Unforced Capacity is on the x-axis and price is on the y-axis;
- For the 2015/2016, 2016/2017, and 2017/2018 Delivery Years, the Variable Resource Requirement Curve for the PJM Region shall be plotted by combining (i) a horizontal line from the y-axis to point (1), (ii) a straight line connecting points (1) and (2), (iii) a straight line connecting points (2) and (3), and (iv) a vertical line from point (3) to the x-axis, where:
  - For point (1), price equals: {the greater of [the Cost of New Entry] or [1.5 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)]} divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus the approved PJM Region Installed Reserve Margin (“IRM”)% minus 3%) divided by (100% plus IRM%)], *and for Delivery Years*

*through May 31, 2018, minus the Short-Term Resource Procurement Target;*

- For point (2), price equals: (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset) divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 1%) divided by (100% plus IRM%)], *and for Delivery Years through May 31, 2018, minus the Short-Term Resource Procurement Target; and*
- For point (3), price equals [0.2 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)] divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 5%) divided by (100% plus IRM%)], *and for Delivery Years through May 31, 2018, minus the Short-Term Resource Procurement Target;*
- For the 2018/2019 Delivery Year and subsequent Delivery Years, the Variable Resource Requirement Curve for the PJM Region shall be plotted by combining (i) a horizontal line from the y-axis to point (1), (ii) a straight line connecting points (1) and (2), and (iii) a straight line connecting points (2) and (3), where:
  - For point (1), price equals: {the greater of [the Cost of New Entry] or [1.5 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)]} divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus the approved PJM Region Installed Reserve Margin (“IRM”) % minus 0.2%) divided by (100% plus IRM%)] minus the Short-Term Resource Procurement Target;
  - For point (2), price equals: [0.75 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)] divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 2.9%) divided by (100% plus IRM%)] minus the Short-Term Resource Procurement Target; and
  - For point (3), price equals zero and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 8.8%) divided by (100% plus IRM%)] minus the Short-Term Resource Procurement Target.

ii) For any Delivery Year, the Office of the Interconnection shall establish a separate Variable Resource Requirement Curve for each LDA for which:

- A. the Capacity Emergency Transfer Limit is less than 1.15 times the Capacity Emergency Transfer Objective, as determined by the Office of the Interconnection in accordance with NERC and Applicable Regional Entity guidelines; or
- B. such LDA had a Locational Price Adder in any one or more of the three immediately preceding Base Residual Auctions; or
- C. such LDA is determined in a preliminary analysis by the Office of the Interconnection to be likely to have a Locational Price Adder, based on historic offer price levels; provided however that for the Base Residual Auction conducted for the Delivery Year commencing on June 1, 2012, the Eastern Mid-Atlantic Region (“EMAR”), Southwest Mid-Atlantic Region (“SWMAR”), and Mid-Atlantic Region (“MAR”) LDAs shall employ separate Variable Resource Requirement Curves regardless of the outcome of the above three tests; and provided further that the Office of the Interconnection may establish a separate Variable Resource Requirement Curve for an LDA not otherwise qualifying under the above three tests if it finds that such is required to achieve an acceptable level of reliability consistent with the Reliability Principles and Standards, in which case the Office of the Interconnection shall post such finding, such LDA, and such Variable Resource Requirement Curve on its internet site no later than the March 31 last preceding the Base Residual Auction for such Delivery Year. The same process as set forth in subsection (a)(i) shall be used to establish the Variable Resource Requirement Curve for any such LDA, except that the Locational Deliverability Area Reliability Requirement for such LDA shall be substituted for the PJM Region Reliability Requirement and, *for Delivery Years through May 31, 2018*, the LDA Short-Term Resource Procurement Target shall be substituted for the PJM Region Short-Term Resource Procurement Target. For purposes of calculating the Capacity Emergency Transfer Limit under this section, all generation resources located in the PJM Region that are, or that qualify to become, Capacity Resources, shall be modeled at their full capacity rating, regardless of the amount of capacity cleared from such resource for the immediately preceding Delivery Year.

For each such LDA, for the 2018/2019 Delivery Year and subsequent Delivery Years, the Office of the Interconnection shall (a) determine the Net Cost of New Entry for each Zone in such LDA, with such Net Cost of New Entry equal to the applicable Cost of New Entry value for such Zone minus the Net Energy and Ancillary Services Revenue Offset value for such Zone, and (b) compute the average of the Net Cost of New Entry

values of all such Zones to determine the Net Cost of New Entry for such LDA; provided however, that the Net Cost of New Entry for an LDA may be greater than, but shall be no less than, the Net Cost of New Entry determined for any other LDA in which the first LDA resides (immediately or successively) including the Net Cost of New Entry for the RTO. The Net Cost of New Entry for use in an LDA in any Incremental Auction for the 2015/2016, 2016/2017, and 2017/2018 Delivery Years shall be the Net Cost of New Entry used for such LDA in the Base Residual Auction for such Delivery Year.

iii) Procedure for ongoing review of Variable Resource Requirement Curve shape.

Beginning with the Delivery Year that commences June 1, 2018, and continuing no later than for every fourth Delivery Year thereafter, the Office of the Interconnection shall perform a review of the shape of the Variable Resource Requirement Curve, as established by the requirements of the foregoing subsection. Such analysis shall be based on simulation of market conditions to quantify the ability of the market to invest in new Capacity Resources and to meet the applicable reliability requirements on a probabilistic basis. Based on the results of such review, PJM shall prepare a recommendation to either modify or retain the existing Variable Resource Requirement Curve shape. The Office of the Interconnection shall post the recommendation and shall review the recommendation through the stakeholder process to solicit stakeholder input. If a modification of the Variable Resource Requirement Curve shape is recommended, the following process shall be followed:

- A) If the Office of the Interconnection determines that the Variable Resource Requirement Curve shape should be modified, Staff of the Office of the Interconnection shall propose a new Variable Resource Requirement Curve shape on or before May 15, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
- B) The PJM Members shall review the proposed modification to the Variable Resource Requirement Curve shape.
- C) The PJM Members shall either vote to (i) endorse the proposed modification, (ii) propose alternate modifications or (iii) recommend no modification, by August 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
- D) The PJM Board of Managers shall consider a proposed modification to the Variable Resource Requirement Curve shape, and the Office of the Interconnection shall file any approved modified Variable Resource Requirement Curve shape 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.

iv) Cost of New Entry

- A) For the Incremental Auctions for the 2015/2016, 2016/2017, and 2017/2018 Delivery Years, the Cost of New Entry for the PJM Region and for each LDA shall be the respective value used in the Base Residual Auction for such Delivery Year and LDA. For the Delivery Year commencing on June 1, 2018, and continuing thereafter unless and until changed pursuant to subsection (B) below, the Cost of New Entry for the PJM Region shall be the average of the Cost of New Entry for each CONE Area listed in this section as adjusted pursuant to subsection (a)(iv)(B).

<b>Geographic Location Within the PJM Region Encompassing These Zones</b>	<b>Cost of New Entry in \$/MW-Year</b>
PS, JCP&L, AE, PECO, DPL, RECO (“CONE Area 1”)	132,200
BGE, PEPCO (“CONE Area 2”)	130,300
AEP, Dayton, ComEd, APS, DQL, ATSI, DEOK, EKPC, Dominion (“CONE Area 3”)	128,900
PPL, MetEd, Penelec (“CONE Area 4”)	130,300

- B) Beginning with the 2019/2020 Delivery Year, the CONE for each CONE Area shall be adjusted to reflect changes in generating plant construction costs based on changes in the Applicable United States Bureau of Labor Statistics (“BLS”) Composite Index, in accordance with the following:

(1) The Applicable BLS Composite Index for any Delivery Year and CONE Area shall be the most recently published twelve-month change, at the time CONE values are required to be posted for the Base Residual Auction for such Delivery Year, in a composite of the BLS Quarterly Census of Employment and Wages for Utility System Construction (weighted 20%), the BLS Producer Price Index for Construction Materials and Components (weighted 50%), and the BLS Producer Price Index Turbines and Turbine Generator Sets (weighted 30%), as each such index is further specified for each CONE Area in the PJM Manuals.

(2) The CONE in a CONE Area shall be adjusted prior to the Base Residual Auction for each Delivery Year by applying the Applicable BLS Composite Index for such CONE Area to the Benchmark CONE for such CONE Area.



(3) The Benchmark CONE for a CONE Area shall be the CONE used for such CONE Area in the Base Residual Auction for the prior Delivery Year (provided, however that the Gross CONE values stated in subsection (a)(iv)(A) above shall be the Benchmark CONE values for the 2018/2019 Delivery Year to which the Applicable BLS Composite Index shall be applied to determine the CONE for subsequent Delivery Years).

(4) Notwithstanding the foregoing, CONE values for any CONE Area for any Delivery Year shall be subject to amendment pursuant to appropriate filings with FERC under the Federal Power Act, including, without limitation, any filings resulting from the process described in section 5.10(a)(vi)(C) or any filing to establish new or revised CONE Areas.

v) Net Energy and Ancillary Services Revenue Offset

- A) The Office of the Interconnection shall determine the Net Energy and Ancillary Services Revenue Offset each year for the PJM Region as (A) the annual average of the revenues that would have been received by the Reference Resource from the PJM energy markets during a period of three consecutive calendar years preceding the time of the determination, based on (1) the heat rate and other characteristics of such Reference Resource; (2) fuel prices reported during such period at an appropriate pricing point for the PJM Region with a fuel transmission adder appropriate for such region, as set forth in the PJM Manuals, assumed variable operation and maintenance expenses for such resource of \$6.47 per MWh, and actual PJM hourly average Locational Marginal Prices recorded in the PJM Region during such period; and (3) an assumption that the Reference Resource would be dispatched for both the Day-Ahead and Real-Time Energy Markets on a Peak-Hour Dispatch basis; plus (B) ancillary service revenues of \$2,199 per MW-year.
- B) For the Incremental Auctions for the 2015/2016, 2016/2017 and 2017/2018 Delivery Years, the Office of the Interconnection will employ for purposes of the Variable Resource Requirement Curves for such Delivery Years the same calculations of the sub-regional Net Energy and Ancillary Services Revenue Offsets that were used in the Base Residual Auctions for such Delivery year and sub-region. For the 2018/2019 Delivery Year and subsequent Delivery Years, the Office of the Interconnection also shall determine a Net Energy and Ancillary Service Revenue Offset each year for each Zone, using the same procedures and methods as set forth in the previous subsection; provided, however, that: (1) the average hourly LMPs for such Zone shall be used in place of the PJM Region average hourly LMPs; (2) if such Zone was not integrated into the PJM Region for the entire applicable period, then the offset shall be calculated using only those whole calendar

years during which the Zone was integrated; and (3) a posted fuel pricing point in such Zone, if available, and (if such pricing point is not available in such Zone) a fuel transmission adder appropriate to such Zone from an appropriate PJM Region pricing point shall be used for each such Zone.

## Curve

### vi) Process for Establishing Parameters of Variable Resource Requirement

- A) The parameters of the Variable Resource Requirement Curve will be established prior to the conduct of the Base Residual Auction for a Delivery Year and will be used for such Base Residual Auction.
- B) The Office of the Interconnection shall determine the PJM Region Reliability Requirement and the Locational Deliverability Area Reliability Requirement for each Locational Deliverability Area for which a Variable Resource Requirement Curve has been established for such Base Residual Auction on or before February 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values will be applied, in accordance with the Reliability Assurance Agreement.
- C) Beginning with the Delivery Year that commences June 1, 2018, and continuing no later than for every fourth Delivery Year thereafter, the Office of the Interconnection shall review the calculation of the Cost of New Entry for each CONE Area.
  - 1) If the Office of the Interconnection determines that the Cost of New Entry values should be modified, the Staff of the Office of the Interconnection shall propose new Cost of New Entry values on or before May 15, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
  - 2) The PJM Members shall review the proposed values.
  - 3) The PJM Members shall either vote to (i) endorse the proposed values, (ii) propose alternate values or (iii) recommend no modification, by August 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
  - 4) The PJM Board of Managers shall consider Cost of New Entry values, and the Office of the Interconnection shall file any approved modified Cost of New Entry values 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.

- D) Beginning with the Delivery Year that commences June 1, 2018, and continuing no later than for every fourth Delivery Year thereafter, the Office of the Interconnection shall review the methodology set forth in this Attachment for determining the Net Energy and Ancillary Services Revenue Offset for the PJM Region and for each Zone.
  - 1) If the Office of the Interconnection determines that the Net Energy and Ancillary Services Revenue Offset methodology should be modified, Staff of the Office of the Interconnection shall propose a new Net Energy and Ancillary Services Revenue Offset methodology on or before May 15, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new methodology would be applied.
  - 2) The PJM Members shall review the proposed methodology.
  - 3) The PJM Members shall either vote to (i) endorse the proposed methodology, (ii) propose an alternate methodology or (iii) recommend no modification, by August 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new methodology would be applied.
  - 4) The PJM Board of Managers shall consider the Net Revenue Offset methodology, and the Office of the Interconnection shall file any approved modified Net Energy and Ancillary Services Revenue Offset values 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.

b) Locational Requirements

The Office of Interconnection shall establish locational requirements prior to the Base Residual Auction to quantify the amount of Unforced Capacity that must be committed in each Locational Deliverability Area, in accordance with the PJM Reliability Assurance Agreement.

c) Resource Requirements and Constraints

Prior to the Base Residual Auction and each Incremental Auction for the Delivery Years starting on June 1, 2014 and ending May 31, 2017, the Office of the Interconnection shall establish the Minimum Annual Resource Requirement and the Minimum Extended Summer Resource Requirement for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. Prior to the Base Residual Auction and Incremental Auctions for ~~the 2017/2018~~ Delivery Year, the Office of the Interconnection shall establish the Limited Resource Constraints and the Sub-Annual Resource Constraints for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. *Prior to the Base Residual Auction and Incremental Auctions for 2018/2019 and 2019/2020 Delivery Years, the Office of the Interconnection shall establish the Base Capacity Demand Resource Constraints, ~~and~~ the Base Capacity Resource Constraints, and the Base Capacity WLR Load Constraints for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year.* Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

d) Preliminary PJM Region Peak Load Forecast for the Delivery Year

The Office of the Interconnection shall establish the Preliminary PJM Region Load Forecast for the Delivery Year in accordance with the PJM Manuals by February 1, prior to the conduct of the Base Residual Auction for such Delivery Year.

e) Updated PJM Region Peak Load Forecasts for Incremental Auctions

The Office of the Interconnection shall establish the updated PJM Region Peak Load Forecast for a Delivery Year in accordance with the PJM Manuals by February 1, prior to the conduct of the First, Second, and Third Incremental Auction for such Delivery Year.

## 5.11 Posting of Information Relevant to the RPM Auctions

a) In accordance with the schedule provided in the PJM Manuals, PJM will post the following information for a Delivery Year prior to conducting the Base Residual Auction for such Delivery Year:

i) The Preliminary PJM Region Peak Load Forecast (for the PJM Region, and allocated to each Zone);

ii) The PJM Region Installed Reserve Margin, the Pool-wide average EFORD, the Forecast Pool Requirement, *and all applicable Capacity Import Limits*;

iii) *For the Delivery Years through May 31, 2018*, the Demand Resource Factor;

iv) The PJM Region Reliability Requirement, and the Variable Resource Requirement Curve for the PJM Region, including the details of any adjustments to account for Price Responsive Demand and any associated PRD Reservation Prices;

v) The Locational Deliverability Area Reliability Requirement and the Variable Resource Requirement Curve for each Locational Deliverability Area for which a separate Variable Resource Requirement Curve has been established for such Base Residual Auction, including the details of any adjustments to account for Price Responsive Demand and any associated PRD Reservation Prices, and the CETO and CETL values for all Locational Deliverability Areas;

vi) For the 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 PJM is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year; and for the 2017/2018 Delivery Year, the Limited Resource Constraints and the Sub-Annual Resource Constraints for the PJM Region and for each Locational Deliverability Area for which PJM is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. *For the 2018/2019 and 2019/2020 Delivery Years, the Office of the Interconnection shall establish the Base Capacity Demand Resource Constraints, ~~and~~ the Base Capacity Resource Constraints, the Base Capacity WLR Load Constraints for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year;*

vii) Any Transmission Upgrades that are expected to be in service for such Delivery Year, provided that a Transmission Upgrade that is Backbone Transmission satisfies the project development milestones set forth in section 5.11A;

viii) The bidding window time schedule for each auction to be conducted for such Delivery Year; and

ix) The Net Energy and Ancillary Services Revenue Offset values for the PJM Region for use in the Variable Resource Requirement Curves for the PJM Region and each Locational Deliverability Area for which a separate Variable Resource Requirement Curve has been established for such Base Residual Auction.

b) In addition to the information required to be posted by subsection (a), PJM will post for a Delivery Year, at least sixty (60) days prior to conducting the Base Residual Auction for such Delivery Year, the aggregate megawatt quantity of, for the PJM Region, all Self-Supply Exemption requests under section 5.14(h), all Competitive Entry Exemption requests under section 5.14(h), and such exemptions granted in each such category, and to the extent PJM has made any such determination, notice that PJM has determined that one or more state-sponsored or state-mandated procurement processes is Competitive and Non-Discriminatory pursuant to section 5.14(h).

c) The information listed in (a) will be posted and applicable for the First, Second, Third, and Conditional Incremental Auctions for such Delivery Year, except to the extent updated or adjusted as required by other provisions of this Tariff.

d) In accordance with the schedule provided in the PJM Manuals, PJM will post the Final PJM Region Peak Load Forecast and the allocation to each zone of the obligation resulting from such final forecast, following the completion of the final Incremental Auction (including any Conditional Incremental Auction) conducted for such Delivery Year;

e) In accordance with the schedule provided in the PJM Manuals, PJM will advise owners of Generation Capacity Resources of the updated EFORd values for such Generation Capacity Resources prior to the conduct of the Third Incremental Auction for such Delivery Year.

f) After conducting the Reliability Pricing Model Auctions, PJM will post the results of each auction as soon thereafter as possible, including any adjustments to PJM Region or LDA Reliability Requirements to reflect Price Responsive Demand with a PRD Reservation Price equal to or less than the applicable Base Residual Auction clearing price, or to any VRR Curves to reflect commitments of WLR Loads or WEELs with a bid price equal to or less than the applicable Base Residual Auction clearing price. The posted results shall include graphical supply curves that are (a) provided for the entire PJM Region, (b) provided for any Locational Deliverability Area for which there are four (4) or more suppliers, and (c) developed using a formulaic approach to smooth the curves using a statistical technique that fits a smooth curve to the underlying supply curve data while ensuring that the point of intersection between supply and demand curves is at the market clearing price. At such time, PJM also shall post the aggregate megawatt quantity requested and granted in the Self-Supply and Competitive Entry Exemption categories in the EMAAC, MAAC and Rest of RTO LDAs/regions; the aggregate megawatt quantity cleared in the RPM Auction for Self-Supply and Competitive Entry Exemption categories; and the aggregate megawatt quantity of Self-Supply and Competitive Entry Exemptions requested and granted for any LDA other than those specified in the preceding clause if the LDA has more than four new generation projects in the generation interconnection

queue that could have offered into the applicable RPM Auction and the LDA had a separate VRR Curve posted for the applicable RPM Auction.

If PJM discovers an error in the initial posting of auction results for a particular Reliability Pricing Model Auction, it shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 5:00 p.m. of the fifth business day following the initial publication of the results of the auction. After this initial notification, if PJM determines it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the seventh business day following the initial publication of the results of the auction. Thereafter, PJM must post on its Web site any corrected auction results by no later than 5:00 p.m. of the tenth business day following the initial publication of the results of the auction. Should any of the above deadlines pass without the associated action on the part of the Office of the Interconnection, the originally posted results will be considered final. Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced auction results are under publicly noticed review by the FERC.

## 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, WLR Bids, and other inputs to such auction to determine the Sell Offers and the WLR Bids 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;
- all WLR Bids 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; for the 2017/2018 Delivery Year, 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; *and for the 2018/2019 and 2019/2020 Delivery Years, the Base Capacity Demand Resource Constraints, ~~and the~~ the Base Capacity Resource Constraints, and the Base Capacity WLR Load 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;*
- *For the Delivery Years through May 31, 2018, the PJM Region Reliability Requirement minus the Short-Term Resource Procurement Target;*
- *For the 2018/2019 Delivery Year and subsequent Delivery Years, the PJM Reliability Requirement.*

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. The Variable Resource Requirement Curve for the PJM Region,



or LDA, as applicable, shall shift to the left to reflect the Nominated WLR Quantity, Nominated WEEL Quantity, and WLR Bid Price of any WLR Bids for the PJM Region or such LDA, as applicable, in such RPM Auction. Each such leftward shift shall begin at the price point on the Variable Resource Requirement Curve corresponding to the WLR Bid Price of the WLR Bid, and shall uniformly shift the Variable Resource Requirement Curve to the left in the amount of the combined sum of the Nominated WLR Quantity and Nominated WEEL Quantity times FPR at that price point and all higher price points. 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.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

b) Scheduled Incremental Auctions.

For purposes of a Scheduled Incremental Auction, the optimization algorithm shall consider:

- *For the Delivery years through May 31, 2018, the PJM Region Reliability Requirement, less the Short-term Resource Procurement Target;*

- *For the 2018/2019 Delivery Year and subsequent Delivery Years, the PJM Reliability Requirement;*
- 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 Conditional Incremental Auction;
- All applicable Capacity Import Limits;
- *For the Delivery Years through May 31, 2018, for each LDA, such LDA's updated Reliability Requirement, less such LDA's Short-Term Resource Procurement Target;*
- *For the 2018/2019 Delivery Year and subsequent Delivery Years, for each LDA, such LDA's updated Reliability Requirement*
- 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; for the 2017/2018 Delivery Year, 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; *and for the 2018/2019 and 2019/2020 Delivery Years, the Base Capacity Demand Resource Constraints and the Base Capacity 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~~
- To the extent relevant to any necessary shifting of the Updated VRR Curve Increment or Decrement, the WLR Loads and WEELs previously committed for such Delivery Year; and
- The Unforced Capacity previously committed for such Delivery Year.

(i) When the requirement to seek additional resource commitments in a Scheduled Incremental Auction 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.

(ii) When 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 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, *plus, for the Delivery Years through May 31, 2018, the Short-Term Resource Procurement Target Applicable Share for such auction*, minus (B) 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 (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 5.4(c)(2)(ii), plus (D) the reduction in Unforced Capacity commitments associated with the *transition provisions* of sections 5.14B and 5.14C of this Attachment DD. 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.

(iii) When 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 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, *plus, for the Delivery Years through May 31, 2018, the Short-Term Resource Procurement Target Applicable Share for such auction*, minus (B) 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 (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 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 (D) the reduction in Unforced Capacity commitments associated with the *transition provisions* of sections 5.14B and 5.14C of this Attachment DD; 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.

(iv) If none of the tests for adjustment of capacity procurement in subsections (i), (ii), or (iii) 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 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, *plus, for the Delivery Years through May 31, 2018, the Short-Term Resource Procurement Target Applicable Share for such auction*, minus (B) 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. *For the Delivery Years through May 31, 2018, if more than one of the tests for adjustment of capacity procurement in subsections (i), (ii), or (iii) 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*

(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), (ii), (iii) or (iv) 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), (ii), or (iii) 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) above in the Scheduled Incremental Auctions for such Delivery Year that does not clear such auctions, 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 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 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.

(ix) Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

c) Conditional Incremental Auction

For each 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 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 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.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

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, Sub-Annual Resource Price Decrements, *Base Capacity Demand Resource Price Decrements*, and *Base Capacity 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.

For each Base Residual Auction, the Office of the Interconnection shall determine a WLR Value for Capacity Performance WLR Loads and Capacity Performance WEELs equal to the Capacity Resource Clearing Price for Capacity Performance Resources, as determined in such auction. For the Base Residual Auctions for the 2018/2019 and 2019/2020 Delivery Years, the Office of the Interconnection shall determine a WLR Value for Base Capacity WLR Loads and Base Capacity WEELs equal to the price determined by the auction-clearing algorithm as the optimum price at which to recognize the binding of the Base Capacity WLR Load Constraint or, if such constraint does not bind, such WLR Value shall be equal to the capacity resource clearing price for Base Capacity generation 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, 5.14C, 5.14D, and 5.15) equal to such LSE's Daily Unforced Capacity Obligation in a Zone during such Delivery Year, as may be adjusted pursuant to Schedule 6.2 of the Reliability Assurance Agreement, 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.

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

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.

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 2018/2019 Delivery Year and subsequent Delivery Years, 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. *For purposes of Incremental Auctions for the 2015/2016, 2016/2017 and 2017/2018 Delivery Years, the MOPR Floor Offer Price shall be the same as that used in the Base Residual Auction for such Delivery Year.* 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
CT \$/MW-yr	132,200	130,300	128,900	130,300
CC \$/MW-yr	185,700	176,000	172,600	179,400
IGCC \$/MW-yr	582,042	558,486	547,240	537,306

i) Commencing with the Delivery Year that begins on June 1, 2019, 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 the Applicable BLS Composite Index used for CC plants shall be calculated from the three indices referenced in that section but weighted 25% for the wages index, 60% for the construction materials index, and 15% for the turbines index, and provided further 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 *section 5.14A*. A Demand Resource cleared for a Transition Delivery Year is not viable for purposes of this *section 5.14A* 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 *section 5.14A*, 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 *section 5.14A* 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 *section 5.14A*, 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) and 5.12(b)(iii) 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.

#### **5.14C Demand Response Operational Resource Flexibility Transition Provision for RPM Delivery Years 2015/2016 and 2016/2017**

A. This transition provision applies only to Demand Resources for which a Curtailment Service Provider has existing RPM commitments for the 2015/2016 or 2016/2017 Delivery Years (alternatively referred to in this section 5.14C as “Applicable Delivery Years” and each an “Applicable Delivery Year”) that (i) cannot satisfy the 30-minute notification requirement as described in Section A.2 of Attachment DD-1 of the Tariff and the parallel provision of Schedule 6 of the RAA; (ii) are not excepted from the 30-minute notification requirement as described in Section A.2 of Attachment DD-1 of the Tariff and the parallel provision of Schedule 6 of the RAA; and (iii) cleared in the Base Residual Auction or First Incremental Auction for the 2015/2016 Delivery Year, or cleared in the Base Residual Auction for the 2016/2017 Delivery Year. A Demand Resource meeting these criteria and the Curtailment Service Provider of such a resource are hereafter in this section 5.14C referred to as an “Affected Demand Resource” and an “Affected Curtailment Service Provider,” respectively.

B. For this section 5.14C to apply to an Affected Demand Resource, the Affected Curtailment Service Provider must notify the Office of the Interconnection in writing, with regard to the Affected Demand Resource, of the number of cleared megawatts of Unforced Capacity for the Applicable Delivery Year, by type of Demand Resource (i.e., Limited DR, Annual DR, Extended Summer DR) and by Zone or sub-Zone, by the applicable deadline as follows:

1. For the 2015/2016 Delivery Year, the notice shall be provided by no later than seven (7) days prior to the posting by the Office of the Interconnection of planning parameters for the Third Incremental Auction for the 2015/2016 Delivery Year. Such Affected Curtailment Service Provider that utilizes this transition provision may not sell or offer to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Third Incremental Auction for the 2015/2016 Delivery Year.

2. For the 2016/2017 Delivery Year, the notice shall be provided by no later than seven (7) days prior to the posting by the Office of the Interconnection of planning parameters for the Second Incremental Auction for the 2016/2017 Delivery Year. Such Affected Curtailment Service Provider that utilizes this transition provision may not sell or offer to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Second or Third Incremental Auctions for the 2016/2017 Delivery Year.

3. For the 2016/2017 Delivery Year, the notice shall be provided by no later than seven (7) days prior to the posting by the Office of the Interconnection of planning parameters for the Third Incremental Auction for the 2016/2017 Delivery Year. Such Affected Curtailment Service Provider that utilizes this transition provision must not have sold or offered to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Second Incremental Auction for the 2016/2017 Delivery Year, and may not sell or offer to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Third Incremental Auction for the 2016/2017 Delivery Year.

C. For the Third Incremental Auction for the 2015/2016 Delivery Year and the First, Second, and Third Incremental Auctions for the 2016/2017 Delivery Year, the Office of the Interconnection shall publish aggregate information on the undeliverable megawatts declared under this transition provision (hereafter, “non-viable megawatts”), by type of Demand Resource and by Zone or sub-Zone, concurrently with its posting of planning parameters for the applicable Scheduled Incremental Auction. Non-viable megawatts for a Scheduled Incremental Auction for an Applicable Delivery Year represent those megawatts meeting the criteria of subsection A above and declared in accordance with subsection B above. Prior to each Third Incremental Auction for an Applicable Delivery Year, the Office of the Interconnection shall apply adjustments equal to the declared non-viable megawatt quantity to the quantity of Buy Bid or Sell Offer activity in the upcoming Scheduled Incremental Auctions for the Applicable Delivery Year, as described in sections 5.12(b)(ii) and 5.12(b)(iii) of this Attachment DD. Prior to the Second Incremental Auction for the 2016/2017 Delivery Year, the Office of the Interconnection shall adjust the recalculated PJM Region Reliability Requirement and recalculated LDA Reliability Requirements, as described in section 5.4(c) of this Attachment DD, by the applicable quantity of declared non-viable megawatts, and shall update the PJM Region Reliability Requirement and each LDA Reliability Requirement for such Second Incremental Auction only if the combined change of the applicable adjustment and applicable recalculation is greater than or equal to the lesser of (i) 500 megawatts or (ii) one percent of the prior PJM Region Reliability Requirement or one percent of the prior LDA Reliability Requirement, as applicable.

D. Prior to the start of each Applicable Delivery Year, the Office of the Interconnection shall reduce, by type of Demand Resource and by Zone or sub-Zone, the capacity commitment of each Affected Curtailment Service Provider that utilizes this transition provision for the Applicable Delivery Year based on the non-viable megawatts declared by the Affected Curtailment Service Provider under this transition provision. If the Affected Curtailment Service Provider cleared megawatts from multiple Affected Demand Resources of the same type and Zone or sub-Zone, or cleared megawatts in multiple RPM Auctions for the Applicable Delivery Year, the Office of the Interconnection shall allocate the reduction in capacity commitment by type of Demand

Resource and by Zone or sub-Zone across the applicable Affected Demand Resources and relevant RPM Auctions. Such allocation shall be performed on a pro-rata basis, based on megawatts cleared by the Affected Demand Resources in the relevant RPM Auctions.

E. For each Applicable Delivery Year, an Affected Curtailment Service Provider that utilizes this transition provision for the Applicable Delivery Year relinquishes an Affected Demand Resource's RPM Auction Credits for the amount of capacity commitment reduction as determined under subsection D above. Locational Reliability Charges as described in section 5.14(e) of this Attachment DD are also adjusted accordingly.

***5.14D Capacity Performance and Base Capacity Transition Provision for RPM Delivery Years 2016/2017 and 2017/2018***

A. *This transition provision applies only for procuring Capacity Performance Resources for the 2016/2017 and 2017/2018 Delivery Years.*

B. *For both the 2016/2017 and 2017/2018 Delivery Years, PJM will hold a Capacity Performance Transition Incremental Auction to procure Capacity Performance Resources.*

1. *For each Capacity Performance Transition Incremental Auction, the optimization algorithm shall consider:*

- *the target quantities of Capacity Performance Resources specified below;*
- *the Sell Offers submitted in such auction.*

*The Office of the Interconnection shall submit a Buy Bid based on the quantity of Capacity Performance Resources specified for that Delivery Year. For the 2016/2017 Delivery Year, the Office of the Interconnection shall submit a Buy Bid, at a price no higher than 0.5 times the Net CONE value for the PJM Region determined for the Base Residual Auction for that Delivery Year, for a quantity of Capacity Performance Resources equal to 60 percent of the updated Reliability Requirement for the PJM Region. For the 2017/2018 Delivery Year, the Office of the Interconnection shall submit a Buy Bid, at a price no higher than 0.6 times the Net CONE value for the PJM Region determined for the Base Residual Auction for that Delivery Year, for a quantity of Capacity Performance Resources equal to 70 percent of the updated Reliability Requirement for the PJM Region.*

2. *For each Capacity Performance Transition 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. For the 2016/2017 Delivery Year, the Capacity Resource Clearing Price for any Capacity Performance Transition Incremental Auction shall not exceed 0.5 times the Net CONE value for the PJM Region determined for the Base Residual Auction for that Delivery Year. For the 2017/2018 Delivery Year, the Capacity Resource Clearing Price for any Capacity Performance Transition Incremental Auction shall not exceed 0.6 times the Net*

*CONE value for the PJM Region determined for the Base Residual Auction for that Delivery Year.*

3. *A Capacity Market Seller may offer any Generation Capacity Resource that has not been committed in an FRR Capacity Plan, that qualifies as a Capacity Performance Resource under section 5.5A(a) and that (i) has not cleared an RPM Auction for that Delivery Year; or (ii) has cleared in an RPM Auction for that Delivery Year. A Capacity Market Seller may offer an external Generation Capacity Resource to the extent that such resource: (i) is reasonably expected, by the relevant Delivery Year, to meet all applicable requirements to be treated as equivalent to PJM Region internal generation that is not subject to NERC tagging as an interchange transaction; (ii) has long-term firm transmission service confirmed on the complete transmission path from such resource into PJM; and (iii) is, by written commitment of the Capacity Market Seller, subject to the same obligations imposed on Generation Capacity Resources located in the PJM Region by section 6.6 of Attachment DD of the PJM Tariff to offer their capacity into RPM Auctions.*

4. *Capacity Resources that already cleared an RPM Auction for a Delivery Year, retain the capacity obligations for that Delivery Year, and clear in a Capacity Performance Transition Incremental Auction for the same Delivery Year shall: (i) receive a payment equal to the Capacity Resource Clearing Price as established in that Capacity Performance Transition Incremental Auction; and (ii) not be eligible to receive a payment for clearing in any prior RPM Auction for that Delivery Year.*

D. *All Capacity Performance Resources that clear in a Capacity Performance Transition Incremental Auction will be subject to the Non-Performance Charge set forth in section 10A.*



#### **10A. CHARGES FOR NON-PERFORMANCE AND CREDITS FOR PERFORMANCE**

(a) For the 2018/2019 Delivery Year and any subsequent Delivery Year (and for certain purposes for the 2016/2017 and 2017/2018 Delivery Years as provided in subsections (h) and (i) hereof), each Capacity Market Seller that commits a Capacity Resource for a Delivery Year (whether through an RPM Auction, a bilateral transaction, or as Locational UCAP), and each Locational UCAP Seller that sells Locational UCAP from a Capacity Resource for a Delivery Year, shall be charged to the extent the performance of each of its committed Capacity Resources during all or any part of a clock-hour when an Emergency Action is in effect falls short of the expected performance of such resources (as determined herein) and the revenue from such charges shall be provided to Market Participants with generation or demand response resources that perform during such hour in excess of the level expected based on commitments (if any) of such resources.

(b) Performance shall be measured for purposes of this assessment during each Performance Assessment Hour.

(c) For each Performance Assessment Hour, the Office of the Interconnection shall determine whether, and the extent to which, the actual performance of each Capacity Resource and Locational UCAP has fallen short of the performance expected of such committed Capacity Resource, and the magnitude of any such shortfall, based on the following formula:

*Performance Shortfall = Expected Performance - Actual Performance*

Where the result of such formula is a positive number and where:

*Expected Performance =*

*for Generation Capacity Resources and Capacity Storage Resources: [(Resource Committed Capacity / All Committed Generation and Storage Capacity) \* (All Actual Generation Performance, Storage Resource Performance, Net Energy Imports and Demand Response Bonus Performance)];*

*where*

*Resource Committed Capacity = the total megawatts of Unforced Capacity of the Capacity Resource committed by such Capacity Market Seller or Locational UCAP Seller;*

*All Committed Generation and Storage Capacity = the total megawatts of Unforced Capacity of all Generation Capacity Resources and all Capacity Storage Resources committed by all Capacity Market Sellers, FRR Entities, Locational UCAP Sellers;*

*All Actual Generation Performance and Storage Resource Performance = the total amount of Actual Performance for all generation resources and storage resources during the interval;*

*Net Energy Imports = the sum of interchange transactions importing energy into PJM not including those associated with external Capacity Resources and therefore included in All Actual Generation Performance minus the sum of interchange transactions exporting energy out of PJM, but not less than zero;*

*Demand Response Bonus Performance = the sum of Bonus performance provided by Demand Response resources as calculated in (g) below;*

*and for Demand Resources, Energy Efficiency Resources, and Qualifying Transmission Upgrades: Resource Committed Capacity;*

*where*

*Resource Committed Capacity = the total megawatts of capacity committed from such Capacity Resource committed capacity without making any adjustment for the Forecast Pool Requirement*

*and*

*Actual Performance =*

*for each generation resource, the metered output of energy delivered by such resource plus the resource's real-time reserve or regulation assignment, if any, during the Performance Assessment Hour;*

*for each storage resource, the metered output of energy delivered by such resource plus the resource's real-time reserve or regulation assignment, if any, during the Performance Assessment Hour;*

*for each Demand Resource, the demand response provided by such resource, plus such resource's real-time reserve or regulation assignment, if any, during the Performance Assessment Hour, as established through the PJM demand response settlement procedure consistent with the standards specified in Schedule 6 of the RAA;*

*for each Energy Efficiency Resource, the load reduction quantity approved by PJM subsequent to the pre-delivery year submittal of a post-installation measurement and verification report; and*

*for each Qualified Transmission Upgrade, the megawatt quantity cleared by such Qualified Transmission Upgrade if it is in service during the Performance Assessment Hour, and zero if it is not in service during such Performance Assessment Hour.*

*Such calculation shall encompass all resources located in the area defined by the Emergency Action. For such purpose, Qualifying Transmission Upgrades shall be deemed to be located in*

*the Locational Deliverability Area into which such upgrade increased the Capacity Emergency Transfer Limit, and a Qualifying Transmission Upgrade shall be included in calculations of Expected Performance and Actual Performance only if, and to the extent that, the declared Emergency Action encompasses the Locational Deliverability Area into which such upgrade increased the Capacity Emergency Transfer Limit. The Performance Shortfall shall be calculated for each Performance Assessment Hour, and any committed Capacity Resource for which the above calculation produces a negative number for a Performance Assessment Hour shall not have a Performance Shortfall for such Performance Assessment Hour.*

*(d) Notwithstanding subsection (c) above, a Capacity Resource or Locational UCAP of a Capacity Market Seller or Locational UCAP Seller shall not be considered in the calculation of a Performance Shortfall for a Performance Assessment Hour to the extent such Capacity Resource or Locational UCAP was unavailable during such Performance Assessment Hour solely because the resource on which such Capacity Resource or Locational UCAP is based was on a Generator Planned Outage or Generator Maintenance Outage approved by the Office of the Interconnection, or was not scheduled to operate by the Office of the Interconnection, or was online but was scheduled down, by the Office of the Interconnection, for reasons other than (i) limitations specified by such seller in the resource operating parameters, or (ii) the submission by such seller of a market-based offer higher than its cost-based offer.*

*(e) Subject to the Non-Performance Charge Limit specified in subsection (f) hereof, each Capacity Market Seller and Locational UCAP Seller shall be assessed a Non-Performance Charge for each of its Capacity Resources or Locational UCAP that has a Performance Shortfall for a Performance Assessment Hour based on the following formula, applied to each such resource:*

$$\text{Non-Performance Charge} = \text{Performance Shortfall} * \text{Non-Performance Charge Rate}$$

*Where*

*For Capacity Performance Resources the Non-Performance Charge Rate = (Net Cost of New Entry (stated in terms of installed capacity) for the LDA and Delivery Year for which such calculation is performed \* (365 / 30)*

*and for Base Capacity Resources the Non-Performance Charge Rate = (Weighted Average Resource Clearing Price applicable to the resource \* (365 / 30)*

*(f) The Non-Performance Charge for each Capacity Performance Resource or (including Locational UCAP from such a resource) shall not exceed a Non-Performance Charge Limit equal to, for any calendar month of a Delivery Year, 0.5 times the Net Cost of New Entry times the megawatts of Unforced Capacity committed by such resource times 365; and for a Delivery Year, an amount equal to 1.5 times the Net Cost of New Entry times the megawatts of Unforced Capacity committed by such resource times 365. All references to Net Cost of New Entry in this section 10A shall be to the Net Cost of New Entry for the LDA and Delivery Year for which the calculation is performed. The Non-Performance Charge for each Base Capacity Resource (including Locational UCAP from such a resource) shall not exceed a Non-*

Performance Charge Limit equal to, for a Delivery Year, an amount equal to the total payments due such Capacity Resource or Locational UCAP under section 5.14 of this Attachment DD for such Delivery Year.

(g) Revenues collected from assessment of (1) Non-Performance Charges under this section 10A, and (2) WLR Non-Performance Charges under Schedule 6.2 of the Reliability Assurance Agreement, for a Performance Assessment Hour shall be distributed to each Market Participant, whether or not such Market Participant committed a Capacity Resource, ~~or~~ Locational UCAP, WEEL, or WLR Load for a Performance Assessment Hour, that provided energy or load reductions above the levels expected for such resource or load during such hour. For purposes of this provision, the performance expected of a resource or load, and the revenue distribution payment, if any, for a resource or load, shall be determined in accordance with the following formulae:

Formula 1:  $\text{Market Participant Bonus Performance} = \text{Actual Performance} - \text{Expected Performance}$

And

Formula 2:  $\text{Performance Payment} = (\text{Market Participant Bonus Performance} / \text{All Market Participants Bonus Performance}) * \text{Non-Performance Charge Revenues}$ .

Where the result of Formula 1 is a positive number and where:

Actual Performance is as defined in subsection (c), provided, however, that Actual Performance for purposes of this calculation shall not exceed the megawatt level at which such resource was scheduled by the Office of the Interconnection during the Performance Assessment Hours;

Expected Performance is as defined in subsection (c), provided, however, that for purposes of this calculation, Expected Performance shall be zero for any resource that is not a Capacity Resource or Locational UCAP, or that is a Capacity Resource or Locational UCAP, but for which the Performance Assessment Hour occurs outside the resource's ~~capacity~~ obligation period, including, without limitation, a Base Capacity Demand Resource or Base Capacity WLR Load providing load reduction~~demand response~~ during non-summer months; and

All Market Participants Bonus Performance is the sum of the results of calculating Formula 1 of this subsection (g) for all Market Participants that have Bonus Performance during such Performance Assessment Hour.

(h) The provisions of this section 10A shall apply during the 2016/2017 Delivery Year, provided that:

- (i) *Non-Performance Charges shall be determined solely for and assessed solely on, Capacity Performance Resources committed for such Delivery Year;*
- (ii) *The Non-Performance Charge shall be 0.5 times the Non-Performance Charge calculated under subsection (e) hereof; and*
- (iii) *The Non-Performance Charge Limit for any calendar month shall be 0.25 times Net Cost of New Entry times the megawatts of Unforced Capacity committed by such resource times 365; and for a Delivery Year shall be 0.75 times Net Cost of New Entry times the megawatts of Unforced Capacity committed by such resource times 365.*

(i) *The provisions of this section 10A shall apply during the 2017-2018 Delivery Year, provided that:*

- (i) *Non-Performance Charges shall be determined solely for, and assessed solely on, Capacity Performance Resources committed for such Delivery Year;*
- (ii) *The Non-Performance Charge shall be 0.6 times the Non-Performance Charge calculated under subsection (e) hereof; and*
- (iii) *The Non-Performance Charge Limit for any calendar month shall be 0.3 times the Net Cost of New Entry times the megawatts of Unforced Capacity committed by such resource times 365; and for a Delivery Year shall be 0.9 times Net Cost of New Entry times the megawatts of Unforced Capacity committed by such resource times 365.*

(j) *The Office of the Interconnection shall bill charges and credits for performance during Performance Assessment Hours within three calendar months after the calendar month that included such Performance Assessment Hours, provided, for any Non-Performance Charge, the amount shall be divided by the number of months remaining in the Delivery Year for which no invoice has been issued, and the resulting amount shall be invoiced each such remaining month in the Delivery Year.*

## **ATTACHMENT DD-1**

Preface: The provisions of this Attachment incorporate into the Tariff for ease of reference the provisions of Schedule 6 of the Reliability Assurance Agreement among Load Serving Entities in the PJM Region. As a result, this Attachment will be modified, subject to FERC approval, so that the terms and conditions set forth herein remain consistent with the corresponding terms and conditions of Schedule 6 of the RAA. Capitalized terms used herein that are not otherwise defined in Attachment DD or elsewhere in this Tariff have the meaning set forth in the RAA.

### **PROCEDURES FOR DEMAND RESOURCES AND ENERGY EFFICIENCY**

Notwithstanding any other provision of this Attachment DD-1, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

A. Parties can partially or wholly offset the amounts payable for the Locational Reliability Charge with Demand Resources that are operated under the direction of the Office of the Interconnection. FRR Entities may reduce their capacity obligations with Demand Resources that are operated under the direction of the Office of the Interconnection and detailed in such entity's FRR Capacity Plan. Demand Resources qualifying under the criteria set forth below may be offered for sale or designated as Self-Supply in the Base Residual Auction, included in an FRR Capacity Plan, or offered for sale in any Incremental Auction, for any Delivery Year for which such resource qualifies. Qualified Demand Resources generally fall in one of three categories, i.e., Guaranteed Load Drop, Firm Service Level, or Direct Load Control, as further specified in section G and the PJM Manuals. Qualified Demand Resources may be provided by a Curtailment Service Provider, notwithstanding that such Curtailment Service Provider is not a Party to this Agreement. Such Curtailment Service Providers must satisfy the requirements hereof and the PJM Manuals.

1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and section F hereof, as applicable, the Office of the Interconnection of the Demand Resource that it is placing under the direction of the Office of the Interconnection. A Party must further notify the Office of the Interconnection whether the resource is a Limited Demand Resource, an Extended Summer Demand Resource, a *Base Capacity Demand Resource*, or an Annual Demand Resource.

2. A Demand Resource must achieve its full load reduction within the following time period:

(a) For the 2014/2015 Delivery Year, Curtailment Service Providers may elect a notification time period from the Office of the Interconnection of 30, 60 or 120 minutes prior to their Demand Resources being required to fully respond to a Load Management Event.

(b) For the 2015/2016 Delivery Year and subsequent Delivery Years, a Demand Resource must be able to fully respond to a Load Management Event within 30 minutes of notification from the Office of the Interconnection. This default 30 minute prior notification shall apply unless a Curtailment Service Provider obtains an exception from the Office of the Interconnection due to physical operational limitations that prevent the Demand Resource from reducing load within that timeframe. In such case, the Curtailment Service Provider shall submit a request for an exception to the 30 minute prior notification requirement to the Office of the Interconnection, at the time the Registration Form for that resource is submitted in accordance with Attachment K-Appendix of this Tariff. The only alternative notification times that the Office of Interconnection will permit, upon approval of an exception request, are 60 minutes and 120 minutes prior to a Load Management Event. The Curtailment Service Provider shall indicate in writing, in the appropriate application, that it seeks an exception to permit a prior notification time of 60 minutes or 120 minutes, and the reason(s) for the requested exception. A Curtailment Service Provider shall not submit a request for an exception to the default 30 minute notification period unless it has done its due diligence to confirm that the Demand Resource is physically incapable of responding within that timeframe based on one or more of the reasons set forth below and as may be further defined in the PJM Manuals and has obtained detailed data and documentation to support this determination.

In order to establish that a Demand Resource is reasonably expected to be physically unable to reduce load in that timeframe, the Curtailment Service Provider that registered the resource must demonstrate that:

- 1) The manufacturing processes for the Demand Resource require gradual reduction to avoid damaging major industrial equipment used in the manufacturing process, or damage to the product generated or feedstock used in the manufacturing process;
- 2) Transfer of load to back-up generation requires time-intensive manual process taking more than 30 minutes;
- 3) On-site safety concerns prevent location from implementing reduction plan in less than 30 minutes; or,
- 4) The Demand Resource is comprised of mass market residential customers or Small Commercial Customers which collectively cannot be notified of a Load Management Event within a 30-minute timeframe due to unavoidable communications latency, in which case the requested notification time shall be no longer than 120 minutes.

The Office of the Interconnection may request data and documentation from the Curtailment Service Provider and such Curtailment Service Provider shall provide to the Office of the Interconnection within three (3) business days of a request therefor, a copy of all of the data and documentation supporting the exception request. Failure to provide a timely response to such request shall cause the exception to terminate the following Operating Day.

At its sole option and discretion, the Office of the Interconnection may review the data and documentation provided by the Curtailment Service Provider to determine if the Demand Resource has met one or more of the criteria above. The Office of the Interconnection will notify

the Curtailment Service Provider in writing of its determination by no later than ten (10) business days after receipt of the data and documentation.

The Curtailment Service Provider shall provide written notification to the Office of the Interconnection of a material change to the facts that supported its exception request within three (3) business days of becoming aware of such material change in facts, and, if the Office of Interconnection determines that the physical limitation criteria above are no longer being met, the Demand Resource shall be subject to the default notification period of 30 minutes immediately upon such determination.

3. The initiation of load reduction, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.

4. The initiation of load reduction upon the request of the Office of the Interconnection is considered a pre-emergency or emergency action and must be implementable prior to a voltage reduction.

5. A Curtailment Service Provider intending to offer for sale or designate for self-supply, a Demand Resource in any RPM Auction, or intending to include a Demand Resource in any FRR Capacity Plan must demonstrate, to PJM's satisfaction, that such resource shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such resource is committed. As part of such demonstration, each such Curtailment Service Provider shall submit a Demand Resource Sell Offer Plan in accordance with the standards and procedures set forth in section A-1 of Schedule 6, Schedule 8.1 (as to FRR Capacity Plans) and the PJM Manuals, no later than 15 business days prior to, as applicable, the RPM Auction in which such resource is to be offered, or the deadline for submission of the FRR Capacity Plan in which such resource is to be included. PJM may verify the Curtailment Service Provider's adherence to the Demand Resource Sell Offer Plan at any time. A Curtailment Service Provider with a PJM-approved Demand Resource Sell Offer Plan will be permitted to offer up to the approved Demand Resource quantity into the subject RPM Auction or include such resource in its FRR Capacity Plan.

6. Selection of a Demand Resource in an RPM Auction results in commitment of capacity to the PJM Region. Demand Resources that are so committed must be registered to participate in the Full Program Option or as a Capacity Only resource of the Emergency Load Response and Pre-Emergency Load Response Program and thus available for dispatch during PJM-declared pre-emergency events and emergency events.

A-1. A Demand Resource Sell Offer Plan shall consist of a completed template document in the form posted on the PJM website, requiring the information set forth below and in the PJM Manuals, and a Demand Resource Officer Certification Form signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification. The Demand Resource Sell Offer Plan must provide information that supports the Demand Resource Provider's intended Demand Resource Sell Offers and demonstrates that the Demand Resources are being offered with the intention that the MW quantity that clears the auction is reasonably



expected to be physically delivered through Demand Resource registrations for the relevant Delivery Year. The Demand Resource Sell Offer Plan shall include all Existing Demand Resources and all Planned Demand Resources that the Demand Resource Provider intends to offer into an RPM Auction or include in an FRR Capacity Plan.

1. Demand Resource Sell Offer Plan Template. The Demand Resource Sell Offer Plan template, in the form provided on the PJM website, shall require the Demand Resource Provider to provide the following information and such other information as specified in the PJM Manuals:

(a) Summary Information. The completed template shall include the Demand Resource Provider's company name, contact information, and the Nominated DR Value in ICAP MWs by Zone/sub-Zone that the Demand Resource Provider intends to offer, stated separately for Existing Demand Resources and Planned Demand Resources. The total Nominated DR Value in MWs for each Zone/sub-Zone shall be the sum of the Nominated DR Value of Existing Demand Resources and the Nominated DR Value of Planned Demand Resources, and shall be the maximum MW amount the Provider intends to offer in the RPM Auction for the indicated Zone/sub-Zone, provided that nothing herein shall preclude the Demand Resource Provider from offering in the auction a lesser amount than the total Nominated DR Value shown in its Demand Resource Sell Offer Plan.

(b) Existing Demand Resources. The Demand Resource Provider shall identify all Existing Demand Resources by identifying end-use customer sites that are currently registered with PJM (even if not registered by such Demand Resource Provider) and that the Demand Resource Provider reasonably expects to have under a contract to reduce load based on PJM dispatch instructions by the start of the auction Delivery Year.

(c) Planned Demand Resources. The Demand Resource Provider shall provide the details of, and key assumptions underlying, the Planned Demand Resource quantities (i.e., all Demand Resource quantities in excess of Existing Demand Resource quantities) contained in the Demand Resource Sell Offer Plan, including:

- (i) key program attributes and assumptions used to develop the Planned Demand Resource quantities, including, but not limited to, discussion of:
- method(s) of achieving load reduction at customer site(s);
  - equipment to be controlled or installed at customer site(s), if any;
  - plan and ability to acquire customers;
  - types of customer targeted;
  - support of market potential and market share for the target customer base, with adjustments for Existing Demand Resource customers within this market and the potential for other Demand Resource Providers targeting the same customers;
  - assumptions regarding regulatory approval of program(s), if applicable; and

- if applicable, Direct Load Control (DLC) program details such as: a description of the cycling control strategy, any assumptions regarding switch operability rate, and a list (and copy) of all load research studies used to develop the estimated nominated ICAP value per customer (i.e., the per-participant impact).

(ii) Zone/sub-Zone information by end-use customer segment for all Nominated DR Values for which an end-use customer site is not identified, to include the number in each segment of end-use customers expected to be registered for the subject Delivery Year, the average Peak Load Contribution per end-use customer for such segment, and the average Nominated DR Value per customer for such segment. End-use customer segments may include residential, commercial, small industrial, medium industrial, and large industrial, as identified and defined in the PJM Manuals, provided that nothing herein or in the Manuals shall preclude the Provider from identifying more specific customer segments within the commercial and industrial categories, if known.

(iii) Information by end-use customer site to the extent required by subsection A-1(1)(c)(iv) or, if not required by such subsection, to the extent known at the time of the submittal of the Demand Resource Sell Offer Plan, to include: customer EDC account number (if known), customer name, customer premise address, Zone/sub-Zone in which the customer is located, end-use customer segment, current Peak Load Contribution value (or an estimate if actual value not known) and an estimate of expected Peak Load Contribution for the subject Delivery Year, and an estimated Nominated DR Value.

(iv) End-use customer site-specific information shall be required for any Zones or sub-Zones identified by PJM pursuant to this subsection for the portion, if any, of a Demand Resource Provider's intended offer in such Zones or sub-Zones that exceeds a Sell Offer threshold determined pursuant to this subsection, as any such excess quantity under such conditions should reflect Planned Demand Resources from end-use customer sites that the Provider has a high degree of certainty it will physically deliver for the subject Delivery Year. In accordance with the procedures in subsection A-1(3) below, PJM shall identify, as requiring site-specific information, all Zones and sub-Zones that comprise any LDA group (from a list of LDA groups stated in the PJM Manuals) in which [the quantity of cleared Demand Resources from the most recent Base Residual Auction] plus [the quantity of Demand Resources included in FRR Capacity Plans for the Delivery Year addressed by the most recent Base Residual Auction] in any Zone or sub-Zone of such LDA group exceeds the greater of:

- the maximum Demand Resources quantity registered with PJM for such Zone for any Delivery Year from the current (at time of plan submission) Delivery Year and the two preceding Delivery Years; and
- the potential Demand Resource quantity for such Zone estimated by PJM based on an independent published assessment of demand response potential that is reasonably applicable to such Zone, as identified in the PJM Manuals.

For each such Zone and sub-Zone, the Sell Offer threshold for each Demand Resource Provider shall be the higher of:

- the Demand Resource Provider's maximum Demand Resource quantity registered with PJM for such Zone/sub-Zone over the current Delivery Year (at the time of plan submission) and two preceding Delivery Years;
- the Demand Resource Provider's maximum for any single Delivery Year of [such provider's cleared Demand Resource quantity] plus [such provider's quantity of Demand Resources included in FRR Capacity Plans] from the three forward Delivery Years addressed by the three most recent Base Residual Auctions for such Zone/sub-Zone; and
- 10 MW.

(d) Schedule. The Demand Resource Provider shall provide an approximate timeline for procuring end-use customer sites as needed to physically deliver the total Nominated DR Value (for both Existing Demand Resources and Planned Demand Resources) by Zone/sub-Zone in the Demand Resource Sell Offer Plan. The Demand Resource Provider must specify the cumulative number of customers and the cumulative Nominated DR Value associated with each end-use customer segment within each Zone/sub-Zone that the Demand Resource Provider expects (at the time of plan submission) to have under contract as of June 1 each year between the time of the auction and the subject Delivery Year.

2. Demand Resource Officer Certification Form. Each Demand Resource Sell Offer Plan must include a Demand Resource Officer Certification, signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification, in the form shown in the PJM Manuals, which form shall include the following certifications:

(a) that the signing officer has reviewed the Demand Resource Sell Offer Plan and the information supplied to PJM in support of the Plan is true and correct as of the date of the certification; and

(b) that the Demand Resource Provider is submitting the Plan with the reasonable expectation, based upon its analyses as of the date of the certification, to physically deliver all megawatts that clear the RPM Auction through Demand Resource registrations by the specified Delivery Year.

As set forth in the form provided in the PJM manuals, the certification shall specify that it does not in any way abridge, expand, or otherwise modify the current provisions of the PJM Tariff, Operating Agreement and/or RAA, or the Demand Resource Provider's rights and obligations thereunder, including the Demand Resource Provider's ability to adjust capacity obligations through participation in PJM incremental auctions and bilateral transactions.

3. Procedures. No later than December 1 prior to the Base Residual Auction for a Delivery Year, PJM shall post to the PJM website a list of Zones and sub-Zones, if any, for which end-use customer site-specific information shall be required under the conditions specified in subsection A-1(1)(c)(iv) above for all RPM Auctions conducted for such Delivery Year. Once so identified, a Zone or sub-Zone shall remain on the list for future Delivery Years until the threshold determined under subsection A-1(1)(c)(iv) above is not exceeded for three consecutive Delivery Years. No later than 15 business days prior to the RPM Auction in which a Demand Resource Provider intends to offer a Demand Resource, the Demand Resource Provider shall submit to PJM a completed Demand Resource Sell Offer Plan template and a Demand Resource Officer Certification Form signed by a duly authorized officer of the Provider. PJM will review all submitted DR Sell Offer Plans. No later than 10 business days prior to the subject RPM Auction, PJM shall notify any Demand Resource Providers that have identified the same end-use customer site(s) in their respective DR Sell Offer Plans for the same Delivery Year. In such event, the MWs associated with such site(s) will not be approved for inclusion in a Sell Offer in an RPM Auction by any of the Demand Resource Providers, unless a Demand Resource Provider provides a letter of support from the end-use customer indicating that it is likely to execute a contract with that Demand Resource Provider for the relevant Delivery Year, or provides other comparable evidence of likely commitment. Such letter of support or other supporting evidence must be provided to PJM no later than 7 business days prior to the subject RPM Auction. If an end-use customer provides letters of support for the same site for the same Delivery Year to multiple Demand Resource Providers, the MWs associated with such end-use customer site shall not be approved as a Demand Resource for any of the Demand Resource Providers. No later than 5 business days prior to the subject RPM Auction, PJM will notify each Demand Resource Provider of the approved Demand Resource quantity, by Zone/sub-Zone, that such Demand Resource Provider is permitted to offer into such RPM Auction.

B. The Unforced Capacity value of a Demand Resource will be determined as:

*for the Delivery Years through May 31, 2018, the product of the Nominated Value of the Demand Resource times the DR Factor, times the Forecast Pool Requirement, and for the 2018/2019 Delivery Year and subsequent Delivery Years, the product of the Nominated Value of the Demand Resource times the Forecast Pool Requirement.* Nominated Values shall be determined and reviewed in accordance with sections I and J, respectively, and the PJM Manuals. The DR Factor is a factor established by the PJM Board with the advice of the Members Committee to reflect the increase in the peak load carrying capability in the PJM

Region due to Demand Resources. Peak load carrying capability is defined to be the peak load that the PJM Region is able to serve at the loss of load expectation defined in the Reliability Principles and Standards. The DR Factor is the increase in the peak load carrying capability in the PJM Region due to Demand Resources, divided by the total Nominated Value of Demand Resources in the PJM Region. The DR Factor will be determined using an analytical program that uses a probabilistic approach to determine reliability. The determination of the DR Factor will consider the reliability of Demand Resources, the number of interruptions, and the total amount of load reduction.

C. Demand Resources offered and cleared in a Base Residual or Incremental Auction shall receive the corresponding Capacity Resource Clearing Price as determined in such auction, in accordance with Attachment DD of the PJM Tariff. For Delivery Years beginning with the Delivery Year that commences on June 1, 2013, any Demand Resources located in a Zone with multiple LDAs shall receive the Capacity Resource Clearing Price applicable to the location of such resource within such Zone, as identified in such resource's offer. Further, the Curtailment Service Provider shall register its resource in the same location within the Zone as specified in its cleared sell offer, and shall be subject to deficiency charges under Attachment DD of this Tariff to the extent it fails to provide the resource in such location consistent with its cleared offer. For either of the Delivery Year commencing on June 1, 2010 or commencing on June 1, 2012, if the location of a Demand Resource is not specified by a Seller in the Sell Offer on an individual LDA basis in a Zone with multiple LDAs, then Demand Resources cleared by such Seller will be paid a DR Weighted Zonal Resource Clearing Price, determined as follows: (i) for a Zone that includes non-overlapping LDAs, calculated as the weighted average of the Resource Clearing Prices for such LDAs, weighted by the cleared Demand Resources registered by such Seller in each such LDA; or (ii) for a Zone that contains a smaller LDA within a larger LDA, calculated treating the smaller LDA and the remaining portion of the larger LDA as if they were separate LDAs, and weight-averaging in the same manner as (i) above.

D. The Party, Electric Distributor, or Curtailment Service Provider that establishes a contractual relationship (by contract or tariff rate) with a customer for load reductions is entitled to receive the compensation specified in section C for a committed Demand Resource, notwithstanding that such provider is not the customer's energy supplier.

E. Any Party hereto shall demonstrate that its Demand Resources performed during periods when load management procedures were invoked by the Office of the Interconnection. The Office of the Interconnection shall adopt and maintain rules and procedures for verifying the performance of such resources, as set forth in section K hereof and the PJM Manuals. In addition, committed Demand Resources that do not comply with the directions of the Office of the Interconnection to reduce load during an emergency shall be subject to the penalty charge set forth in Attachment DD to the PJM Tariff.

F. Parties may elect to place Demand Resources associated with Behind The Meter Generation under the direction of the Office of the Interconnection for a Delivery Year by submitting a Sell Offer for such resource (as Self Supply, or with an offer price) in the Base Residual Auction for such Delivery Year. This election shall remain in effect for the entirety of such Delivery Year. In the event such an election is made, such Behind The Meter Generation

will not be netted from load for the purposes of calculating the Daily Unforced Capacity Obligations under this Agreement.

G. PJM measures Demand Resources in the following *four* ways:

Direct Load Control (DLC) – Load management that is initiated directly by the Curtailment Service Provider’s market operations center or its agent, employing a communication signal to cycle equipment (typically water heaters or central air conditioners). DLC programs are qualified based on load research and customer subscription data. Curtailment Service Providers may rely on the results of load research studies identified in the PJM Manuals to set the per-participant load reduction for DLC programs. Each Curtailment Service Provider relying on DLC load management must periodically update its DLC switch operability rates, in accordance with the PJM Manuals.

Firm Service Level (FSL) – Load management achieved by an end-use customer reducing its load to a pre-determined level (the Firm Service Level), upon notification from the Curtailment Service Provider’s market operations center or its agent.

Guaranteed Load Drop (GLD) – Load management achieved by an end-use customer reducing its load by a pre-determined amount (the Guaranteed Load Drop), upon notification from the Curtailment Service Provider’s market operations center or its agent. Typically, the load reduction is achieved through running customer-owned backup generators, or by shutting down process equipment.

*Customer Baseline Load (CBL) - Load management achieved by an end-use customer as measured by comparing actual metered load to an end-use customer’s Customer Baseline Load or alternative CBL determined in accordance with the provisions of Section 3.3A.2 or 3.3A.2.01 of the Operating Agreement.*

H. Each Curtailment Service Provider must satisfy (or contract with another LSE, Curtailment Service Provider, or electric distribution company to provide) the following requirements:

- A point of contact with appropriate backup to ensure single call notification from PJM and timely execution of the notification process;
- Supplemental status reports, detailing Demand Resources available, as requested by PJM;
- Entry of customer-specific Demand Resource credit information, for planning and verification purposes, into the designated PJM electronic system.
- Customer-specific compliance and verification information for each PJM-initiated Demand Resource event, as well as aggregated Provider load drop data for Provider-initiated events, in accordance with established reporting guidelines.

- Load drop estimates for all Demand Resource events, prepared in accordance with the PJM Manuals.

I. The Nominated Value of each Demand Resource shall be determined consistent with the process for determination of the capacity obligation for the customer.

The Nominated Value for a Firm Service Level customer will be based on the peak load contribution for the customer, as determined by the 5CP methodology utilized to determine other ICAP obligation values. The maximum Demand Resource load reduction value for a Firm Service Level customer will be equal to Peak Load Contribution – Firm Contract Level adjusted for system losses.

The Nominated Value for a Guaranteed Load Drop customer will be the guaranteed load drop amount, adjusted for system losses, as established by the customer's contract with the Curtailment Service Provider. The maximum credit nominated shall not exceed the customer's Peak Load Contribution.

The Nominated Value for a Direct Load Control program will be based on load research and customer subscription. The maximum value of the program is equal to the approved per-participant load reduction multiplied by the number of active participants, adjusted for system losses. The per-participant impact is to be estimated at long-term average local weather conditions at the time of the summer peak.

Customer-specific Demand Resource information (EDC account number, peak load, notification period, etc.) will be entered into the designated PJM electronic system to establish credit values. Additional data may be required, as defined in sections J and K.

J. Nominated Values shall be reviewed based on documentation of customer-specific data and Demand Resource information, to verify the amount of load management available and to set a maximum allowable Nominated Value. Data is provided by both the zone EDC and the Curtailment Service Provider on templates supplied by PJM, and must include the EDC meter number or other unique customer identifier, Peak Load Contribution (5CP), contract firm service level or guaranteed load drop values, applicable loss factor, zone/area location of the load drop, LSE contact information, number of active participants, etc. Such data must be uploaded and approved prior to the first day of the Delivery Year for such resource as a Demand Resource. Curtailment Service Providers must provide this information concurrently to host EDCs.

For Firm Service Level and Guaranteed Load Drop customers, the 5CP values, for the zone and affected customers, will be adjusted to reflect an "unrestricted" peak for a zone, based on information provided by the Curtailment Service Provider. Load drop levels shall be estimated in accordance with guidelines in the PJM Manuals.

For Direct Load Control programs, the Curtailment Service Provider must provide information detailing the number of active participants in each program. Other information on approved DLC programs will be provided by PJM.

K. Compliance is the process utilized to review Provider performance during PJM-initiated Demand Resource events. Compliance will be established for each Provider on an event specific basis for the Curtailment Service Provider's Demand Resources dispatched by the Office of the Interconnection during such event. PJM will establish and communicate reasonable deadlines for the timely submittal of event data to expedite compliance reviews. Compliance reviews will be completed as soon after the event as possible, with the expectation that reviews of a single event will be completed within two months of the end of the month in which the event took place. Curtailment Service Providers are responsible for the submittal of compliance information to PJM for each PJM-initiated event during the compliance period.

*For Load Management Events occurring through the May 31, 2018 and for Load Management Events occurring during the months of June through September of the 2018/2019 Delivery Year and subsequent Delivery Years:*

Compliance for Direct Load Control programs will consider only the transmission of the control signal. Curtailment Service Providers are required to report the time period (during the Demand Resource event) that the control signal was actually sent.

Compliance is checked on an individual customer basis for FSL, by comparing actual load during the event to the firm service level. Curtailment Service Providers must submit actual customer load levels (for the event period) for the compliance report. Compliance for FSL will be based on:

End use customer's current Delivery Year peak load contribution ("PLC") minus the metered load ("Load") multiplied by the loss factor ("LF"). The calculation is represented by:

$$(PLC) - (Load * LF)$$

Compliance is checked on an individual customer basis for GLD, and will be based on:

- (i) the lesser of (a) comparison load used to best represent what the load would have been if PJM did not declare a Load Management Event or the CSP did not initiate a test as outlined in the PJM Manuals, minus the Load and then multiplied by the LF, or (b) the PLC minus the Load multiplied by the LF. A load reduction will only be recognized for capacity compliance if the Load multiplied by the LF is less than the PLC.
- (iii) Curtailment Service Providers must submit actual loads and comparison loads for all hours during the day of the Load Management Event or the Load Management performance test, and for all hours during any other days as required by the Office of the Interconnection to calculate the load reduction. Comparison loads must be



developed from the guidelines in the PJM Manuals, and note which method was employed.

Compliance is averaged over the Load Management Event for non-interval metered DLC programs. Compliance is averaged over the Load Management Event, for each FSL and GLD customer dispatched by the Office of the Interconnection, for at least 30 minutes of the clock hour (i.e., “partial dispatch compliance hour”). The registered capacity commitment for the partial dispatch compliance hour will be prorated based on the number of minutes dispatched during the clock hour and as defined in the Manuals. Curtailment Service Provider may submit 1 minute load data for use in capacity compliance calculations for partial dispatch compliance hours subject to PJM approval and in accordance with the PJM Manuals where: (a) metering meets all Tariff and Manual requirements, (b) 1 minute load data shall be submitted to PJM for all locations on the registration, and (c) 1 minute load data measures energy consumption over the minute.

*For Load Management Events occurring during the months of October through May of the 2018/2019 Delivery Year and subsequent Delivery Years:*

*Compliance is determined on an individual customer basis by comparing actual metered load to an end-use customer’s Customer Baseline Load or alternative CBL determined in accordance with the provisions of Section 3.3A.2 or 3.3A.2.01 of the Operating Agreement.*

*For all Delivery Years:*

Demand Resources may not reduce their load below zero (i.e., export energy into the system). No compliance credit will be given for an incremental load drop below zero. Compliance will be totaled over all FSL and GLD customers and DLC programs to determine a net compliance position for the event for each Provider by Zone, for all Demand Resources committed by such Provider and dispatched by the Office of the Interconnection in the zone. Deficiencies shall be as further determined in accordance with section 11 of Schedule DD to the PJM Tariff.

## L. Energy Efficiency Resources

1. An Energy Efficiency Resource is a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak *summer and winter* periods as described herein) reduction in electric energy consumption at the End-Use Customer's retail site that is not reflected in the peak load forecast prepared for the Delivery Year for which the Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.

2. An Energy Efficiency Resource may be offered as a Capacity Resource in the Base Residual or Incremental Auctions for any Delivery Year beginning on or after June 1, 2012. No later than 30 days prior to the auction in which the resource is to be offered, the

Capacity Market Seller shall submit to the Office of the Interconnection a notice of intent to offer the resource into such auction and a measurement and verification plan. The notice of intent shall include all pertinent project design data, including but not limited to the peak-load contribution of affected customers, a full description of the equipment, device, system or process intended to achieve the load reduction, the load reduction pattern, the project location, the project development timeline, and any other relevant data. Such notice also shall state the seller's proposed Nominated Energy Efficiency Value.

- *For Delivery Years through May 31, 2018, the seller's proposed Nominated Energy Efficiency Value shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday;*
- *For the 2018/2019 and 2019/2020 Delivery Years, the seller's proposed Nominated Energy Efficiency Value for any Base Capacity Energy Efficiency Resource shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday; and*

The measurement and verification plan shall describe the methods and procedures, consistent with the PJM Manuals, for determining the amount of the load reduction and confirming that such reduction is achieved. The Office of the Interconnection shall determine, upon review of such notice, the Nominated Energy Efficiency Value that may be offered in the Reliability Pricing Model Auction.

- *For the 2018/2019 Delivery Year and subsequent Delivery Years, the seller's proposed Nominated Energy Efficiency Value for any Annual Energy Efficiency Resources, shall be the expected average load reduction, for all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday, between the hour ending 15:00 EPT and the hour ending 18:00 EPT. In addition, the expected average load reduction for all days from January 1 through February 28, inclusive, of such Delivery Year that is not a weekend or federal holiday, between the hour ending 8:00 EPT and the hour ending 9:00 EPT and between the hour ending 19:00 EPT and the hour ending 20:00 EPT shall not be less than the Nominated Energy Efficiency Value.*

3. An Energy Efficiency Resource may be offered with a price offer or as Self-Supply. If an Energy Efficiency Resource clears the auction, it shall receive the applicable Capacity Resource Clearing Price, subject to section 5 below. A Capacity Market Seller offering an Energy Efficiency Resource must comply with all applicable credit requirements as set forth in Attachment Q to the PJM Tariff. *For Delivery Years through May 31, 2018, the Unforced Capacity value of an Energy Efficiency Resource offered into an RPM Auction shall be the Nominated Energy Efficiency value times the DR Factor and the Forecast Pool Requirement. For the 2018/2019 Delivery Year and subsequent Delivery Years, the Unforced Capacity value of an Energy Efficiency Resource offered into an RPM Auction shall be the Nominated Energy Efficiency Value times the Forecast Pool Requirement.*

4. An Energy Efficiency Resource that clears an auction for a Delivery Year may be offered in auctions for up to three additional consecutive Delivery Years, but shall not be assured of clearing in any such auction; provided, however, an Energy Efficiency Resource may not be offered for any Delivery Year in which any part of the peak season is beyond the expected life of the equipment, device, system, or process providing the expected load reduction; and provided further that a Capacity Market Seller that offers and clears an Energy Efficiency Resource in a BRA may elect a New Entry Price Adjustment on the same terms as set forth in section 5.14(c) of this Attachment DD.

5. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than 30 days prior to each Auction an updated project status and measurement and verification plan subject to the criteria set forth in the PJM Manuals.

6. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than the start of such Delivery Year, an updated project status and detailed measurement and verification data meeting the standards for precision and accuracy set forth in the PJM Manuals. The final value of the Energy Efficiency Resource during such Delivery Year shall be as determined by the Office of the Interconnection based on the submitted data.

7. The Office of the Interconnection may audit, at the Capacity Market Seller's expense, any Energy Efficiency Resource committed to the PJM Region. The audit may be conducted any time including the Performance Hours of the Delivery Year.

Sections of the  
Reliability Assurance Agreement  
Option A  
(Marked/Redline Format)

## ARTICLE 1 – DEFINITIONS

Unless the context otherwise specifies or requires, capitalized terms used herein shall have the respective meanings assigned herein or in the Schedules hereto for all purposes of this Agreement (such definitions to be equally applicable to both the singular and the plural forms of the terms defined). Unless otherwise specified, all references herein to Articles, Sections or Schedules, are to Articles, Sections or Schedules of this Agreement. As used in this Agreement:

### 1.1 Agreement

Agreement shall mean this Reliability Assurance Agreement, together with all Schedules hereto, as amended from time to time.

### 1.1A Annual Demand Resource

Annual Demand Resource shall mean a resource that is placed under the direction of the Office of the Interconnection during the Delivery Year, and will be available for an unlimited number of interruptions during such Delivery Year by the Office of the Interconnection, and will be capable of maintaining each such interruption between the hours of 10:00AM to 10:00PM Eastern Prevailing Time for the months of June through October and the following May, and 6:00AM through 9:00PM Eastern Prevailing Time for the months of November through April unless there is an Office of the Interconnection approved maintenance outage during October through April. The Annual Demand Resource must be available in the corresponding Delivery year to be offered for sale or Self-Supplied in an RPM Auction, or included as an Annual Demand Resource in an FRR Capacity Plan for the corresponding Delivery Year.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### 1.1B Annual Energy Efficiency Resource

*Annual Energy Efficiency Resource shall mean a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during the summer and winter periods described in Schedule 6 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.*

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff

records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **1.2 Applicable Regional Entity**

Applicable Regional Entity shall have the same meaning as in the PJM Tariff.

### **1.2A Base Capacity Demand Resource**

*Base Capacity Demand Resource shall mean, for the 2018/2019 and 2019/2020 Delivery Years, a resource that is placed under the direction of the Office of the Interconnection and that will be available June through September of a Delivery Year, and will be available to the Office of the Interconnection for an unlimited number of interruptions during such months, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time. The Base Capacity Demand Resource must be available June through September in the corresponding Delivery Year to be offered for sale or self-supplied in an RPM Auction, or included as an Base Capacity Demand Resource in an FRR Capacity Plan for the corresponding Delivery Year. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.*

### **1.2B Base Capacity Energy Efficiency Resource**

*Base Capacity Energy Efficiency Resource shall mean, for the 2018/2019 and 2019/2020 Delivery Years, a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during the summer peak periods as described in Schedule 6 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the Base Capacity Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.*

### **1.2C Base Capacity Resource**

*Base Capacity Resource shall have the same meaning as in Attachment DD to the PJM*

*Tariff.*

### **1.2D Base Capacity WEEL**

Base Capacity WEEL shall mean, for the 2018/2019 and 2019/2020 Delivery Years, a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6.2 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during the summer peak periods as described in Schedule 6.2 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the Base Capacity WEEL is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.

### **1.2E Base Capacity WLR Load**

Base Capacity WLR Load shall mean, for the 2018/2019 and 2019/2020 Delivery Years, load that is placed by the WLR Provider under the direction of the Office of the Interconnection and that will be available June through September of a Delivery Year, and will be available to the Office of the Interconnection for an unlimited number of interruptions during such months, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time. The Base Capacity WLR Load must be available June through September in the corresponding Delivery Year to be bid in an RPM Auction.

### **1.2F Base Capacity WLR Load Constraint**

Base Capacity WLR Load Constraint shall have the same meaning as in Attachment DD to the PJM Tariff.

## **1.3 Base Residual Auction**

Base Residual Auction shall have the same meaning as in Attachment DD to the PJM Tariff.

## **1.4 Behind The Meter Generation**

Behind The Meter Generation shall mean a generating unit that delivers energy to load without using the Transmission System or any distribution facilities (unless the entity that owns or leases the distribution facilities consented to such use of the distribution facilities and such consent has been demonstrated to the satisfaction of the Office of the Interconnection; provided, however, that Behind The Meter Generation does not include (i) at any time, any portion of such generating unit's capacity that is designated as a Capacity Resource or (ii) in any hour, any portion of the output of such generating unit that is sold to another entity for consumption at another electrical location or into the PJM Interchange Energy Market.

## **1.5 Black Start Capability**

Black Start Capability shall mean the ability of a generating unit or station to go from a shutdown condition to an operating condition and start delivering power without assistance from the power system.

## **1.6 Capacity Emergency Transfer Objective (“CETO”)**

Capacity Emergency Transfer Objective (“CETO”) shall mean the amount of electric energy that a given area must be able to import in order to remain within a loss of load expectation of one event in 25 years when the area is experiencing a localized capacity emergency, as determined in accordance with the PJM Manuals. Without limiting the foregoing, CETO shall be calculated based in part on EFORD determined in accordance with Paragraph C of Schedule 5.

## **1.7 Capacity Emergency Transmission Limit (“CETL”)**

Capacity Emergency Transmission Limit (“CETL”) shall mean the capability of the transmission system to support deliveries of electric energy to a given area experiencing a localized capacity emergency as determined in accordance with the PJM Manuals.

### **1.7A Capacity Import Limit**

Capacity Import Limit shall mean, (a) for the PJM Region, (1) the maximum megawatt quantity of external Generation Capacity Resources that PJM determines for each Delivery Year, through appropriate modeling and the application of engineering judgment, the transmission system can receive, in aggregate at the interface of the PJM Region with all external balancing authority areas and deliver to load in the PJM Region under capacity emergency conditions without violating applicable reliability criteria on any bulk electric system facility of 100kV or greater, internal or external to the PJM Region, that has an electrically significant response to transfers on such interface, minus (2) the then-applicable Capacity Benefit Margin; and (b) for certain source zones identified in the PJM manuals as groupings of one or more balancing authority areas, (1) the maximum megawatt quantity of external Generation Capacity Resources that PJM determines the transmission system can receive at the interface of the PJM Region with each such source zone and deliver to load in the PJM Region under capacity emergency conditions without violating applicable reliability criteria on any bulk electric system facility of 100kV or greater, internal or external to the PJM Region, that has an electrically significant response to transfers on such interface, minus the then-applicable Capacity Benefit Margin times (2) the ratio of the maximum import quantity from each such source zone divided by the PJM total maximum import quantity. As more fully set forth in the PJM Manuals, PJM shall make such determination based on the latest peak load forecast for the studied period, the same computer simulation model of loads, generation and transmission topography employed in the determination of Capacity Emergency Transmission Limit for such Delivery Year, including external facilities from an industry standard model of the loads, generation, and transmission topography of the Eastern Interconnection under peak conditions. PJM shall specify in the PJM Manuals the areas and minimum distribution factors for identifying monitored bulk electric



system facilities that have an electrically significant response to such transfers on the PJM interface. Employing such tools, PJM shall model increased power transfers from external areas into PJM to determine the transfer level at which one or more reliability criteria is violated on any monitored bulk electric system facilities that have an electrically significant response to such transfers. For the PJM Region Capacity Import Limit, PJM shall optimize transfers from other source areas not experiencing any reliability criteria violations as appropriate to increase the Capacity Import Limit. The aggregate megawatt quantity of transfers into PJM at the point where any increase in transfers on the interface would violate reliability criteria will establish the Capacity Import Limit. Notwithstanding the foregoing, a Capacity Resource located outside the PJM Region shall not be subject to the Capacity Import Limit if the Capacity Market Seller seeks an exception thereto by demonstrating to PJM, by no later than five (5) business days prior to the commencement of the offer period for the relevant RPM Auction, that such resource meets all of the following requirements:

(i) it has, at the time such exception is requested, met all applicable requirements to be treated as equivalent to PJM Region internal generation that is not subject to NERC tagging as an interchange transaction, or the Capacity Market Seller has committed in writing that it will meet such requirements, unless prevented from doing so by circumstances beyond the control of the Capacity Market Seller, prior to the relevant Delivery Year;

(ii) at the time such exception is requested, it has long-term firm transmission service confirmed on the complete transmission path from such resource into PJM; and

(iii) it is, by written commitment of the Capacity Market Seller, subject to the same obligations imposed on Generation Capacity Resources located in the PJM Region by section 6.6 of Attachment DD of the PJM Tariff to offer their capacity into RPM Auctions;

provided, however, that (a) the total megawatt quantity of all exceptions granted hereunder for a Delivery Year, plus the Capacity Import Limit for the applicable interface determined for such Delivery Year, may not exceed the total megawatt quantity of Network External Designated Transmission Service on such interface that PJM has confirmed for such Delivery Year; and (b) if granting a qualified exception would result in a violation of the rule in clause (a), PJM shall grant the requested exception but reduce the Capacity Import Limit by the quantity necessary to ensure that the total quantity of Network External Designated Transmission Service is not exceeded.

### ***1.7B Capacity Performance Resource***

*Capacity Performance Resource shall have the same meaning as in Attachment DD to the PJM Tariff.*

### **1.7C Capacity Performance WEEL**

Capacity Performance WEEL shall mean a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6.2 of this Agreement and exceeding then-current building

codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak summer and winter periods described in Schedule 6.2 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the Capacity Performance WEEL is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.

### **1.7D Capacity Performance WLR Load**

Capacity Performance WLR Load shall mean a load that is placed by the WLR Provider under the direction of the Office of the Interconnection during the Delivery Year, and will be available for an unlimited number of interruptions during such Delivery Year by the Office of the Interconnection, and will be capable of maintaining each such interruption between the hours of 10:00AM to 10:00PM Eastern Prevailing Time for the months of June through October and the following May, and 6:00AM through 9:00PM Eastern Prevailing Time for the months of November through April unless there is an Office of the Interconnection approved maintenance outage during October through April. The Capacity Performance WLR Load must be available in the corresponding Delivery year to be bid in an RPM Auction.

## **1.8 Capacity Resources**

Capacity Resources shall mean megawatts of (i) net capacity from *Existing Generation Capacity Resources* or Planned Generation Capacity Resources meeting the requirements of Schedules 9 and 10 that are or will be owned by or contracted to a Party and that are or will be committed to satisfy that Party's obligations under this Agreement, or to satisfy the reliability requirements of the PJM Region, for a Delivery Year; (ii) net capacity from *Existing Generation Capacity Resources* or Planned Generation Capacity Resources not owned or contracted for by a Party which are accredited to the PJM Region pursuant to the procedures set forth in Schedules 9 and 10; and (iii) load reduction capability provided by Demand Resources or Energy Efficiency Resources that are accredited to the PJM Region pursuant to the procedures set forth in Schedule 6. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **1.9 Capacity Transfer Right**

Capacity Transfer Right shall have the meaning specified in Attachment DD to the PJM Tariff.

### **1.9.1 Compliance Aggregation Area (CAA)**

“Compliance Aggregation Area” or “CAA” shall have the same meaning as in the PJM Tariff.

### **1.10 Control Area**

Control Area shall mean an electric power system or combination of electric power systems bounded by interconnection metering and telemetry to which a common generation control scheme is applied in order to:

- (a) match the power output of the generators within the electric power system(s) and energy purchased from entities outside the electric power system(s), with the load within the electric power system(s);
- (b) maintain scheduled interchange with other Control Areas, within the limits of Good Utility Practice;
- (c) maintain the frequency of the electric power system(s) within reasonable limits in accordance with Good Utility Practice and the criteria of NERC and each Applicable Regional Entity;
- (d) maintain power flows on transmission facilities within appropriate limits to preserve reliability; and
- (e) provide sufficient generating capacity to maintain operating reserves in accordance with Good Utility Practice.

### **1.11 Daily Unforced Capacity Obligation**

Daily Unforced Capacity Obligation shall have the meaning set forth in Schedule 8 or, as to an FRR Entity, in Schedule 8.1.

### **1.12 Delivery Year**

Delivery Year shall mean a Planning Period for which a Capacity Resource is committed pursuant to the auction procedures specified in Attachment DD to the Tariff or pursuant to an FRR Capacity Plan.

### **1.13 Demand Resource**

Demand Resource or “DR” shall mean a Limited Demand Resource, Extended Summer Demand Resource, Annual Demand Resource, *or Base Capacity Demand Resource* with a demonstrated capability to provide a reduction in demand or otherwise control load in accordance with the requirements of Schedule 6 that offers and that clears load reduction capability in a Base Residual Auction or Incremental Auction or that is committed through an FRR Capacity Plan. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and

until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### **1.13A Demand Resource Officer Certification Form**

Demand Resource Officer Certification Form shall mean a certification as to an intended Demand Resource Sell Offer, in accordance with Schedules 6 and 8.1 of this Agreement and the PJM Manuals.

### **1.14 [Reserved for Future Use]**

### **1.14A Demand Resource Sell Offer Plan**

Demand Resource Sell Offer Plan shall mean the plan required by Schedules 6 and 8.1 of this Agreement in support of an intended offer of Demand Resources in an RPM Auction, or an intended inclusion of Demand Resources in an FRR Capacity Plan.

### **1.15 DR Factor**

DR Factor shall mean, *for Delivery Years through May 31, 2018*, that factor approved from time to time by the PJM Board used to determine the unforced capacity value of a Demand Resource in accordance with Schedule 6.

### **1.16 [Reserved for Future Use]**

### **1.17 Electric Cooperative**

Electric Cooperative shall mean an entity owned in cooperative form by its customers that is engaged in the generation, transmission, and/or distribution of electric energy.

### **1.18 Electric Distributor**

Electric Distributor shall mean an entity that owns or leases with rights equivalent to ownership electric distribution facilities that are providing electric distribution service to electric load within the PJM Region.

### **1.19 Emergency**

Emergency shall mean (i) an abnormal system condition requiring manual or automatic action to maintain system frequency, or to prevent loss of firm load, equipment damage, or tripping of system elements that could adversely affect the reliability of an electric system or the safety of persons or property; or (ii) a fuel shortage requiring departure from normal operating procedures in order to minimize the use of such scarce fuel; or (iii) a condition that requires implementation of emergency procedures as defined in the PJM Manuals.

### **1.20 End-Use Customer**

End-Use Customer shall mean a Member that is a retail end-user of electricity within the PJM Region.

### **1.20A Energy Efficiency Resource**

Energy Efficiency Resource shall mean a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during *the* periods described in Schedule 6 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention. *Annual Energy Efficiency Resources and Base Capacity Energy Efficiency Resources are types of Energy Efficiency Resources.* Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **1.20A.1 Existing Demand Resource**

Existing Demand Resource shall mean a Demand Resource for which the Demand Resource Provider has identified existing end-use customer sites that are registered for the current Delivery Year with PJM (even if not registered by such Demand Resource Provider) and that the Demand Resource Provider reasonably expects to have under a contract to reduce load based on PJM dispatch instructions by the start of the Delivery Year for which such resource is offered.

### **1.20B Existing Generation Capacity Resource**

Existing Generation Capacity Resource shall mean, for purposes of the must-offer requirement and mitigation of offers for any RPM Auction for a Delivery Year, a Generation Capacity Resource that, as of the date on which bidding commences for such auction: (a) is in *full commercial operation and for which Interconnection Service* has ever commenced for resources located in the PJM Region), or if it is physically and electrically interconnected to an external Control Area and is in full commercial operation (for resources not located in the PJM Region. The additional megawatts of a Generation Capacity Resource that is being, or has been, modified to increase the number of megawatts of available installed capacity thereof shall not be deemed to be an Existing Generation Capacity Resource until such time as those megawatts *are in full commercial operation and Interconnection Service has commenced.*

#### **1.20B.01 Existing WLR Load**

Existing WLR Load shall mean WLR Load for which the WLR Provider has identified existing end-use customer sites that are registered for the current Delivery Year with PJM (even if not registered by such WLR Provider) and that the WLR Provider reasonably expects to serve as the Load Serving Entity and have under a contract to reduce load based on PJM dispatch instructions by the Delivery Year for which such load is bid.

#### **1.20C Extended Summer Demand Resource**

Extended Summer Demand Resource shall mean, *for Delivery Years through May 31, 2018*, a resource that is placed under the direction of the Office of the Interconnection and that will be available June through October and the following May, and will be available for an unlimited number of interruptions during such months by the Office of the Interconnection, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time. The Extended Summer Demand Resource must be available June through October and the following May in the corresponding Delivery Year to be offered for sale or Self-Supplied in an RPM Auction, or included as an Extended Summer Demand Resource in an FRR Capacity Plan for the corresponding Delivery Year. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **1.21 Facilities Study Agreement**

Facilities Study Agreement shall have the same meaning as in the PJM Tariff

#### **1.22 FERC**

FERC shall mean the Federal Energy Regulatory Commission or any successor federal agency, commission or department.

#### **1.23 Firm Point-To-Point Transmission Service**

Firm Point-To-Point Transmission Service shall mean Firm Transmission Service provided pursuant to the rates, terms and conditions set forth in Part II of the PJM Tariff.

#### **1.24 Firm Transmission Service**

Firm Transmission Service shall mean transmission service that is intended to be available at all times to the maximum extent practicable, subject to an Emergency, an unanticipated failure of a facility, or other event beyond the control of the owner or operator of the facility or the Office of the Interconnection.

#### **1.25 Fixed Resource Requirement Alternative or FRR Alternative**

Fixed Resource Requirement Alternative or FRR Alternative shall mean an alternative method for a Party to satisfy its obligation to provide Unforced Capacity hereunder, as set forth in Schedule 8.1 to this Agreement.

#### **1.26 Forecast Pool Requirement**

Forecast Pool Requirement or FPR shall mean the amount equal to one plus the unforced reserve margin (stated as a decimal number) for the PJM Region required pursuant to this Agreement, as approved by the PJM Board pursuant to Schedule 4.1.

#### **1.27 [Reserved]**

#### **1.28 [Reserved]**

#### **1.29 FRR Capacity Plan or FRR Plan**

FRR Capacity Plan or FRR Plan shall mean a long-term plan for the commitment of Capacity Resources to satisfy the capacity obligations of a Party that has elected the FRR Alternative, as more fully set forth in Schedule 8.1 to this Agreement.

#### **1.30 FRR Entity**

FRR Entity shall mean, for the duration of such election, a Party that has elected the FRR Alternative hereunder.

#### **1.31 FRR Service Area**

FRR Service Area shall mean (a) the service territory of an IOU as recognized by state law, rule or order; (b) the service area of a Public Power Entity or Electric Cooperative as recognized by franchise or other state law, rule, or order; or (c) a separately identifiable geographic area that is: (i) bounded by wholesale metering, or similar appropriate multi-site aggregate metering, that is visible to, and regularly reported to, the Office of the Interconnection, or that is visible to, and regularly reported to an Electric Distributor and such Electric Distributor agrees to aggregate the load data from such meters for such FRR Service Area and regularly report such aggregated information, by FRR Service Area, to the Office of the Interconnection; and (ii) for which the FRR Entity has or assumes the obligation to provide capacity for all load (including load growth) within such area. In the event that the service obligations of an Electric Cooperative or Public Power Entity are not defined by geographic boundaries but by physical connections to a defined set of customers, the FRR Service Area in such circumstances shall be defined as all customers physically connected to transmission or distribution facilities of such Electric Cooperative or Public Power Entity within an area bounded by appropriate wholesale aggregate metering as described above.

#### **1.32 Full Requirements Service**

Full Requirements Service shall mean wholesale service to supply all of the power needs of a Load Serving Entity to serve end-users within the PJM Region that are not satisfied by its own generating facilities.

### **1.33 Generation Capacity Resource**

Generation Capacity Resource shall mean a generation unit, or the *contractual* right to capacity from a specified generation unit, that meets the requirements of Schedules 9 and 10 of this Agreement, *and, for generation units that are committed to an FRR Capacity Plan, that meets the requirements of Schedule 8.1 of this Agreement*. A Generation Capacity Resource may be an Existing Generation Capacity Resource or a Planned Generation Capacity Resource.

### **1.34 Generation Owner**

Generation Owner shall mean a Member that owns or leases with rights equivalent to ownership, facilities for the generation of electric energy that are located within the PJM Region. Purchasing all or a portion of the output of a generation facility shall not be sufficient to qualify a Member as a Generation Owner.

### **1.35 Generator Forced Outage**

Generator Forced Outage shall mean an immediate reduction in output or capacity or removal from service, in whole or in part, of a generating unit by reason of an Emergency or threatened Emergency, unanticipated failure, or other cause beyond the control of the owner or operator of the facility, as specified in the relevant portions of the PJM Manuals. A reduction in output or removal from service of a generating unit in response to changes in market conditions shall not constitute a Generator Forced Outage.

### **1.36 Generator Maintenance Outage**

Generator Maintenance Outage shall mean the scheduled removal from service, in whole or in part, of a generating unit in order to perform repairs on specific components of the facility, if removal of the facility qualifies as a maintenance outage pursuant to the PJM Manuals.

### **1.37 Generator Planned Outage**

Generator Planned Outage shall mean the scheduled removal from service, in whole or in part, of a generating unit for inspection, maintenance or repair with the approval of the Office of the Interconnection in accordance with the PJM Manuals.

### **1.38 Good Utility Practice**

Good Utility Practice shall mean any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish



the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather is intended to include acceptable practices, methods, or acts generally accepted in the region.

**1.39 [Reserved]**

**1.40 Incremental Auction**

Incremental Auction shall mean the First Incremental Auction, the Second Incremental Auction, the Third Incremental Auction, or the Conditional Incremental Auction, each as defined in Attachment DD to the PJM Tariff.

**1.41 Interconnection Agreement**

Interconnection Agreement shall have the same meaning as in the PJM Tariff.

**1.42 [Reserved]**

**1.43 IOU**

IOU shall mean an investor-owned utility with substantial business interest in owning and/or operating electric facilities in any two or more of the following three asset categories: generation, transmission, distribution.

**1.43A Limited Demand Resource**

Limited Demand Resource shall mean, *for Delivery Years through May 31, 2018*, a resource that is placed under the direction of the Office of the Interconnection and that will, at a minimum, be available for interruption for at least 10 Load Management Events during the summer period of June through September in the Delivery Year, and will be capable of maintaining each such interruption for at least a 6-hour duration. At a minimum, the Limited Demand Resource shall be available for such interruptions on weekdays, other than NERC holidays, from 12:00PM (noon) to 8:00PM Eastern Prevailing Time. The Limited Demand Resource must be available during the summer period of June through September in the corresponding Delivery Year to be offered for sale or Self-Supplied in an RPM Auction, or included as a Limited Demand Resource in an FRR Capacity Plan for the corresponding Delivery Year. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

**1.44 Load Serving Entity or LSE**

Load Serving Entity or LSE shall mean any entity (or the duly designated agent of such an entity), including a load aggregator or power marketer, (i) serving end-users within the PJM Region, and (ii) that has been granted the authority or has an obligation pursuant to state or local law, regulation or franchise to sell electric energy to end-users located within the PJM Region. Load Serving Entity shall include any end-use customer that qualifies under state rules or a utility retail tariff to manage directly its own supply of electric power and energy and use of transmission and ancillary services.

#### **1.45 Locational Reliability Charge**

Locational Reliability Charge shall mean the charge determined pursuant to Schedule 8.

#### **1.46 Markets and Reliability Committee**

Markets and Reliability Committee shall mean the committee established pursuant to the Operating Agreement as a Standing Committee of the Members Committee.

#### **1.46A Maximum Emergency Service Level**

Maximum Emergency Service Level or MESL of Price Responsive Demand shall mean the level, determined at a PRD Substation level, to which Price Responsive Demand shall be reduced during the Delivery Year when a Maximum Generation Emergency is declared and the Locational Marginal Price exceeds the price associated with such Price Responsive Demand identified by the PRD Provider in its PRD Plan.

#### **1.47 Member**

Member shall mean an entity that satisfies the requirements of Sections 1.24 and 11.6 of the PJM Operating Agreement. In accordance with Article 4 of this Agreement, each Party to this Agreement also is a Member.

#### **1.48 Members Committee**

Members Committee shall mean the committee specified in Section 8 of the PJM Operating Agreement composed of the representatives of all the Members.

#### **1.49 NERC**

NERC shall mean the North American Electric Reliability Council or any successor thereto.

#### **1.49A Network External Designated Transmission Service**

Network External Designated Transmission Service shall mean the quantity of network transmission service confirmed by PJM for use by a market participant to import power and energy from an identified Generation Capacity Resource located outside the PJM Region, upon

demonstration by such market participant that it owns such Generation Capacity Resource, has an executed contract to purchase power and energy from such Generation Capacity Resource, or has a contract to purchase power and energy from such Generation Capacity Resource contingent upon securing firm transmission service from such resource.

## **1.50 Network Resources**

Network Resources shall have the meaning set forth in the PJM Tariff.

## **1.51 Network Transmission Service**

Network Transmission Service shall mean transmission service provided pursuant to the rates, terms and conditions set forth in Part III of the PJM Tariff or transmission service comparable to such service that is provided to a Load Serving Entity that is also a Transmission Owner (as that term is defined in the PJM Tariff).

### **1.51A Nominal PRD Value**

Nominal PRD Value shall mean, as to any PRD Provider, an adjustment, determined in accordance with Schedule 6.1 of this Agreement, to the peak-load forecast used to determine the quantity of capacity sought through an RPM Auction, reflecting the aggregate effect of Price Responsive Demand on peak load resulting from the Price Responsive Demand to be provided by such PRD Provider.

## **1.52 Nominated Demand Resource Value**

Nominated Demand Resource Value shall have the meaning specified in Attachment DD to the PJM Tariff.

### **1.52A Nominated WEEL Quantity**

Nominated WEEL Quantity shall mean the MW quantity of load reduction committed by a WEEL Provider in a WLR Bid.

### **1.53 ~~[Reserved]~~ Nominated WLR Quantity**

Nominated WLR Quantity shall mean the MW quantity of load reduction committed by a WLR Provider in a WLR Bid.

## **1.54 Non-Retail Behind the Meter Generation**

Non-Retail Behind the Meter Generation shall mean Behind the Meter Generation that is used by municipal electric systems, electric cooperatives, and electric distribution companies to serve load.

## **1.55 Obligation Peak Load**

Obligation Peak Load shall have the meaning specified in Schedule 8 of this Agreement.

#### **1.56 Office of the Interconnection**

Office of the Interconnection shall mean the employees and agents of PJM Interconnection, L.L.C., subject to the supervision and oversight of the PJM Board, acting pursuant to the Operating Agreement.

#### **1.57 Operating Agreement of PJM Interconnection, L.L.C. or Operating Agreement**

Operating Agreement of PJM Interconnection, L.L.C. or Operating Agreement shall mean that certain agreement, dated April 1, 1997 and as amended and restated June 2, 1997 and as amended from time to time thereafter, among the members of the PJM Interconnection, L.L.C.

#### **1.57A Operating Day**

Operating Day shall have the same meaning as provided in the Operating Agreement.

#### **1.58 Operating Reserve**

Operating Reserve shall mean the amount of generating capacity scheduled to be available for a specified period of an Operating Day to ensure the reliable operation of the PJM Region, as specified in the PJM Manuals.

#### **1.59 Other Supplier**

Other Supplier shall mean a Member that is (i) a seller, buyer or transmitter of electric capacity or energy in, from or through the PJM Region, and (ii) is not a Generation Owner, Electric Distributor, Transmission Owner or End-Use Customer.

#### **1.60 Partial Requirements Service**

Partial Requirements Service shall mean wholesale service to supply a specified portion, but not all, of the power needs of a Load Serving Entity to serve end-users within the PJM Region that are not satisfied by its own generating facilities.

#### ***1.60A Performance Assessment Hour***

*Performance Assessment Hour shall have the meaning specified in Attachment DD of the PJM Tariff.*

#### **1.61 Percentage Internal Resources Required**

Percentage Internal Resources Required shall mean, for purposes of an FRR Capacity Plan, the percentage of the LDA Reliability Requirement for an LDA that must be satisfied with Capacity Resources located in such LDA.

#### **1.62 Party**

Party shall mean an entity bound by the terms of this Agreement.

#### **1.63 PJM**

PJM shall mean the PJM Board and the Office of the Interconnection.

#### **1.64 PJM Board**

PJM Board shall mean the Board of Managers of the PJM Interconnection, L.L.C., acting pursuant to the Operating Agreement.

#### **1.65 PJM Manuals**

PJM Manuals shall mean the instructions, rules, procedures and guidelines established by the Office of the Interconnection for the operation, planning and accounting requirements of the PJM Region.

#### **1.66 PJM Open Access Transmission Tariff or PJM Tariff**

PJM Open Access Transmission Tariff or PJM Tariff shall mean the tariff for transmission service within the PJM Region, as in effect from time to time, including any schedules, appendices, or exhibits attached thereto.

#### **1.67 PJM Region**

PJM Region shall have the same meaning as provided in the Operating Agreement.

#### **1.68 PJM Region Installed Reserve Margin**

PJM Region Installed Reserve Margin shall mean the percent installed reserve margin for the PJM Region required pursuant to this Agreement, as approved by the PJM Board pursuant to Schedule 4.1.

#### **1.69 Planned Demand Resource**

Planned Demand Resource shall mean any Demand Resource that does not currently have the capability to provide a reduction in demand or to otherwise control load, but that is scheduled to be capable of providing such reduction or control on or before the start of the Delivery Year for which such resource is to be committed, as determined in accordance with the requirements of Schedule 6. As set forth in Schedules 6 and 8.1 of this Agreement, a Demand

Resource Provider submitting a DR Sell Offer Plan shall identify as Planned Demand Resources in such plan all Demand Resources in excess of those that qualify as Existing Demand Resources.

### **1.69A Planned External Generation Capacity Resource**

Planned External Generation Capacity Resource shall mean a proposed Generation Capacity Resource, or a proposed increase in the capability of a Generation Capacity Resource, that (a) is to be located outside the PJM Region, (b) participates in the generation interconnection process of a Control Area external to PJM, (c) is scheduled to be physically and electrically interconnected to the transmission facilities of such Control Area on or before the first day of the Delivery Year for which such resource is to be committed to satisfy the reliability requirements of the PJM Region, and (d) is in full commercial operation prior to the first day of such Delivery Year, such that it is sufficient to provide the Installed Capacity set forth in the Sell Offer forming the basis of such resource's commitment to the PJM Region. Prior to participation in any *Base Residual Auction* for such Delivery Year, the Capacity Market Seller must demonstrate that it has *a fully executed system impact study agreement or other documentation which is* (functionally equivalent to a System Impact Study Agreement under the PJM Tariff *or, for resources which are greater than 20MWs participating in a Base Residual Auction for the 2019/2020 Delivery Year and subsequent Delivery Years, an agreement or other documentation which is functionally equivalent to a Facilities Study Agreement under the PJM Tariff*), *with the transmission owner to whose transmission facilities or distribution facilities the resource is being directly connected, and, as applicable, the transmission provider. Prior to participating in any Incremental Auction for such Delivery Year, the Capacity Market Seller must demonstrate it has entered into an interconnection agreement, or such other documentation that is functionally equivalent to an Interconnection Service Agreement under the PJM Tariff, with the transmission owner to whose transmission facilities or distribution facilities the resource is being directly connected, and, as applicable, the transmission provider.* A Planned External Generation Capacity Resource must provide evidence to PJM that it has been studied as a Network Resource, or such other similar interconnection product in such external Control Area, must provide contractual evidence that it has applied for or purchased transmission service to be deliverable to the PJM border, and must provide contractual evidence that it has applied for transmission service to be deliverable to the bus at which energy is to be delivered, the agreements for which must have been executed prior to participation in any Reliability Pricing Model Auction for such Delivery Year. Any *such* resource shall cease to be considered a Planned External Generation Capacity Resource as of the date that interconnection service commences as to such resource in which case it shall become an Existing Generation Capacity Resource for purposes of the mitigation of offers for any RPM Auction for all subsequent Delivery Years.

### **1.70 Planned Generation Capacity Resource**

Planned Generation Capacity Resource shall mean a Generation Capacity Resource, *or additional megawatts to increase the size of a Generation Capacity Resource that is being or has been modified to increase the number of megawatts of available installed capacity thereof,* participating in the generation interconnection process under Part IV, Subpart A of the PJM Tariff, *as applicable,* for which: (i) Interconnection Service is scheduled to commence on or

before the first day of the Delivery Year for which such resource is to be committed to RPM or to an FRR Capacity Plan; (ii) *for any such resource seeking to offer into a Base Residual Auction, or for any such resource of 20 MWs or less seeking to offer into a Base Residual Auction, a System Impact Study Agreement (or, for resources for which a System Impact Study Agreement is not required, has such other agreement or documentation that is functionally equivalent to a System Impact Study Agreement) has been executed prior to the Base Residual Auction for such Delivery Year; (iii) for any such resource of more than 20 MWs seeking to offer into a Base Residual Auction for the 2019/2020 Delivery Year and subsequent Delivery Years, a Facilities Study Agreement (or, for resources for which a Facilities Study Agreement is not required, has such other agreement or documentation that is functionally equivalent to a Facility Studies Agreement) has been executed prior to the Base Residual Auction for such Delivery Year; and (iv) an Interconnection Service Agreement has been executed prior to any Incremental Auction for such Delivery Year in which such resource plans to participate.* For purposes of the must-offer requirement and mitigation of offers for any RPM Auction for a Delivery Year, a Generation Capacity Resource shall cease to be considered a Planned Generation Capacity Resource as of the date that *the resource is in full commercial operation and Interconnection Service commences as to such resource, in which case it shall become an Existing Generation Capacity Resource.*

#### **1.70A Planned WLR Load**

Planned WLR Load shall mean any WLR Load that does not currently have the capability to provide a reduction in load or to otherwise control load, but that is scheduled to be capable of providing such reduction or control on or before the start of the Delivery Year for which such load is to be committed, as determined in accordance with the requirements of Schedule 6.2 of this Agreement. As set forth in Schedule 6.2, a WLR Provider shall identify in its WLR Plan as Planned WLR Loads all WLR Loads in excess of those that qualify as Existing WLR Loads.

#### **1.71 Planning Period**

Planning Period shall mean the 12 months beginning June 1 and extending through May 31 of the following year, or such other period approved by the Members Committee.

#### **1.71A PRD Curve**

PRD Curve shall mean a price-consumption curve at a PRD Substation level, if available, and otherwise at a Zonal (or sub-Zonal LDA, if applicable) level, that details the base consumption level of Price Responsive Demand and the decreasing consumption levels at increasing prices.

#### **1.71B PRD Provider**

PRD Provider shall mean (i) a Load Serving Entity that provides PRD; or (ii) an entity without direct load serving responsibilities that has entered contractual arrangements with end-

use customers served by a Load Serving Entity that satisfy the eligibility criteria for Price Responsive Demand.

#### **1.71C PRD Provider's Zonal Expected Peak Load Value of PRD**

PRD Provider's Zonal Expected Peak Load Value of PRD shall mean the expected contribution to Delivery Year peak load of a PRD Provider's Price Responsive Demand, were such demand not to be reduced in response to price, based on the contribution of the end-use customers comprising such Price Responsive Demand to the most recent prior Delivery Year's peak demand, escalated to the Delivery Year in question, as determined in a manner consistent with the Office of the Interconnection's load forecasts used for purposes of the RPM Auctions.

#### **1.71D PRD Reservation Price**

PRD Reservation Price shall mean an RPM Auction clearing price identified in a PRD Plan for Price Responsive Demand load below which the PRD Provider desires not to commit the identified load as Price Responsive Demand.

#### **1.71E PRD Substation**

PRD Substation shall mean an electrical substation that is located in the same Zone or in the same sub-Zonal LDA as the end-use customers identified in a PRD Plan or PRD registration and that, in terms of the electrical topography of the Transmission Facilities comprising the PJM Region, is as close as practicable to such loads.

#### **1.71F Price Responsive Demand**

Price Responsive Demand or PRD shall mean end-use customer load registered by a PRD Provider pursuant to Schedule 6.1 of the PJM Reliability Assurance Agreement that have, as set forth in more detail in the PJM Manuals, the metering capability to record electricity consumption at an interval of one hour or less, Supervisory Control capable of curtailing such load (consistent with applicable RERRA requirements) at each PRD Substation identified in the relevant PRD Plan or PRD registration in response to a Maximum Generation Emergency declared by the Office of the Interconnection, and a retail rate structure, or equivalent contractual arrangement, capable of changing retail rates as frequently as an hourly basis, that is linked to or based upon changes in real-time Locational Marginal Prices at a PRD Substation level and that results in a predictable automated response to varying wholesale electricity prices.

#### **1.71G Price Responsive Demand Credit**

Price Responsive Demand Credit shall mean a credit, based on committed Price Responsive Demand, as determined under Schedule 6.1 of this Agreement.

#### **1.71H Price Responsive Demand Plan or PRD Plan**



Price Responsive Demand Plan or PRD Plan shall mean a plan, submitted by a PRD Provider and received by the Office of the Interconnection in accordance with Schedule 6.1 of this Agreement and procedures specified in the PJM Manuals, claiming a peak demand limitation due to Price Responsive Demand to support the determination of such PRD Provider's Nominal PRD Value.

#### **1.72 Public Power Entity**

Public Power Entity shall mean any agency, authority, or instrumentality of a state or of a political subdivision of a state, or any corporation wholly owned by any one or more of the foregoing, that is engaged in the generation, transmission, and/or distribution of electric energy.

#### **1.73 Qualifying Transmission Upgrades**

Qualifying Transmission Upgrades shall have the meaning specified in Attachment DD to the PJM Tariff.

#### **1.74 [Reserved for Future Use]**

#### **1.74A Relevant Electric Retail Regulatory Authority**

Relevant Electric Retail Regulatory Authority or RERRA shall have the meaning specified in the PJM Operating Agreement.

#### **1.75 Reliability Principles and Standards**

Reliability Principles and Standards shall mean the principles and standards established by NERC or an Applicable Regional Entity to define, among other things, an acceptable probability of loss of load due to inadequate generation or transmission capability, as amended from time to time.

#### **1.76 Required Approvals**

Required Approvals shall mean all of the approvals required for this Agreement to be modified or to be terminated, in whole or in part, including the acceptance for filing by FERC and every other regulatory authority with jurisdiction over all or any part of this Agreement.

#### **1.77 Self-Supply**

Self-Supply shall have the meaning provided in Attachment DD to the PJM Tariff.

#### **1.77A Small Commercial Customer**

"Small Commercial Customer" shall have the same meaning as in the PJM Tariff.

#### **1.78 [Reserved for Future Use]**

### **1.79 [Reserved for Future Use]**

### **1.80 State Consumer Advocate**

State Consumer Advocate shall mean a legislatively created office from any State, all or any part of the territory of which is within the PJM Region, and the District of Columbia established, inter alia, for the purpose of representing the interests of energy consumers before the utility regulatory commissions of such states and the District of Columbia and the FERC.

### **1.81 State Regulatory Structural Change**

State Regulatory Structural Change shall mean as to any Party, a state law, rule, or order that, after September 30, 2006, initiates a program that allows retail electric consumers served by such Party to choose from among alternative suppliers on a competitive basis, terminates such a program, expands such a program to include classes of customers or localities served by such Party that were not previously permitted to participate in such a program, or that modifies retail electric market structure or market design rules in a manner that materially increases the likelihood that a substantial proportion of the customers of such Party that are eligible for retail choice under such a program (a) that have not exercised such choice will exercise such choice; or (b) that have exercised such choice will no longer exercise such choice, including for example, without limitation, mandating divestiture of utility-owned generation or structural changes to such Party's default service rules that materially affect whether retail choice is economically viable.

#### **1.81A Supervisory Control**

Supervisory Control shall mean the capability to curtail, in accordance with applicable RERRA requirements, load registered as Price Responsive Demand at each PRD Substation identified in the relevant PRD Plan or PRD registration in response to a Maximum Generation Emergency declared by the Office of the Interconnection. Except to the extent automation is not required by the provisions of this Agreement, the curtailment shall be automated, meaning that load shall be reduced automatically in response to control signals sent by the PRD Provider or its designated agent directly to the control equipment where the load is located without the requirement for any action by the end-use customer.

### **1.82 Threshold Quantity**

Threshold Quantity shall mean, as to any FRR Entity for any Delivery Year, the sum of (a) the Unforced Capacity equivalent (determined using the Pool-Wide Average EFORD) of the Installed Reserve Margin for such Delivery Year multiplied by the Preliminary Forecast Peak Load for which such FRR Entity is responsible under its FRR Capacity Plan for such Delivery Year, plus (b) the lesser of (i) 3% of the Unforced Capacity amount determined in (a) above or (ii) 450 MW. If the FRR Entity is not responsible for all load within a Zone, the Preliminary Forecast Peak Load for such entity shall be the FRR Entity's Obligation Peak Load last

determined prior to the Base Residual Auction for such Delivery Year, times the Base FRR Scaling Factor (as determined in accordance with Schedule 8.1).

### **1.83 Transmission Facilities**

Transmission Facilities shall mean facilities that: (i) are within the PJM Region; (ii) meet the definition of transmission facilities pursuant to FERC's Uniform System of Accounts or have been classified as transmission facilities in a ruling by FERC addressing such facilities; and (iii) have been demonstrated to the satisfaction of the Office of the Interconnection to be integrated with the PJM Region transmission system and integrated into the planning and operation of the PJM Region to serve all of the power and transmission customers within the PJM Region.

### **1.84 Transmission Owner**

Transmission Owner shall mean a Member that owns or leases with rights equivalent to ownership Transmission Facilities. Taking transmission service shall not be sufficient to qualify a Member as a Transmission Owner.

### **1.85 Transmission Owners Agreement**

Transmission Owners Agreement shall mean that certain Consolidated Transmission Owners Agreement, dated as of December 15, 2005 and as amended from time to time, among transmission owners within the PJM Region.

### **1.86 Unforced Capacity**

Unforced Capacity shall mean installed capacity rated at summer conditions that is not on average experiencing a forced outage or forced derating, calculated for each Capacity Resource on the 12-month period from October to September without regard to the ownership of or the contractual rights to the capacity of the unit.

### **1.87 ~~[Reserved for Future Use]~~WEEL Provider**

WEEL Provider shall mean a Wholesale Entity that commits to provide, or provides, a Wholesale Energy Efficiency Load for a Delivery Year.

### **1.87A Wholesale Energy Efficiency Load or WEEL**

Wholesale Energy Efficiency Load or WEEL shall mean a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6.2 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during the periods as described in Schedule 6.2 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the WEEL is proposed, and that is fully implemented at all times during such Delivery

Year, without any requirement of notice, dispatch, or operator intervention. Capacity Performance WEEL and Base Capacity WEEL are types of Wholesale Energy Efficiency Loads.

#### **1.87B Wholesale Entity**

Wholesale Entity shall mean: (i) a Party; or, (ii) an entity that shall become a Party before or during the Delivery Year for which WLR is identified.

#### **1.87C Wholesale Load Reduction or WLR**

Wholesale Load Reduction or WLR shall mean a commitment by a Load Serving Entity to reduce the load served or to be served by such Load Serving Entity during a pre-emergency or emergency action at the request of the Office of the Interconnection.

#### **1.87D WLR Bid**

WLR Bid shall mean a bid submitted in a Base Residual Auction to provide a Wholesale Load Reduction or a Wholesale Energy Efficiency Load.

#### **1.87E WLR Bid Price**

WLR Bid Price shall mean a specified minimum clearing price in an RPM Auction at which a WLR Provider or WEEL Provider is willing to commit a Wholesale Load Reduction or a Wholesale Energy Efficiency Load.

#### **1.87F WLR Load**

WLR Load shall mean identified load served or to be served by a Load Serving Entity that provides the basis for a Wholesale Load Reduction reflected in a WLR Bid by such Load Serving Entity.

#### **1.87G WLR Provider**

WLR Provider shall mean a Wholesale Entity that commits to provide, or provides, a Wholesale Load Reduction by any WLR Load.

#### **1.87H WLR Value**

WLR Value shall mean the value assigned to a Wholesale Load Reduction or to a Wholesale Energy Efficiency Load in the auction in which it is committed, as determined in accordance with Schedule 6.2 of this Agreement.

### **1.88 Zonal Capacity Price**

Zonal Capacity Price shall mean the price of Unforced Capacity in a Zone that an LSE that has not elected the FRR Alternative is obligated to pay for a Delivery Year as determined pursuant to Attachment DD to the PJM Tariff.

#### **1.89 Zone or Zonal**

Zone or Zonal shall refer to an area within the PJM Region, as set forth in Schedule 15, or as such areas may be (i) combined as a result of mergers or acquisitions or (ii) added as a result of the expansion of the boundaries of the PJM Region. A Zone shall include any Non-Zone Network Load (as defined in the PJM Tariff) located outside the PJM Region that is served from such Zone under Schedule H-A of the PJM Tariff.

## SCHEDULE 6

### **PROCEDURES FOR DEMAND RESOURCES AND ENERGY EFFICIENCY**

Notwithstanding any other provision of this Schedule 6, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

A. Parties can partially or wholly offset the amounts payable for the Locational Reliability Charge with Demand Resources that are operated under the direction of the Office of the Interconnection. FRR Entities may reduce their capacity obligations with Demand Resources that are operated under the direction of the Office of the Interconnection and detailed in such entity's FRR Capacity Plan. Demand Resources qualifying under the criteria set forth below may be offered for sale or designated as Self-Supply in the Base Residual Auction, included in an FRR Capacity Plan, or offered for sale in any Incremental Auction, for any Delivery Year for which such resource qualifies. Qualified Demand Resources generally fall in one of three categories, i.e., Guaranteed Load Drop, Firm Service Level, or Direct Load Control, as further specified in section G and the PJM Manuals. Qualified Demand Resources may be provided by a Curtailment Service Provider, notwithstanding that such Curtailment Service Provider is not a Party to this Agreement. Such Curtailment Service Providers must satisfy the requirements hereof and the PJM Manuals.

1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and section F hereof, as applicable, the Office of the Interconnection of the Demand Resource that it is placing under the direction of the Office of the Interconnection. A Party must further notify the Office of the Interconnection whether the resource is a Limited Demand Resource, an Extended Summer Demand Resource, a *Base Capacity Demand Resource* or an Annual Demand Resource.

2. A Demand Resource must achieve its full load reduction within the following time period:

(a) For the 2014/2015 Delivery Year, Curtailment Service Providers may elect a notification time period from the Office of the Interconnection of 30, 60 or 120 minutes prior to their Demand Resources being required to fully respond to a Load Management Event.

(b) For the 2015/2016 Delivery Year and subsequent Delivery Years, a Demand Resource must be able to fully respond to a Load Management Event within 30 minutes of notification from the Office of the Interconnection. This default 30 minute prior notification shall apply unless a Curtailment Service Provider obtains an exception from the Office of the Interconnection due to physical operational limitations that prevent the Demand Resource from reducing load within that timeframe. In such case, the Curtailment Service Provider shall submit a request for an exception to the 30 minute prior notification requirement to the Office of the Interconnection, at the time the Registration Form for that resource is submitted in accordance with

Attachment K-Appendix of this Tariff. The only alternative notification times that the Office of Interconnection will permit, upon approval of an exception request, are 60 minutes and 120 minutes prior to a Load Management Event. The Curtailment Service Provider shall indicate in writing, in the appropriate application, that it seeks an exception to permit a prior notification time of 60 minutes or 120 minutes, and the reason(s) for the requested exception. A Curtailment Service Provider shall not submit a request for an exception to the default 30 minute notification period unless it has done its due diligence to confirm that the Demand Resource is physically incapable of responding within that timeframe based on one or more of the reasons set forth below and as may be further defined in the PJM Manuals and has obtained detailed data and documentation to support this determination.

In order to establish that a Demand Resource is reasonably expected to be physically unable to reduce load in that timeframe, the Curtailment Service Provider that registered the resource must demonstrate that:

- 1) The manufacturing processes for the Demand Resource require gradual reduction to avoid damaging major industrial equipment used in the manufacturing process, or damage to the product generated or feedstock used in the manufacturing process;
- 2) Transfer of load to back-up generation requires time-intensive manual process taking more than 30 minutes;
- 3) On-site safety concerns prevent location from implementing reduction plan in less than 30 minutes; or,
- 4) The Demand Resource is comprised of mass market residential customers or Small Commercial Customers which collectively cannot be notified of a Load Management Event within a 30-minute timeframe due to unavoidable communications latency, in which case the requested notification time shall be no longer than 120 minutes.

The Office of the Interconnection may request data and documentation from the Curtailment Service Provider and such Curtailment Service Provider shall provide to the Office of the Interconnection within three (3) business days of a request therefor, a copy of all of the data and documentation supporting the exception request. Failure to provide a timely response to such request shall cause the exception to terminate the following Operating Day.

At its sole option and discretion, the Office of the Interconnection may review the data and documentation provided by the Curtailment Service Provider to determine if the Demand Resource has met one or more of the criteria above. The Office of the Interconnection will notify the Curtailment Service Provider in writing of its determination by no later than ten (10) business days after receipt of the data and documentation.

The Curtailment Service Provider shall provide written notification to the Office of the Interconnection of a material change to the facts that supported its exception request within three (3) business days of becoming aware of such material change in facts, and, if the Office of Interconnection determines that the physical limitation criteria above are no longer

being met, the Demand Resource shall be subject to the default notification period of 30 minutes immediately upon such determination.

3. The initiation of load reduction, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.

4. The initiation of load reduction upon the request of the Office of the Interconnection is considered a pre-emergency or emergency action and must be implementable prior to a voltage reduction.

5. A Curtailment Service Provider intending to offer for sale or designate for self-supply, a Demand Resource in any RPM Auction, or intending to include a Demand Resource in any FRR Capacity Plan must demonstrate, to PJM's satisfaction, that such resource shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such resource is committed. As part of such demonstration, each such Curtailment Service Provider shall submit a Demand Resource Sell Offer Plan in accordance with the standards and procedures set forth in section A-1 of Schedule 6, Schedule 8.1 (as to FRR Capacity Plans) and the PJM Manuals, no later than 15 business days prior to, as applicable, the RPM Auction in which such resource is to be offered, or the deadline for submission of the FRR Capacity Plan in which such resource is to be included. PJM may verify the Curtailment Service Provider's adherence to the Demand Resource Sell Offer Plan at any time. A Curtailment Service Provider with a PJM-approved Demand Resource Sell Offer Plan will be permitted to offer up to the approved Demand Resource quantity into the subject RPM Auction or include such resource in its FRR Capacity Plan.

6. Selection of a Demand Resource in an RPM Auction results in commitment of capacity to the PJM Region. Demand Resources that are so committed must be registered to participate in the Full Program Option or as a Capacity Only resource of the Emergency Load Response and Pre-Emergency Load Response Program and thus available for dispatch during PJM-declared pre-emergency events and emergency events.

A-1. A Demand Resource Sell Offer Plan shall consist of a completed template document in the form posted on the PJM website, requiring the information set forth below and in the PJM Manuals, and a Demand Resource Officer Certification Form signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification. The Demand Resource Sell Offer Plan must provide information that supports the Demand Resource Provider's intended Demand Resource Sell Offers and demonstrates that the Demand Resources are being offered with the intention that the MW quantity that clears the auction is reasonably expected to be physically delivered through Demand Resource registrations for the relevant Delivery Year. The Demand Resource Sell Offer Plan shall include all Existing Demand Resources and all Planned Demand Resources that the Demand Resource Provider intends to offer into an RPM Auction or include in an FRR Capacity Plan.

1. Demand Resource Sell Offer Plan Template. The Demand Resource Sell Offer Plan template, in the form provided on the PJM website, shall require the Demand



Resource Provider to provide the following information and such other information as specified in the PJM Manuals:

(a) Summary Information. The completed template shall include the Demand Resource Provider's company name, contact information, and the Nominated DR Value in ICAP MWs by Zone/sub-Zone that the Demand Resource Provider intends to offer, stated separately for Existing Demand Resources and Planned Demand Resources. The total Nominated DR Value in MWs for each Zone/sub-Zone shall be the sum of the Nominated DR Value of Existing Demand Resources and the Nominated DR Value of Planned Demand Resources, and shall be the maximum MW amount the Provider intends to offer in the RPM Auction for the indicated Zone/sub-Zone, provided that nothing herein shall preclude the Demand Resource Provider from offering in the auction a lesser amount than the total Nominated DR Value shown in its Demand Resource Sell Offer Plan.

(b) Existing Demand Resources. The Demand Resource Provider shall identify all Existing Demand Resources by identifying end-use customer sites that are currently registered with PJM (even if not registered by such Demand Resource Provider) and that the Demand Resource Provider reasonably expects to have under a contract to reduce load based on PJM dispatch instructions by the start of the auction Delivery Year.

(c) Planned Demand Resources. The Demand Resource Provider shall provide the details of, and key assumptions underlying, the Planned Demand Resource quantities (i.e., all Demand Resource quantities in excess of Existing Demand Resource quantities) contained in the Demand Resource Sell Offer Plan, including:

(i) key program attributes and assumptions used to develop the Planned Demand Resource quantities, including, but not limited to, discussion of:

- method(s) of achieving load reduction at customer site(s);
- equipment to be controlled or installed at customer site(s), if any;
- plan and ability to acquire customers;
- types of customer targeted;
- support of market potential and market share for the target customer base, with adjustments for Existing Demand Resource customers within this market and the potential for other Demand Resource Providers targeting the same customers;
- assumptions regarding regulatory approval of program(s), if applicable; and
- if applicable, Direct Load Control (DLC) program details such as: a description of the cycling control strategy, any assumptions regarding switch operability rate, and a list (and copy) of all load research studies used to develop the estimated nominated ICAP value per customer (i.e., the per-participant impact).

(ii) Zone/sub-Zone information by end-use customer segment for all Nominated DR Values for which an end-use customer site is not

identified, to include the number in each segment of end-use customers expected to be registered for the subject Delivery Year, the average Peak Load Contribution per end-use customer for such segment, and the average Nominated DR Value per customer for such segment. End-use customer segments may include residential, commercial, small industrial, medium industrial, and large industrial, as identified and defined in the PJM Manuals, provided that nothing herein or in the Manuals shall preclude the Provider from identifying more specific customer segments within the commercial and industrial categories, if known.

(iii) Information by end-use customer site to the extent required by subsection A-1(1)(c)(iv) or, if not required by such subsection, to the extent known at the time of the submittal of the Demand Resource Sell Offer Plan, to include: customer EDC account number (if known), customer name, customer premise address, Zone/sub-Zone in which the customer is located, end-use customer segment, current Peak Load Contribution value (or an estimate if actual value not known) and an estimate of expected Peak Load Contribution for the subject Delivery Year, and an estimated Nominated DR Value.

(iv) End-use customer site-specific information shall be required for any Zones or sub-Zones identified by PJM pursuant to this subsection for the portion, if any, of a Demand Resource Provider's intended offer in such Zones or sub-Zones that exceeds a Sell Offer threshold determined pursuant to this subsection, as any such excess quantity under such conditions should reflect Planned Demand Resources from end-use customer sites that the Provider has a high degree of certainty it will physically deliver for the subject Delivery Year. In accordance with the procedures in subsection A-1(3) below, PJM shall identify, as requiring site-specific information, all Zones and sub-Zones that comprise any LDA group (from a list of LDA groups stated in the PJM Manuals) in which [the quantity of cleared Demand Resources from the most recent Base Residual Auction] plus [the quantity of Demand Resources included in FRR Capacity Plans for the Delivery Year addressed by the most recent Base Residual Auction] in any Zone or sub-Zone of such LDA group exceeds the greater of:

- the maximum Demand Resources quantity registered with PJM for such Zone for any Delivery Year from the current (at time of plan submission) Delivery Year and the two preceding Delivery Years; and
- the potential Demand Resource quantity for such Zone estimated by PJM based on an independent published assessment of demand response potential that is reasonably applicable to such Zone, as identified in the PJM Manuals.

For each such Zone and sub-Zone, the Sell Offer threshold for each Demand Resource Provider shall be the higher of:

- the Demand Resource Provider's maximum Demand Resource quantity registered with PJM for such Zone/sub-Zone over the current Delivery Year (at the time of plan submission) and two preceding Delivery Years;
- the Demand Resource Provider's maximum for any single Delivery Year of [such provider's cleared Demand Resource quantity] plus [such provider's quantity of Demand Resources included in FRR Capacity Plans] from the three forward Delivery Years addressed by the three most recent Base Residual Auctions for such Zone/sub-Zone; and
- 10 MW.

(d) Schedule. The Demand Resource Provider shall provide an approximate timeline for procuring end-use customer sites as needed to physically deliver the total Nominated DR Value (for both Existing Demand Resources and Planned Demand Resources) by Zone/sub-Zone in the Demand Resource Sell Offer Plan. The Demand Resource Provider must specify the cumulative number of customers and the cumulative Nominated DR Value associated with each end-use customer segment within each Zone/sub-Zone that the Demand Resource Provider expects (at the time of plan submission) to have under contract as of June 1 each year between the time of the auction and the subject Delivery Year.

2. Demand Resource Officer Certification Form. Each Demand Resource Sell Offer Plan must include a Demand Resource Officer Certification, signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification, in the form shown in the PJM Manuals, which form shall include the following certifications:

(a) that the signing officer has reviewed the Demand Resource Sell Offer Plan and the information supplied to PJM in support of the Plan is true and correct as of the date of the certification; and

(b) that the Demand Resource Provider is submitting the Plan with the reasonable expectation, based upon its analyses as of the date of the certification, to physically deliver all megawatts that clear the RPM Auction through Demand Resource registrations by the specified Delivery Year.

As set forth in the form provided in the PJM manuals, the certification shall specify that it does not in any way abridge, expand, or otherwise modify the current provisions of the PJM Tariff, Operating Agreement and/or RAA, or the Demand Resource Provider's rights and obligations thereunder, including the Demand Resource Provider's ability to adjust capacity obligations through participation in PJM incremental auctions and bilateral transactions.

3. Procedures. No later than December 1 prior to the Base Residual Auction for a Delivery Year, PJM shall post to the PJM website a list of Zones and sub-Zones, if any, for which end-use customer site-specific information shall be required under the conditions specified in subsection A-1(1)(c)(iv) above for all RPM Auctions conducted for such Delivery Year. Once so identified, a Zone or sub-Zone shall remain on the list for future Delivery Years until the threshold determined under subsection A-1(1)(c)(iv) above is not exceeded for three consecutive Delivery Years. No later than 15 business days prior to the RPM Auction in which a Demand Resource Provider intends to offer a Demand Resource, the Demand Resource Provider shall submit to PJM a completed Demand Resource Sell Offer Plan template and a Demand Resource Officer Certification Form signed by a duly authorized officer of the Provider. PJM will review all submitted DR Sell Offer Plans. No later than 10 business days prior to the subject RPM Auction, PJM shall notify any Demand Resource Providers that have identified the same end-use customer site(s) in their respective DR Sell Offer Plans for the same Delivery Year. In such event, the MWs associated with such site(s) will not be approved for inclusion in a Sell Offer in an RPM Auction by any of the Demand Resource Providers, unless a Demand Resource Provider provides a letter of support from the end-use customer indicating that it is likely to execute a contract with that Demand Resource Provider for the relevant Delivery Year, or provides other comparable evidence of likely commitment. Such letter of support or other supporting evidence must be provided to PJM no later than 7 business days prior to the subject RPM Auction. If an end-use customer provides letters of support for the same site for the same Delivery Year to multiple Demand Resource Providers, the MWs associated with such end-use customer site shall not be approved as a Demand Resource for any of the Demand Resource Providers. No later than 5 business days prior to the subject RPM Auction, PJM will notify each Demand Resource Provider of the approved Demand Resource quantity, by Zone/sub-Zone, that such Demand Resource Provider is permitted to offer into such RPM Auction.

B. The Unforced Capacity value of a Demand Resource will be determined as:

*for the Delivery Years through May 31, 2018, the product of the Nominated Value of the Demand Resource, times the DR Factor, times the Forecast Pool Requirement, and for the 2018/2019 Delivery Year and subsequent Delivery Years, the product of the Nominated Value of the Demand Resource times the Forecast Pool Requirement.*

Nominated Values shall be determined and reviewed in accordance with sections I and J, respectively, and the PJM Manuals. The DR Factor is a factor established by the PJM Board with the advice of the Members Committee to reflect the increase in the peak load carrying capability in the PJM Region due to Demand Resources. Peak load carrying capability is defined to be the peak load that the PJM Region is able to serve at the loss of load expectation defined in the Reliability Principles and Standards. The DR Factor is the increase in the peak load carrying capability in the PJM Region due to Demand Resources, divided by the total Nominated Value of Demand Resources in the PJM Region. The DR Factor will be determined using an analytical program that uses a probabilistic approach to determine reliability. The determination of the DR Factor will consider the reliability of Demand Resources, the number of interruptions, and the total amount of load reduction.

- C. Demand Resources offered and cleared in a Base Residual or Incremental Auction shall receive the corresponding Capacity Resource Clearing Price as determined in such auction, in accordance with Attachment DD of the PJM Tariff. For Delivery Years beginning with the Delivery Year that commences on June 1, 2013, any Demand Resources located in a Zone with multiple LDAs shall receive the Capacity Resource Clearing Price applicable to the location of such resource within such Zone, as identified in such resource's offer. Further, the Curtailment Service Provider shall register its resource in the same location within the Zone as specified in its cleared sell offer, and shall be subject to deficiency charges under Attachment DD of this Tariff to the extent it fails to provide the resource in such location consistent with its cleared offer. For either of the Delivery Year commencing on June 1, 2010 or commencing on June 1, 2012, if the location of a Demand Resource is not specified by a Seller in the Sell Offer on an individual LDA basis in a Zone with multiple LDAs, then Demand Resources cleared by such Seller will be paid a DR Weighted Zonal Resource Clearing Price, determined as follows: (i) for a Zone that includes non-overlapping LDAs, calculated as the weighted average of the Resource Clearing Prices for such LDAs, weighted by the cleared Demand Resources registered by such Seller in each such LDA; or (ii) for a Zone that contains a smaller LDA within a larger LDA, calculated treating the smaller LDA and the remaining portion of the larger LDA as if they were separate LDAs, and weight-averaging in the same manner as (i) above.
- D. The Party, Electric Distributor, or Curtailment Service Provider that establishes a contractual relationship (by contract or tariff rate) with a customer for load reductions is entitled to receive the compensation specified in section C for a committed Demand Resource, notwithstanding that such provider is not the customer's energy supplier.
- E. Any Party hereto shall demonstrate that its Demand Resources performed during periods when load management procedures were invoked by the Office of the Interconnection. The Office of the Interconnection shall adopt and maintain rules and procedures for verifying the performance of such resources, as set forth in section K hereof and the PJM Manuals. In addition, committed Demand Resources that do not comply with the directions of the Office of the Interconnection to reduce load during an emergency shall be subject to the penalty charge set forth in Attachment DD to the PJM Tariff.
- F. Parties may elect to place Demand Resources associated with Behind The Meter Generation under the direction of the Office of the Interconnection for a Delivery Year by submitting a Sell Offer for such resource (as Self Supply, or with an offer price) in the Base Residual Auction for such Delivery Year. This election shall remain in effect for the entirety of such Delivery Year. In the event such an election is made, such Behind The Meter Generation will not be netted from load for the purposes of calculating the Daily Unforced Capacity Obligations under this Agreement.
- G. PJM measures Demand Resources in the following *four* ways:
- Direct Load Control (DLC) – Load management that is initiated directly by the Curtailment Service Provider's market operations center or its agent, employing a

communication signal to cycle equipment (typically water heaters or central air conditioners). DLC programs are qualified based on load research and customer subscription data. Curtailment Service Providers may rely on the results of load research studies identified in the PJM Manuals to set the per-participant load reduction for DLC programs. Each Curtailment Service Provider relying on DLC load management must periodically update its DLC switch operability rates, in accordance with the PJM Manuals.

**Firm Service Level (FSL)** – Load management achieved by an end-use customer reducing its load to a pre-determined level (the Firm Service Level), upon notification from the Curtailment Service Provider’s market operations center or its agent.

**Guaranteed Load Drop (GLD)** – Load management achieved by an end-use customer reducing its load by a pre-determined amount (the Guaranteed Load Drop), upon notification from the Curtailment Service Provider’s market operations center or its agent. Typically, the load reduction is achieved through running customer-owned backup generators, or by shutting down process equipment.

*Customer Baseline Load (CBL) - Load management achieved by an end-use customer as measured by comparing actual metered load to an end-use customer’s Customer Baseline Load or alternative CBL determined in accordance with the provisions of Section 3.3A.2 or 3.3A.2.01 of the Operating Agreement.*

- H. Each Curtailment Service Provider must satisfy (or contract with another LSE, Curtailment Service Provider, or electric distribution company to provide) the following requirements:
- A point of contact with appropriate backup to ensure single call notification from PJM and timely execution of the notification process;
  - Supplemental status reports, detailing Demand Resources available, as requested by PJM;
  - Entry of customer-specific Demand Resource credit information, for planning and verification purposes, into the designated PJM electronic system.
  - Customer-specific compliance and verification information for each PJM-initiated Demand Resource event, as well as aggregated Provider load drop data for Provider-initiated events, in accordance with established reporting guidelines.
  - Load drop estimates for all Demand Resource events, prepared in accordance with the PJM Manuals.
- I. The Nominated Value of each Demand Resource shall be determined consistent with the process for determination of the capacity obligation for the customer.

The Nominated Value for a Firm Service Level customer will be based on the peak load contribution for the customer, as determined by the 5CP methodology utilized to determine other ICAP obligation values. The maximum Demand Resource load reduction value for a Firm Service Level customer will be equal to Peak Load Contribution – Firm Contract Level adjusted for system losses.

The Nominated Value for a Guaranteed Load Drop customer will be the guaranteed load drop amount, adjusted for system losses, as established by the customer's contract with the Curtailment Service Provider. The maximum credit nominated shall not exceed the customer's Peak Load Contribution.

The Nominated Value for a Direct Load Control program will be based on load research and customer subscription. The maximum value of the program is equal to the approved per-participant load reduction multiplied by the number of active participants, adjusted for system losses. The per-participant impact is to be estimated at long-term average local weather conditions at the time of the summer peak.

Customer-specific Demand Resource information (EDC account number, peak load, notification period, etc.) will be entered into the designated PJM electronic system to establish credit values. Additional data may be required, as defined in sections J and K.

- J. Nominated Values shall be reviewed based on documentation of customer-specific data and Demand Resource information, to verify the amount of load management available and to set a maximum allowable Nominated Value. Data is provided by both the zone EDC and the Curtailment Service Provider on templates supplied by PJM, and must include the EDC meter number or other unique customer identifier, Peak Load Contribution (5CP), contract firm service level or guaranteed load drop values, applicable loss factor, zone/area location of the load drop, LSE contact information, number of active participants, etc. Such data must be uploaded and approved prior to the first day of the Delivery Year for such resource as a Demand Resource. Curtailment Service Providers must provide this information concurrently to host EDCs.

For Firm Service Level and Guaranteed Load Drop customers, the 5CP values, for the zone and affected customers, will be adjusted to reflect an "unrestricted" peak for a zone, based on information provided by the Curtailment Service Provider. Load drop levels shall be estimated in accordance with guidelines in the PJM Manuals.

For Direct Load Control programs, the Curtailment Service Provider must provide information detailing the number of active participants in each program. Other information on approved DLC programs will be provided by PJM.

- K. Compliance is the process utilized to review Provider performance during PJM-initiated Demand Resource events. Compliance will be established for each Provider on an event specific basis for the Curtailment Service Provider's Demand Resources dispatched by the Office of the Interconnection during such event. PJM will establish and communicate reasonable deadlines for the timely submittal of event data to expedite compliance

reviews. Compliance reviews will be completed as soon after the event as possible, with the expectation that reviews of a single event will be completed within two months of the end of the month in which the event took place. Curtailment Service Providers are responsible for the submittal of compliance information to PJM for each PJM-initiated event during the compliance period.

*For Load Management Events occurring through the May 31, 2018 and for Load Management Events occurring during the months of June through September of the 2018/2019 Delivery Year and subsequent Delivery Years:*

Compliance for Direct Load Control programs will consider only the transmission of the control signal. Curtailment Service Providers are required to report the time period (during the Demand Resource event) that the control signal was actually sent.

Compliance is checked on an individual customer basis for FSL, by comparing actual load during the event to the firm service level. Curtailment Service Providers must submit actual customer load levels (for the event period) for the compliance report. Compliance for FSL will be based on:

End use customer's current Delivery Year peak load contribution ("PLC") minus the metered load ("Load") multiplied by the loss factor ("LF"). The calculation is represented by:

$$(PLC) - (Load * LF)$$

Compliance is checked on an individual customer basis for GLD, and will be based on:

- (i) the lesser of (a) comparison load used to best represent what the load would have been if PJM did not declare a Load Management Event or the CSP did not initiate a test as outlined in the PJM Manuals, minus the Load and then multiplied by the LF, or (b) the PLC minus the Load multiplied by the LF. A load reduction will only be recognized for capacity compliance if the Load multiplied by the LF is less than the PLC.
- (iii) Curtailment Service Providers must submit actual loads and comparison loads for all hours during the day of the Load Management Event or the Load Management performance test, and for all hours during any other days as required by the Office of the Interconnection to calculate the load reduction. Comparison loads must be developed from the guidelines in the PJM Manuals, and note which method was employed.

Compliance is averaged over the Load Management Event for non-interval metered DLC programs. Compliance is averaged over the Load Management Event, for each FSL and GLD customer dispatched by the Office of the Interconnection for at least 30 minutes of the clock hour (i.e., "partial dispatch compliance hour". The registered capacity commitment for the partial dispatch compliance hour will be prorated based on the number of minutes dispatched during the clock hour and as defined in the Manual. Curtailment Service Provider may submit 1 minute load data for use in capacity



compliance calculations for partial dispatch compliance hours subject to PJM approval and in accordance with the PJM Manuals where: (a) metering meets all Tariff and Manual requirements, (b) 1 minute load data shall be submitted to PJM for all locations on the registration, and (c) 1 minute load data measures energy consumption over the minute.

*For Load Management Events occurring during the months of October through May of the 2018/2019 Delivery Year and subsequent Delivery Years:*

*Compliance is determined on an individual customer basis by comparing actual metered load to an end-use customer's Customer Baseline Load or alternative CBL determined in accordance with the provisions of Section 3.3A.2 or 3.3A.2.01 of the Operating Agreement.*

*For all Delivery Years:*

Demand Resources may not reduce their load below zero (i.e., export energy into the system). No compliance credit will be given for an incremental load drop below zero. Compliance will be totaled over all FSL and GLD customers and DLC programs to determine a net compliance position for the event for each Provider by Zone, for all Demand Resources committed by such Provider and dispatched by the Office of the Interconnection in the zone. Deficiencies shall be as further determined in accordance with section 11 of Schedule DD to the PJM Tariff.

#### L. Energy Efficiency Resources

1. An Energy Efficiency Resource is a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak *summer and winter* periods as described herein) reduction in electric energy consumption at the End-Use Customer's retail site that is not reflected in the peak load forecast prepared for the Delivery Year for which the Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.
2. An Energy Efficiency Resource may be offered as a Capacity Resource in the Base Residual or Incremental Auctions for any Delivery Year beginning on or after June 1, 2011. No later than 30 days prior to the auction in which the resource is to be offered, the Capacity Market Seller shall submit to the Office of the Interconnection a notice of intent to offer the resource into such auction and a measurement and verification plan. The notice of intent shall include all pertinent project design data, including but not limited to the peak-load contribution of affected customers, a full description of the equipment, device, system or process intended to achieve the load reduction, the load reduction pattern, the project

location, the project development timeline, and any other relevant data. Such notice also shall state the seller's proposed Nominated Energy Efficiency Value,

- *For Delivery Years through May 31, 2018, the seller's proposed Nominated Energy Efficiency Value shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday;*
- *For the 2018/2019 and 2019/2020 Delivery Years, the seller's proposed Nominated Energy Efficiency Value for any Base Capacity Energy Efficiency Resource shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday; and*
- *For the 2018/2019 Delivery Year and subsequent Delivery Years, the seller's proposed Nominated Energy Efficiency Value for any Annual Energy Efficiency Resources, shall be the expected average load reduction, for all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday, between the hour ending 15:00 EPT and the hour ending 18:00 EPT. In addition, the expected average load reduction for all days from January 1 through February 28, inclusive, of such Delivery Year that is not a weekend or federal holiday, between the hour ending 8:00 EPT and the hour ending 9:00 EPT and between the hour ending 19:00 EPT and the hour ending 20:00 EPT shall not be less than the Nominated Energy Efficiency Value.*

The measurement and verification plan shall describe the methods and procedures, consistent with the PJM Manuals, for determining the amount of the load reduction and confirming that such reduction is achieved. The Office of the Interconnection shall determine, upon review of such notice, the Nominated Energy Efficiency Value that may be offered in the Reliability Pricing Model Auction.

3. An Energy Efficiency Resource may be offered with a price offer or as Self-Supply. If an Energy Efficiency Resource clears the auction, it shall receive the applicable Capacity Resource Clearing Price, subject to section 5 below. A Capacity Market Seller offering an Energy Efficiency Resource must comply with all applicable credit requirements as set forth in Attachment Q to the PJM Tariff. *For Delivery Years through May 31, 2018, the Unforced Capacity value of an Energy Efficiency Resource offered into an RPM Auction shall be the Nominated Energy Efficiency value times the DR Factor and the Forecast Pool Requirement. For the 2018/2019 Delivery Year and subsequent Delivery Years, the Unforced Capacity value of an Energy Efficiency Resource offered into an RPM Auction shall be the Nominated Energy Efficiency Value times the Forecast Pool Requirement.*
4. An Energy Efficiency Resource that clears an auction for a Delivery Year may be offered in auctions for up to three additional consecutive Delivery Years, but shall

not be assured of clearing in any such auction; provided, however, an Energy Efficiency Resource may not be offered for any Delivery Year in which any part of the peak season is beyond the expected life of the equipment, device, system, or process providing the expected load reduction; and provided further that a Capacity Market Seller that offers and clears an Energy Efficiency Resource in a BRA may elect a New Entry Price Adjustment on the same terms as set forth in section 5.14(c) of this Attachment DD.

5. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than 30 days prior to each Auction an updated project status and measurement and verification plan subject to the criteria set forth in the PJM Manuals.
6. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than the start of such Delivery Year, an updated project status and detailed measurement and verification data meeting the standards for precision and accuracy set forth in the PJM Manuals. The final value of the Energy Efficiency Resource during such Delivery Year shall be as determined by the Office of the Interconnection based on the submitted data.
7. The Office of the Interconnection may audit, at the Capacity Market Seller's expense, any Energy Efficiency Resource committed to the PJM Region. The audit may be conducted any time including the Performance Hours of the Delivery Year.

## SCHEDULE 6.2

### WHOLESALE LOAD REDUCTION COMMITMENT

A. Overview. As more fully set forth in this Schedule 6.2 and the PJM Manuals, for the 2018/2019 Delivery Year and subsequent Delivery Years, any Wholesale Entity may submit one or more WLR Bids in a Base Residual Auction to reduce WLR Load by a specified quantity during pre-emergency or emergency actions or to provide a specific quantity of continuous reduction in electric energy consumption during peak periods through a Wholesale Energy Efficiency Load. A Wholesale Entity intending to submit a WLR Bid into an RPM Auction shall provide a WLR Plan to calculate and support the Nominated WLR Quantity, by Zone or sub-Zonal LDA, it proposes to specify in its WLR Bid. WLR Load may only be bid into a Base Residual Auction. In any such Base Residual Auction, the Office of the Interconnection shall shift to the left the Variable Resource Requirement Curve for the PJM Region or a Locational Deliverability Area, as applicable, to reflect the Nominated WLR Quantity, Nominated WEEL Quantity, and WLR Bid Price of any WLR Bids for the PJM Region or such LDA, as applicable, in such RPM Auction. Each such leftward shift shall begin at the price point on the VRR Curve corresponding to the WLR Bid Price of the WLR Bid, and shall uniformly shift the VRR Curve to the left in the amount of the combined sum of the Nominated WLR Quantity and Nominated WEEL Quantity times FPR at that price point and all higher price points. All WLR Bids with WLR Bid Prices at or below the Capacity Resource Clearing Price will clear in a Base Residual Auction, subject to applicable WLR Load Constraints. WLR commitments of qualified WLR Load shall be measured by Firm Service Level or Direct Load Control, as further specified below and the PJM Manuals. Any WLR Provider that commits such WLR Load in an RPM Auction, but fails fully to honor its WLR commitments for a Delivery Year shall be assessed compliance charges as more fully set forth in sections Q, R, and S below.

B. WLR Obligations. WLR Load qualifying under the criteria set forth in this Schedule 6.2 may be bid into the Base Residual Auction, for any Delivery Year for which such WLR Load qualifies.

1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and section G hereof, as applicable, the Office of the Interconnection of the WLR Load that it is placing under the direction of the Office of the Interconnection. A Party must further notify the Office of the Interconnection whether the WLR Load is a Base Capacity WLR Load or a Capacity Performance WLR Load.

2. WLR Load must be able to fully respond to a pre-emergency or emergency action within 30 minutes of notification from the Office of the Interconnection. This default 30 minute prior notification shall apply unless a WLR Provider obtains an exception from the Office of the Interconnection due to physical operational limitations that prevent any identified portion of the WLR Load from reducing load within that timeframe. In such case, the WLR Provider shall submit a request for an exception to the 30 minute prior notification requirement to the Office of the Interconnection, in accordance with deadlines specified in the PJM Manuals. The only alternative notification times that the Office of Interconnection will permit, upon approval of an exception request, are 60 minutes and 120 minutes prior to a pre-emergency or emergency action. The WLR Provider shall indicate in writing, in the appropriate

application, that it seeks an exception to permit a prior notification time of 60 minutes or 120 minutes, and the reason(s) for the requested exception. A WLR Provider shall not submit a request for an exception to the default 30 minute notification period unless it has done its due diligence to confirm that the identified portion of the WLR Load is physically incapable of responding within that timeframe based on one or more of the reasons set forth below and as may be further defined in the PJM Manuals and has obtained detailed data and documentation to support this determination.

In order to establish that any identified portion of a WLR Load is reasonably expected to be physically unable to reduce load in that timeframe, the WLR Provider that registered the load must demonstrate that:

1) The manufacturing processes for such load require gradual reduction to avoid damaging major industrial equipment used in the manufacturing process, or damage to the product generated or feedstock used in the manufacturing process;

2) Transfer of load to back-up generation requires time-intensive manual process taking more than 30 minutes;

3) On-site safety concerns prevent location from implementing reduction plan in less than 30 minutes; or,

4) The load is comprised of mass market residential customers or Small Commercial Customers which collectively cannot be notified of a pre-emergency or emergency action within a 30-minute timeframe due to unavoidable communications latency, in which case the requested notification time shall be no longer than 120 minutes.

The Office of the Interconnection may request data and documentation from the WLR Provider and such WLR Provider shall provide to the Office of the Interconnection within three (3) business days of a request therefor, a copy of all of the data and documentation supporting the exception request. Failure to provide a timely response to such request shall cause the exception to terminate the following Operating Day.

At its sole option and discretion, the Office of the Interconnection may review the data and documentation provided by the WLR Provider to determine if the identified portion of the WLR Load has met one or more of the criteria above. The Office of the Interconnection will notify the WLR Provider in writing of its determination by no later than ten (10) business days after receipt of the data and documentation.

The WLR Provider shall provide written notification to the Office of the Interconnection of a material change to the facts that supported its exception request within three (3) business days of becoming aware of such material change in facts, and, if the Office of Interconnection determines that the physical limitation criteria above are no longer being met, the identified portion of the WLR Load shall be subject to the default notification period of 30 minutes immediately upon such determination.

3. The initiation of load reduction, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.

4. The initiation of load reduction upon the request of the Office of the Interconnection is considered a pre-emergency or emergency action and must be implementable prior to a voltage reduction.

5. A WLR Provider intending to bid a WLR Load in a Base Residual Auction must demonstrate, to PJM's satisfaction, that such load shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such load is committed. As part of such demonstration, each such WLR Provider shall submit a WLR Plan in accordance with the standards and procedures set forth in section D of this Schedule 6.2 and the PJM Manuals, no later than 30 calendar days prior to the RPM Auction in which such load is to be bid. PJM may verify the WLR Provider's adherence to the WLR Plan at any time. A WLR Provider with a PJM-approved WLR Plan will be permitted to bid up to the approved WLR quantity into the subject RPM Auction.

6. Clearing a WLR Bid in an RPM Auction shall establish a firm commitment by the WLR Provider to the Nominated WLR Quantity specified in such WLR Bid at each Zone or sub-Zonal LDA during the relevant Delivery Year, but may be transferred or replaced in accordance with section J below. WLR Loads that are so committed must be available at PJM's request during PJM-declared pre-emergency events and emergency events.

C. Agents. A Wholesale Entity may authorize one or more agents to perform any act authorized or required of the Wholesale Entity under this Schedule 6.2, provided that (1) the Wholesale Entity must provide written notification to the Office of the Interconnection, prior to any act of the agent on behalf of the Wholesale Entity, identifying each such agent and the scope of the agent's authority; and (2) as between the Wholesale Entity and the Office of the Interconnection, the Wholesale Entity shall remain solely responsible for all of the duties and obligations of a Wholesale Entity under this Schedule 6.2. Any written instrument establishing the authority of such agent shall provide that any such agent shall comply with the requirements of this Attachment, the Reliability Assurance Agreement, and the Operating Agreement, as applicable.

D. WLR Plan. Any Wholesale Entity seeking to submit a WLR Bid in any Base Residual Auction for a Delivery Year must submit to the Office of the Interconnection a WLR Plan identifying and supporting the Nominated WLR Quantity (calculated in the manner described in section L below) for each Zone or sub-Zonal LDA for which such WLR is committed. Although the WLR Plan may include reasonably supported forecasts and expectations, fulfillment of the WLR Provider's commitment to a Nominated WLR Quantity shall not depend upon, or be conditioned upon, realization of such forecasts or expectations.

A WLR Plan shall consist of a completed template document in the form posted on the PJM website, requiring the information set forth below and in the PJM Manuals. The WLR Plan must provide information that supports the WLR Provider's intended WLR Bids and demonstrates that the WLR Loads are being bid with the intention that the MW quantity that is cleared in the

auction is reasonably expected to be physically delivered through WLR Load registrations for the relevant Delivery Year. The WLR Plan shall include all Existing WLR Loads and all Planned WLR Loads that the WLR Provider intends to bid into an RPM Auction.

1. WLR Plan Template. The WLR Plan template, in the form provided on the PJM website, shall require the WLR Provider to provide the following information and such other information as specified in the PJM Manuals:

(a) Summary Information. The completed template shall include the WLR Provider's company name, contact information, and the Nominated WLR Quantity in ICAP MWs by Zone/sub-Zone that the WLR Provider intends to bid, stated separately for Existing WLR Loads and Planned WLR Loads. The total Nominated WLR Quantity in MWs for each Zone/sub-Zone shall be the sum of the Nominated WLR Quantity of Existing WLR Loads and the Nominated WLR Quantity of Planned WLR Loads, and shall be the maximum MW amount the Provider intends to bid in the RPM Auction for the indicated Zone/sub-Zone, provided that nothing herein shall preclude the WLR Provider from bidding in the auction a lesser amount than the total Nominated WLR Quantity shown in its WLR Plan.

(b) Existing WLR Loads. The WLR Provider shall identify all Existing WLR Loads by identifying end-use customer sites that are currently registered with PJM (even if not registered by such WLR Provider) and that the WLR Provider reasonably expects to have under a contract to reduce load based on PJM instructions by the start of the auction Delivery Year.

(c) Planned WLR Loads. The WLR Provider shall provide the details of, and key assumptions underlying, the Planned WLR Load quantities (i.e., all WLR Load quantities in excess of Existing WLR Load quantities) contained in the WLR Plan, including:

(i) key program attributes and assumptions used to develop the Planned WLR Load quantities, including, but not limited to, discussion of:

- method(s) of achieving load reduction at customer site(s);
- equipment to be controlled or installed at customer site(s), if any;
- plan and ability to acquire customers;
- types of customer targeted;
- support of market potential and market share for the target customer base, with adjustments for Existing WLR Load customers within this market and the potential for other WLR Providers targeting the same customers;
- assumptions regarding regulatory approval of program(s), if applicable; and
- if applicable, Direct Load Control (DLC) program details such as: a description of the cycling control strategy, any assumptions regarding switch operability rate, and a list (and copy) of all load research studies used to develop the estimated nominated ICAP value per customer (i.e., the per-participant impact).

(ii) Zone/sub-Zone information by end-use customer segment for all Nominated WLR Quantities for which an end-use customer site is not identified, to include the number in each segment of end-use customers expected to be registered for the subject Delivery Year, the average Peak Load Contribution per end-use customer for such segment, and the average Nominated WLR Quantity per customer for such segment. End-use customer segments may include residential, commercial, small industrial, medium industrial, and large industrial, as identified and defined in the PJM Manuals, provided that nothing herein or in the Manuals shall preclude the Provider from identifying more specific customer segments within the commercial and industrial categories, if known.

(iii) Information by end-use customer site to the extent required by subsection D(1)(d)(iv) or, if not required by such subsection, to the extent known at the time of the submittal of the WLR Plan, to include: customer EDC account number (if known), customer name, customer premise address, Zone/sub-Zone in which the customer is located, end-use customer segment, current Peak Load Contribution value (or an estimate if actual value not known) and an estimate of expected Peak Load Contribution for the subject Delivery Year, and an estimated Nominated WLR Quantity.

(iv) Commencing with the Base Residual Auction for the 2022/2023 Delivery Year, end-use customer site-specific information shall be required for any Zones or sub-Zones identified by PJM pursuant to this subsection for the portion, if any, of a WLR Provider's intended bid in such Zones or sub-Zones that exceeds a WLR Bid threshold determined pursuant to this subsection, as any such excess quantity under such conditions should reflect Planned WLR Loads from end-use customer sites that the Provider has a high degree of certainty it will physically deliver for the subject Delivery Year. In accordance with the procedures in subsection D(2) below, PJM shall identify, as requiring site-specific information, all Zones and sub-Zones that comprise any LDA group (from a list of LDA groups stated in the PJM Manuals) in which [the quantity of cleared WLR Loads from the most recent Base Residual Auction] plus [the quantity of WLR Loads included in FRR Capacity Plans for the Delivery Year addressed by the most recent Base Residual Auction] in any Zone or sub-Zone of such LDA group exceeds the greater of:

- the maximum WLR Load quantity registered with PJM for such Zone for any Delivery Year from the current (at time of plan submission) Delivery Year and the two preceding Delivery Years; and
- the potential WLR Load quantity for such Zone estimated by PJM based on an independent published assessment of demand response



potential that is reasonably applicable to such Zone, as identified in the PJM Manuals.

For each such Zone and sub-Zone, the WLR Bid threshold for each WLR Provider shall be the higher of:

- the WLR Provider's maximum WLR Load quantity registered with PJM for such Zone/sub-Zone over the current Delivery Year (at the time of plan submission) and two preceding Delivery Years;
- the WLR Provider's maximum for any single Delivery Year of [such provider's cleared WLR Load quantity] plus [such provider's quantity of WLR Load included in FRR Capacity Plans] from the three forward Delivery Years addressed by the three most recent Base Residual Auctions for such Zone/sub-Zone; and
- 10 MW.

(d) Schedule. The WLR Provider shall provide an approximate timeline for completing its separate arrangements with retail customers in the aggregate amount needed to physically deliver the total Nominated WLR Quantity (for both Existing WLR Loads and Planned WLR Loads) by Zone/sub-Zone in the WLR Plan, including expected progress in completing such separate arrangements, by end-use customer segment within each Zone/sub-Zone, that the WLR Provider expects (at the time of plan submission) as of June 1 each year between the time of the auction and the subject Delivery Year.

2. Procedures. No later than December 1 prior to the Base Residual Auction for a Delivery Year, PJM shall post to the PJM website a list of Zones and sub-Zones, if any, for which end-use customer site-specific information shall be required under the conditions specified in subsection D(1)(c)(iv) above. Once so identified, a Zone or sub-Zone shall remain on the list for future Delivery Years until the threshold determined under subsection D(1)(c)(iv) above is not exceeded for three consecutive Delivery Years. No later than 30 calendar days prior to the RPM Auction in which a WLR Provider intends to bid a WLR Load, the WLR Provider shall submit to PJM a completed WLR Plan template. PJM will review all submitted WLR Plans. No later than 10 business days prior to the subject RPM Auction, PJM shall notify any WLR Providers that have identified the same end-use customer site(s) in their respective WLR Plans for the same Delivery Year. In such event, the MWs associated with such site(s) will not be approved for inclusion in a WLR Bid in an RPM Auction by any of the WLR Providers, unless a WLR Provider provides a letter of support from the end-use customer indicating that it is likely to execute a contract with that WLR Provider for the relevant Delivery Year, or provides other comparable evidence of likely commitment. Such letter of support or other supporting evidence must be provided to PJM no later than 7 business days prior to the subject RPM Auction. If an end-use customer provides letters of support for the same site for the same Delivery Year to multiple WLR Providers, the MWs associated with such end-use customer site shall not be approved as a WLR Load for any of the WLR Providers. No later than 5 business days prior to the subject RPM Auction, PJM will notify each WLR Provider of the approved WLR quantity, by Zone/sub-Zone, that such WLR Provider is permitted to bid into such RPM Auction.

E. No Duplicative Load Reduction Bids. WLR Load reflected in a WLR Bid, identified in a WLR Plan, or included in a WLR Load registration for a Delivery Year in support of a Wholesale Load Reduction commitment may not, for such Delivery Year be identified in a PRD Plan or PRD registration of a PRD Provider.

F. Valuation of WLR Load and WEEL. For purposes of determining obligation reductions, credit requirements, compliance charges, and certain other matters hereunder, all WLR Load and WEEL that bid into and clear in a Base Residual Auction shall be assigned a WLR Value. For Capacity Performance WLR Loads and Capacity Performance WEELS, the WLR Value shall be equal to the Capacity Resource Clearing Price for Capacity Performance Resources, as determined in such auction in accordance with Attachment DD of the PJM Tariff. For Base Capacity WLR Loads and Base Capacity WEELS, the WLR Value shall be equal to the price determined by the auction-clearing algorithm as the optimum price at which to recognize the binding of the Base Capacity WLR Load Constraint or, if such constraint does not bind, such WLR Value shall be equal to the capacity resource clearing price for Base Capacity generation resources. Any WLR Loads or WEELS located in a Zone with multiple LDAs shall be assigned the WLR Value for its category of WLR or WEEL applicable to the location of such load within such Zone, as identified in such load's WLR Bid. In such cases, the WLR Provider shall register its load in the same location within the Zone as specified in its cleared bid, and shall be subject to deficiency charges under section Q of this Schedule 6.2 to the extent it fails to provide the load in such location consistent with its cleared bid.

G. Registration. Each WLR Provider that commits Wholesale Load Reductions through a cleared WLR Bid must, no later than one day before the tenth business day prior to the start of the Delivery Year for which such WLR is committed, register with PJM, in the form and manner specified in the PJM Manuals and consistent with its WLR Plan, sufficient WLR Load to satisfy its Nominated WLR Quantity commitment. PJM shall provide notification of such WLR registrations to the applicable electric distribution company(ies). The WLR Provider must maintain its registration of WLR-eligible load at the level of its Zonal or sub-zonal LDA Nominated WLR Quantity commitment during each day of the Delivery Year for which such commitment was made. The WLR Provider may change the end-use customers registered to meet the WLR Provider's commitment during the Delivery Year, but such WLR Provider must always in the aggregate register sufficient WLR Load to meet or exceed the Zonal or sub-Zonal LDA committed Nominated WLR Quantity level. A WLR Provider must timely notify the Office of the Interconnection, in accordance with the PJM Manuals, of all changes in WLR registrations. Such notification must remove from the WLR Provider's registration(s) any end-use customer load that no longer meets the eligibility criteria for WLR, effective as of the first day that such end-use customer load is no longer WLR-eligible.

H. WLR Bids. Each WLR Bid supported by WLR Loads submitted in an RPM Auction must be consistent with the WLR Plan submitted by the WLR Provider for such WLR Bid. A WLR Bid may also be supported by one or more WEELS. Each WLR Bid must specify: the relevant Zone or sub-Zonal LDA, if applicable; a Nominated WLR Quantity or Nominated WEEL Quantity; a WLR Bid Price, which may be comprised of a range of up to ten pairs of WLR commitment levels and associated Bid Prices; provided however that the Office of the

Interconnection may interpolate WLR commitment levels based on clearing prices between prices specified by the WLR Provider.

For the 2018/2019 and 2019/2020 Delivery Years, each WLR Provider owning or controlling a WLR Load that qualifies as both a Base Capacity WLR Load and a Capacity Performance WLR Load may submit separate but coupled WLR Bids for such WLR Load as a Base Capacity WLR Load and as a Capacity Performance WLR Load, at different prices, and the auction clearing algorithm will select the WLR Bid that yields the least-cost solution. For such coupled WLR Bids, the bid price of a Capacity Performance WLR Load bid must be at least \$.01 per MW-day greater than the bid price of a coupled Base Capacity WLR Load bid.

Each WLR Provider submitting a WLR Bid shall comply with any applicable RPM Credit requirements as specified in Attachment Q of this Tariff.

I. LSE Capacity Obligation Reduction. The Obligation Peak Load of a Load Serving Entity that serves WLR Load or Wholesale Energy Efficiency Load in any Zone or sub-Zonal LDA shall be as determined in Schedule 8 to this Agreement; provided, however, that such Load Serving Entity shall receive, for each day during a Delivery Year that a Wholesale Load Reduction and/or a Wholesale Energy Efficiency Load commitment is effective as to registered WLR Loads and Wholesale Energy Efficiency Loads approved by PJM consistent with a post-installation report provided in accordance with section U.7 below served by such Load Serving Entity a specified quantity of reduction in the Obligation Peak Load of such Load Serving Entity, determined for each such Zone in accordance with the procedures hereunder and as further detailed in the PJM Manuals.

The reduction to a Load Serving Entity's Obligation Peak Load associated with each WLR Load and WEEL committed for that day that has a WLR Value equal to the Capacity Resource Clearing Price for Capacity Performance Resources shall be based on the Nominated WLR Quantity or Nominated WEEL Quantity, respectively, determined based on the ratio of the WLR Value for such WLR Load and WEEL to the Final Zonal Capacity Price as further detailed in the PJM Manuals. The reduction to a Load Serving Entity's Obligation Peak Load associated with each WLR Load and WEEL committed for that day that has a WLR Value lower than the Capacity Resource Clearing Price for Capacity Performance Resources shall be based on a proportion of the Nominated WLR Quantity or Nominated WEEL Quantity, respectively, determined based on the ratio of the WLR Value for such WLR Load and WEEL to the Final Zonal Capacity Price, as further detailed in the PJM Manuals. In no event shall the Obligation Peak Load of any Load Serving Entity be reduced to less than zero.

J. Transfers and Replacements of WLR Commitments.

(1) WLR Transfers Between Wholesale Entities. A WLR Provider may transfer all or part of its WLR commitment for a Delivery Year as to WLR Load in a Zone or sub-Zonal LDA to another Wholesale Entity acting as a WLR Provider in the same Zone or sub-Zonal LDA, provided that the transferee WLR Provider is the Load Serving Entity that shall serve such WLR Load, through notice of such transfer provided by both the transferor and transferee WLR Providers to the Office of the Interconnection in the form and manner specified in the PJM Manuals. From and after the effective date of such transfer, and to the extent of such transfer, the transferor WLR Provider shall be relieved of its WLR commitment and credit requirements, shall not be liable for WLR compliance charges, and shall not be entitled to the capacity obligation reduction otherwise provided by section I hereof; and the transferee WLR Provider, to

the extent of such transfer, shall assume such WLR commitment, credit requirements, and obligation for compliance charges and shall be entitled to the capacity obligation reduction provided by section I as to such WLR Load.

(2) Replacement of WLR or WEEL Commitment by Capacity Resource. A WLR Provider may replace all or part of its WLR commitment for a Delivery Year as to WLR Load in a Zone or sub-Zonal LDA by clearing a Buy Bid for replacement capacity in an Incremental Auction under the terms and conditions of Attachment DD to the Tariff, by entering a Locational UCAP transaction in accordance with the terms of Attachment DD to the Tariff, or through a bilateral transaction under section 4.6 of Attachment DD to the Tariff. A WEEL Provider may replace all or part of its WEEL commitment for a Delivery Year as to WEEL in a Zone or sub-Zonal LDA by clearing a Buy Bid for replacement capacity in an Incremental Auction under the terms and conditions of Attachment DD to the Tariff, by entering a Locational UCAP transaction in accordance with the terms of Attachment DD to the Tariff, or through a bilateral transaction under section 4.6 of Attachment DD to the Tariff. The Unforced Capacity required in such case shall equal the Nominated WLR Quantity, or Nominated WEEL Quantity, sought to be replaced, times the Forecast Pool Requirement. The rights and responsibilities, following such replacement, of the WLR Provider, or WEEL Provider, and the Capacity Market Seller providing replacement capacity shall be as specified in any required notice to the Office of the Interconnection or as otherwise prescribed by the Tariff for such replacements.

K. WLR Load Compliance Measurement. Based on information provided by the WLR Provider, in accordance with the requirements of this Schedule 6.2 and the PJM Manuals, with respect to the separate arrangements with end-use customers on which the WLR Provider intends to rely to fulfill its WLR commitment, PJM shall measure WLR Loads in the following ways:

Direct Load Control (“DLC”) – Load management that is initiated directly by the WLR Provider’s market operations center or its agent, employing a communication signal to cycle equipment (typically water heaters or central air conditioners). DLC programs are qualified based on load research and customer subscription data. WLR Providers may rely on the results of load research studies identified in the PJM Manuals to set the per-participant load reduction for DLC programs; provided, however, that load research studies supporting Capacity Performance WLR Loads must demonstrate such load reduction capability for non-summer months. Each WLR Provider relying on DLC load management must periodically update its DLC switch operability rates, in accordance with the PJM Manuals.

Firm Service Level (“FSL”) – Load management achieved by an end-use customer reducing its load to a pre-determined level (the Firm Service Level), upon notification from the WLR Provider’s market operations center or its agent.

Customer Baseline Load (“CBL”) – Load management achieved by an end-use customer as measured by comparing actual metered load to an end-use customer’s Customer Baseline Load or alternative CBL determined in accordance with the provisions of section O below.

Notwithstanding any such measurement of load management by any end-use customer identified by the WLR Provider, the WLR Provider shall remain solely and exclusively responsible for providing any Wholesale Load Reduction committed hereunder by such WLR Provider.

L. Nominated WLR Quantities.

(a) Any Nominated WLR Quantity committed by a WLR Provider hereunder shall comprise a commitment by such WLR Provider to an aggregate reduction of a specified quantity of the wholesale load to be served by the Load Serving Entity that is responsible for serving such loads.

The Nominated WLR Quantity that may be claimed from, or provided by, a Firm Service Level customer will be based on the peak load contribution for the customer, as determined by the methodology utilized to determine other ICAP obligation values. The maximum contribution to a WLR Load reduction value that may be claimed from, or provided by, a Firm Service Level customer will be equal to the Peak Load Contribution minus the Firm Contract Level, adjusted for system losses.

The Nominated WLR Quantity that may be claimed from, or provided by, a Direct Load Control program must be demonstrated based on load research and customer subscription. The maximum value of such a program shall be equal to the approved per-participant load reduction multiplied by the number of active participants, adjusted for system losses. The per-participant impact is to be estimated at long-term average local weather conditions at the time of the summer peak.

Information specific to any end-user identified by the WLR Provider hereunder (EDC account number, peak load, notification period, etc.) shall be entered by such WLR Provider into the designated PJM electronic system to establish the portion of the Nominated WLR Quantity associated with such customer. Additional data may be required, as defined in the PJM Manuals.

(b) The maximum portion of any Nominated WLR Quantities that may be claimed from any given end-use customer shall be verified and established prior to the start of the Delivery Year through information provided by the WLR Provider and the EDC for the Zone in which such customer is located. As set forth in the PJM Manuals, WLR Providers shall provide, on templates supplied by PJM, the LSE serving the load at the site being registered, the EDC meter number, or other unique customer identifier, Peak Load Contribution ("PLC"), contract firm service level values, applicable loss factor, zone/area location of the load, contact information, number of active participants, etc. Such data must be uploaded and approved prior to the first day of the Delivery Year. For Direct Load Control programs, the WLR Provider must provide information detailing the number of active participants in each program. WLR Providers must provide such information concurrently to host EDCs.

M. WLR Performance Verification and Support. WLR Providers shall be responsible for verifying the performance of their WLR Loads during each pre-emergency or emergency action declared by the Office of the Interconnection. Performance will be established for each WLR

Provider on an event specific basis for the WLR Provider's WLR Loads, including any identified portion thereof, requested to reduce demand by PJM during such event. WLR Providers shall demonstrate that the identified WLR Loads reduced demand by the committed megawatt amount below the PLC assigned to such WLR Loads. Such compliance will be determined based on a comparison of the PLC assigned to the identified WLR Loads and the actual energy consumed of the identified WLR Loads. PJM will set forth in the PJM Manuals reasonable deadlines for the timely submittal of event data to expedite performance reviews. Performance reviews will be completed as soon after the event as possible, with the expectation that reviews of a single event will be completed within two months of the end of the month in which the event occurred. WLR Providers are responsible for the submittal of the actual energy usage for their registered WLR Loads to PJM for each PJM-initiated event during the compliance period. A WLR Provider must also provide load drop estimates for all pre-emergency or emergency actions, prepared in accordance with the PJM Manuals.

N. Compliance Measurement. A WLR Load may not in the aggregate reduce its load below zero (i.e., export energy into the system). No contribution toward satisfaction of a Nominated WLR Quantity shall be given for an incremental load drop below zero. Compliance will be totaled over all customers and programs identified by the WLR Provider to determine a net Wholesale Load Reduction for the event for each WLR Provider by Zone, for all WLR Loads committed by such WLR Provider and that were addressed in a request to reduce demand by the Office of the Interconnection in the zone. Performance shortfalls shall be as further determined in accordance with section S of this Schedule 6.2.

For pre-emergency or emergency actions occurring during the months of June through September of the 2018/2019 Delivery Year and subsequent Delivery Years:

The contribution to the Wholesale Load Reduction of any Direct Load Control programs identified by the WLR Provider shall consider only the transmission of the control signal. WLR Providers are required to report the time period (during the pre-emergency or emergency action) that the control signal was actually sent.

The contribution to the Wholesale Load Reduction of any individual FSL customer identified by the WLR Provider shall be determined by comparing such customer's actual load during the event to the customer's firm service level. WLR Providers must submit actual customer load levels (for the entire day on which the event occurred) for the compliance report. The contribution to the Wholesale Load Reduction for any identified FSL customer shall be based on such customer's current Delivery Year peak load contribution ("PLC") minus such customer's metered load ("Load") multiplied by the loss factor ("LF").

The contribution to the Wholesale Load Reduction from any identified non-interval metered DLC programs shall be averaged over the pre-emergency or emergency action. The contribution to the Wholesale Load Reduction from any identified FSL customers shall be averaged over the pre-emergency or emergency action by the Office of the Interconnection for at least 30 minutes of the clock hour (i.e., "partial dispatch compliance hour"). The registered load reduction commitment for the partial dispatch compliance hour will be prorated based on the number of minutes for which load reduction was requested during the clock hour and as defined in the

Manual. The WLR Provider may submit one-minute load data for use in capacity compliance calculations for partial dispatch compliance hours subject to PJM approval and in accordance with the PJM Manuals where: (a) metering meets all Tariff, RAA, and Manual requirements, (b) one-minute load data shall be submitted to PJM for all locations on the registration, and (c) one-minute load data measures energy consumption over the minute.

For pre-emergency or emergency action occurring during the months of October through May of the 2018/2019 Delivery Year and subsequent Delivery Years:

The contribution to the Wholesale Load Reduction of any Direct Load Control programs will consider only the transmission of the control signal. WLR Providers are required to report the time period (during the pre-emergency or emergency action) that the control signal was actually sent.

The contribution to the Wholesale Load Reduction of any individual FSL customer identified by the WLR Provider shall be determined by comparing such customer's actual metered load to such customer's Customer Baseline Load ("CBL") determined in accordance with subsection O(1) below or an alternative Customer Baseline methodology determined in accordance with subsection O(2) below. WLR Providers must submit actual customer load levels (for the entire day on which the pre-emergency or emergency action occurred and for all days needed to calculate the customer baseline) for the compliance report.

O. Customer Baseline Load.

(1) The CBL of any end-use customer identified by the WLR Provider shall be determined using the following formula for such customer's Non-Variable Loads:

(a) The CBL for weekdays shall be the average of the highest 4 out of the 5 most recent load weekdays in the 45 calendar day period preceding the relevant load reduction event.

i. For the purposes of calculating the CBL for weekdays, weekdays shall not include:

1. NERC holidays;

2. Weekend days;

3. Event days. For the purposes of this section an event day shall be any day in which a pre-emergency or emergency action is declared and PJM requests WLR Providers to reduce their wholesale loads.

4. Any weekday where the average daily event period usage is less than 25% of the average event period usage for the five days.



ii. If a 45-day period does not include 5 weekdays that meet the conditions in subsection (a)(i) of this section, provided there are 4 weekdays that meet the conditions in subsection (a)(i) of this section, the CBL shall be based on the average of those 4 weekdays. If there are not 4 eligible weekdays, the CBL shall be determined in accordance with subsection (iii) of this section.

iii. subsection (a)(i)(3) above notwithstanding, if a 45-day period does not include 4 weekdays that meet the conditions in subsection (a)(i) of this section, event days will be used as necessary to meet the 4 day requirement to calculate the CBL, provided that any such event days shall be the highest load event days within the relevant 45-day period.

(b) The CBL for weekend days and NERC holidays shall be determined in accordance with the following provisions:

i. The CBL for Saturdays and Sundays/NERC holidays shall be the average of the highest 2 load days out of the 3 most recent Saturdays or Sundays/NERC holidays, respectively, in the 45 calendar day period preceding the relevant load reduction event, provided that the following days shall not be used to calculate a Saturday or Sunday/NERC holiday CBL:

1. Event days. For the purposes of this section an event day shall be any day in which a pre-emergency or emergency action is declared and PJM requests WLR Providers to reduce their wholesale loads.

2. Any Saturday or Sunday/NERC holiday where the average daily event period usage is less than 25% of the average event period usage level for the three days;

3. Any Saturday or Sunday/NERC holiday that corresponds to the beginning or end of daylight savings.

ii. If a 45-day period does not include 3 Saturdays or 3 Sundays/NERC holidays, respectively, that meet the conditions in subsection (b)(i) of this section, provided there are 2 Saturdays or Sundays/NERC holidays that meet the conditions in subsection (b)(i) of this section, the CBL will be based on the average of those 2 Saturdays or Sundays/NERC holidays. If there are not 2 eligible Saturdays or Sundays/NERC holidays, the CBL shall be determined in accordance with subsection (iii) of this section.

iii. Subsection (b)(i)(1) above notwithstanding, if a 45-day period does not include 2 Saturdays or Sundays/NERC holidays, respectively, that meet the conditions in subsection (b)(i) of this section, event days will be used as necessary to meet the 2 day requirement to calculate the CBL, provided that any such event days shall be the highest load event days within the relevant 45-day period.



(c) CBLs established pursuant to this section for any end-use customer identified by a WLR Provider shall represent such customers' actual load patterns. If the Office of the Interconnection determines that a CBL or alternative CBL does not accurately represent a customer's actual load patterns, the CBL shall be revised accordingly pursuant to subsection (2) below. Consistent with this requirement, if a WLR Provider chooses to derive any part of its Wholesale Load Reduction from an end-use customer that is measured using a Customer Baseline Load, the WLR Provider shall inform the Office of the Interconnection of any change in the operations of such end-use customer that would result in the adjustment of more than half the hours in such customer's Customer Baseline Load by twenty percent or more for more than twenty days.

(2) Alternative CBL Methodologies.

(a) During the WLR registration process pursuant to section G of this Schedule, the relevant WLR Provider or PJM ("Interested Parties") may propose an alternative CBL calculation that more accurately reflects the relevant end-use customer's consumption pattern relative to the CBL determined pursuant to subsection (a) above. In support of such proposal, the Interested Party shall demonstrate that the alternative CBL method shall result in an hourly relative root mean square error of twenty percent or less compared to actual hourly values, as calculated in accordance with the technique specified in the PJM Manuals. Any proposal made pursuant to this section shall be provided to the other Interested Party.

(b) The Interested Parties shall have 30 days to agree on a proposal issued pursuant to subsection (a) of this section. The 30-day period shall start the day the proposal is provided to the other Interested Party. If both Interested Parties agree on a proposal issued pursuant to this section, that alternative CBL calculation methodology shall be effective consistent with the date of the relevant WLR registration.

(c) If agreement is not reached pursuant to subsection (2)(b) above, the Office of the Interconnection shall determine a CBL methodology that shall result, as nearly as practicable, in an hourly relative root mean square error of twenty percent or less compared to actual hourly values within 20 days from the expiration of the 30-day period established by subsection (b). A CBL established by the Office of the Interconnection pursuant to this subsection (c) shall be binding upon both Interested Parties unless the Interested Parties reach agreement on an alternative CBL methodology prior to the expiration of the 20-day period established by this subsection (c).

(d) The Office of the Interconnection shall periodically publish alternative CBL methodologies established pursuant to this section in the PJM Manuals.

(e) Customer Baseline Levels established pursuant to this subsection O.2 shall be adjusted by the Symmetric Additive Adjustment. Unless an alternative formula is approved by the Office of the Interconnection, the Symmetric Additive Adjustment shall be calculated using the following formula:

Step 1: Calculate the average usage over the 3 hour period ending 1 hour prior to the start of event.

Step 2: Calculate the average usage over the 3 hour period in the CBL that corresponds to the 3 hour period described in Step 1.

Step 3: Subtract the results of Step 2 from the results of Step 1 to determine the symmetric additive adjustment (this may be positive or negative).

Step 4: Add the symmetric additive adjustment (i.e. the results of Step 3) to each hour in the CBL that corresponds to each event hour.

Following a pre-emergency or emergency action, the Office of the Interconnection shall make available the metered data to the appropriate electric distribution company for optional review and will have ten business days to provide the Office of the Interconnection with notification of any issues related to the metered data or calculations.

P. Non-Hourly Metered Customer Pilot. Non-hourly metered customers may participate in the Wholesale Load Reduction program on a pilot basis under the following circumstances. The customer's WLR Provider must propose an alternate method for measuring hourly demand reductions. The Office of the Interconnection shall approve alternate measurement mechanisms on a case-by-case basis for a time period specified by the Office of the Interconnection ("Pilot Period"). Load reductions by non-hourly metered customers using alternate measurement mechanisms on a pilot basis shall be limited to a combined total of 500 MW of reductions in the Wholesale Load Reduction program. With the sole exception of the requirement for hourly metering, non-hourly metered customers shall be subject to the rules and procedures for participation in the Wholesale Load Reduction program. Following completion of a Pilot Period, the alternate method shall be evaluated by the Office of the Interconnection to determine whether such alternate method should be included in the PJM Manuals as an accepted measurement mechanism for load reductions in the Wholesale Load Reduction program.

Q. WLR Deficiency Charge. Any WLR Provider that does not register and maintain the sufficient WLR Load in a Zone or sub-Zonal LDA to satisfy in full its Nominated WLR Quantity commitment in such Zone or sub-Zonal LDA on each day of the Delivery Year for which such commitment is made shall be assessed a WLR Deficiency Charge for each day that the registered WLR Load is less than the committed Nominated WLR Quantity. Any WEEL Provider with a WEEL for which the post-installation measurement and verification report, submitted to PJM in accordance with section U.7 below, demonstrates a continuous reduction in electric energy consumption less than the committed Nominated WEEL Quantity for such WEEL shall be assessed a WLR Deficiency Charge for each day of the Delivery Year that the WEEL is less than the committed Nominated WEEL Quantity. Such daily WLR Deficiency Charge shall equal:

$$[\text{MW Shortfall}] * [\text{Forecast Pool Requirement}] * [(\text{applicable WLR Value in } \$/\text{MW-day}) \\ + \text{higher of } (0.2 * \text{applicable WLR Value}) \text{ or } (\$20/\text{MW-day})]$$

Where: MW Shortfall = for WLR Loads, Daily Nominated WLR Quantity committed in the Base Residual Auction, as adjusted for any replacement and/or transfers of WLR Load, for the

relevant Zone or sub-Zonal LDA – the Daily Nominated WLR Quantity supported by WLR Load registrations for such Zone or sub-Zonal LDA; for WEEL, Daily Nominated WEEL Quantity committed in the Base Residual Action, as adjusted for any replacement and/or transfers of WEEL, for the relevant Zone or sub-Zonal LDA – the Daily Nominated WEEL Quantity supported by the post-installation measurement and verification report; and

The applicable WLR Value is the WLR Value assigned to the committed Nominated WLR Quantity or Nominated WEEL Quantity pursuant to section F hereof. The MW Shortfall may be reduced through replacement of the WLR or WEEL by any Capacity Resource effected in accordance with the terms of this RAA or the Tariff. The WLR Provider also may register additional WLR Load to satisfy its WLR commitment.

However, WLR Load that is subject to a charge under this section that is also subject to a charge under section S of this Schedule 6.2 for a Performance Shortfall during one or more Performance Assessment Hours occurring during the period of WLR Load deficiency addressed by this section shall be assessed a charge equal to the greater of the WLR Deficiency Charge determined under this section and the WLR Non-Performance charge determined under section S hereof, but shall not be assessed a charge under both this section and section S for such simultaneous occurrence of a WLR Load deficiency and Performance Shortfall.

R. WLR Test Failure Charge. WLR Providers that registered WLR Load shall be subject to test at least once per year to demonstrate the ability of the registered WLR Load to reduce as committed, and such WLR Providers shall be assessed a WLR Test Failure Charge to the extent of failure by the registered WLR Load during such test to reduce, on an aggregate basis equal to the Nominated WLR Quantity, in accordance with the following:

- (i) If the Office of the Interconnection does not declare during the relevant Delivery Year a pre-emergency or emergency action that requires the registered WLR Load to reduce as committed, then the WLR Provider must demonstrate that its registered WLR Load was tested for a one-hour period during any hour when a pre-emergency or emergency action may be called during the months in which it is committed to reduce load upon request. If a pre-emergency or emergency action that requires PJM to request the WLR Load to reduce as committed is called during the relevant Delivery Year, then no WLR Test Failure Charges will be assessed hereunder.
- (ii) All WLR Load registered in a Zone must be tested simultaneously for each type of WLR Load except that, when less than 25 percent (by megawatts) of a WLR Provider's total WLR Load registered in a Zone fails a test, the WLR Provider may conduct a re-test limited to all registered WLR Load that failed the prior test, provided that such re-test must be at the same time of day and under approximately the same weather conditions as the prior test, and provided further that all affiliated registered WLR Load must test simultaneously, where affiliated means registered WLR Load that has any ability to shift load and that is owned or controlled by the same entity. If less than 25 percent of a WLR Provider's total registered WLR Load in a Zone fails the test and the WLR Provider chooses to conduct a re-test, the WLR Provider may elect to maintain the performance compliance result achieved during the test if the WLR Provider: (1) notifies the

Office of the Interconnection 48 hours prior to the re-test under this election; and  
(2) the WLR Provider retests affiliated registered WLR Load under this election  
as set forth in the PJM Manuals.

- (iii) A WLR Provider that registered WLR Load shall be assessed a WLR Test Failure Charge equal to the net WLR Load's capability testing shortfall in a Zone or sub-Zonal LDA during such test in the aggregate of all of such WLR Provider's registered WLR Load in such Zone times the WLR Test Failure Charge Rate. The net capability testing shortfall in such Zone shall be the following megawatt quantity, converted to an Unforced Capacity basis using the applicable Forecast Pool Requirement: [megawatts of committed load reduction minus the total megawatts of load reduction actually provided by the identified WLR Load in aggregate in such Zone during such test].

The net WLR Load capability testing shortfall in such Zone shall be reduced by the WLR Provider's summer daily average of the MW shortfalls determined for WLR Non-Performance Charge purposes under section S of this Schedule 6.2 in such Zone for such WLR Provider's registered WLR Loads.

The WLR Test Failure Charge Rate shall equal the applicable WLR Value for such WLR Load in such Zone plus the greater of (0.20 times the applicable WLR Value for such WLR Load in such Zone or \$20/MW-day) times the number of days in the Delivery Year.

Such charge shall be assessed daily and charged monthly (or otherwise in accordance with customary PJM billing practices in effect at the time); provided, however, that a lump sum payment may be required to reflect amounts due, as a result of a test failure, from the start of the Delivery Year to the day that charges are reflected in regular billing.

S. WLR Non-Performance Charge. A WLR Provider or a WEEL Provider that fails to provide the committed quantity of load reduction when requested by PJM during a PJM declared pre-emergency or emergency event will be subject to a WLR Non-Performance Charge.

(a) Each WLR Provider that commits WLR Load for a Delivery Year and WEEL Provider that commits one or more WEELs for a Delivery Year shall be charged to the extent the performance of its committed WLR Load or WEEL during all or any part of a clock-hour when an Emergency Action is in effect falls short of the expected performance of such WLR Load or WEEL (as determined herein). The revenue from such charges shall be distributed in accordance with Section 10A of Attachment DD to the Tariff.

(b) Performance shall be measured for purposes of this assessment during each Performance Assessment Hour.

(c) For each Performance Assessment Hour, the Office of the Interconnection shall determine whether, and the extent to which, the actual performance of each of a WLR Provider's identified WLR Loads has fallen short of the performance expected of such WLR Load or a

WEEL Provider's identified WEELs has fallen short of the performance expected of such WEEL, and the magnitude of any such shortfall, based on the following formula:

Performance Shortfall = Expected Performance - Actual Performance

such formula is a positive number and where:

Expected Performance =

Committed load reduction (in megawatts) without making any adjustment for the Forecast Pool Requirement

and

Actual Performance =

for each identified WLR Load, the load reduction provided by such load, plus such WLR Loads' real-time reserve or regulation assignment, if any, during the Performance Assessment Hour, as established through the WLR Load settlement procedure set forth in the PJM Manuals and consistent with the standards specified in this Schedule 6.2 of the RAA; and

for each identified WEEL, the load reduction quantity approved by PJM subsequent to the pre-delivery year submittal of a post-installation measurement and verification report.

Such calculation shall encompass all WLR Loads and WEELs located in the area defined by the Emergency Action. The Performance Shortfall shall be calculated for each Performance Assessment Hour, and any WLR Loads identified by the WLR Provider or any WEELs identified by the WEEL Provider for which the above calculation produces a negative number for a Performance Assessment Hour shall not have a Performance Shortfall for such Performance Assessment Hour.

(d) Notwithstanding subsection (c) above, a WLR Load shall not be considered in the calculation of a Performance Shortfall for a Performance Assessment Hour to the extent such WLR Load was not the subject of a request to reduce load by the Office of the Interconnection.

(e) Subject to the WLR Non-Performance Charge Limit specified in subsection (f) hereof, each WLR Provider and WEEL Provider shall be assessed a Non-Performance Charge for its WLR Load or WEEL that has a Performance Shortfall for a Performance Assessment Hour based on the following formula, applied to each such load:

WLR Non-Performance Charge = Performance Shortfall \* WLR Non-Performance Charge Rate

Where

For Capacity Performance WLR Loads and Capacity Performance WEELs the WLR Non-Performance Charge Rate = (Net Cost of New Entry (stated in terms of installed capacity) for the LDA and Delivery Year for which such calculation is performed \* (365 / 30)

and for Base Capacity WLR Loads and Base Capacity WEELs the WLR Non-Performance Charge Rate = ( WLR Value applicable to the WLR Load \* (365 / 30)

(f) The WLR Non-Performance Charge for each WLR Load or WEEL shall not exceed a Non-Performance Charge Limit equal to, for any calendar month of a Delivery Year, 0.5 times the Net Cost of New Entry times the megawatts of load reduction (in Unforced Capacity terms) committed by such WLR Load or WEEL times 365; and for a Delivery Year, an amount equal to 1.5 times the Net Cost of New Entry times the megawatts of Unforced Capacity committed by such WLR Load times 365. All references to Net Cost of New Entry in this section S shall be to the Net Cost of New Entry for the LDA and Delivery Year for which the calculation is performed. The WLR Non-Performance Charge for each Base Capacity WLR Load and Base Capacity WEEL shall not exceed a WLR Non-Performance Charge Limit equal to, for a Delivery Year, an amount equal to the WLR Value applicable to such WLR Load or WEEL under section F of this Schedule 6.2 for such Delivery Year, times the number of days in the Delivery Year times the portion of the WLR Provider's Nominated WLR Quantity associated with such WLR Load or the WEEL Provider's Nominated WEEL Quantity associated with such WEEL, as applicable.

(g) Revenues collected from assessment of WLR Non-Performance Charges for a Performance Assessment Hour shall be combined with revenues collected from assessment of Non-Performance Charges on Capacity Resources in accordance with Section 10A of Attachment DD to the PJM Tariff. Any WLR Provider whose WLR Load's Actual Performance exceeds its Expected Performance and any WEEL Provider whose WEEL's Actual Performance exceeds its Expected Performance will be eligible to receive a Performance Payment in accordance with the terms of Section 10A of Attachment DD to the PJM Tariff.

(h) The Office of the Interconnection shall bill charges and credits for performance during Performance Assessment Hours within three calendar months after the calendar month that included such Performance Assessment Hours, provided, for any WLR Non-Performance Charge, the amount shall be divided by the number of months remaining in the Delivery Year for which no invoice has been issued, and the resulting amount shall be invoiced each such remaining month in the Delivery Year.

#### T. Distribution of Revenue Collected From WLR Charges.

The revenue collected from assessment of the charges assessed under sections Q and R of this Schedule 6.2 shall be distributed on a pro-rata basis to all entities that committed Capacity Resources in the RPM Auctions for the Delivery Year for which the compliance charge is assessed, pro rata based on each such entity's revenues from Capacity Market Clearing Prices in such auctions, net of any compliance charges incurred by such entity.

U. Wholesale Energy Efficiency Loads.

1. A Wholesale Energy Efficiency Load, or “WEEL,” is a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak summer and winter periods as described herein) reduction in electric energy consumption at the End-Use Customer’s retail site that is not reflected in the peak load forecast prepared for the Delivery Year for which the Wholesale Energy Efficiency Load is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, request to reduce, or operator intervention. Any Wholesale Entity may submit one or more WLR Bids supported by one or more WEELs in a Base Residual Auction to reduce load by a specified quantity during the specified Delivery Year.
2. A WEEL Provider may bid WEEL into the Base Residual Auction for any Delivery Year beginning on or after June 1, 2018. No later than 30 days prior to the auction in which the load reduction is to be bid, the WEEL Provider shall submit to the Office of the Interconnection a notice of intent to bid the load reduction into such auction and a measurement and verification plan. The notice of intent shall include all pertinent project design data, including but not limited to the peak-load contribution of affected customers, a full description of the equipment, device, system or process intended to achieve the load reduction, the load reduction pattern, the project location, the project development timeline, and any other relevant data. Such notice also shall state:
  - For the 2018/2019 and 2019/2020 Delivery Years, the seller’s proposed Nominated WEEL Quantity for any Base Capacity WEEL shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday; and
  - For the 2018/2019 Delivery Year and subsequent Delivery Years, the seller’s proposed Nominated WEEL Quantity for any Capacity Performance WEEL, shall be the expected average load reduction, for all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday, between the hour ending 15:00 EPT and the hour ending 18:00 EPT. In addition, the expected average load reduction for all days from January 1 through February 28, inclusive, of such Delivery Year that is not a weekend or federal holiday, between the hour ending 8:00 EPT and the hour ending 9:00 EPT and between the hour ending 19:00 EPT and the hour ending 20:00 EPT shall not be less than the Nominated WEEL Quantity.

The measurement and verification plan shall describe the methods and procedures, consistent with the PJM Manuals, for determining the amount of the load reduction and confirming that



such reduction is achieved. The Office of the Interconnection shall determine, upon review of such notice, the Nominated WEEL Quantity that may be bid in the Base Residual Auction.

3. WEEL may only be bid into a Base Residual Auction through a WLR Bid. In any such Base Residual Auction, the Office of the Interconnection shall shift to the left the Variable Resource Requirement Curve for the PJM Region or a Locational Deliverability Area, as applicable, to reflect the Nominated WEEL Quantity and WLR Bid Price of any WEEL bids for the PJM Region or such LDA, as applicable, in such RPM Auction. Each such leftward shift shall begin at the price point on the VRR Curve corresponding to the WLR Bid Price of the bid, and shall uniformly shift the VRR Curve to the left in the amount of the Nominated WEEL Quantity times FPR at that price point and all higher price points.
4. If a Base Capacity WEEL clears in the auction, it shall be assigned the applicable WLR Value as determined in accordance with section F above, subject to section U.7 below, for use in determining the LSE Capacity Obligation Reduction in section I above. If a Capacity Performance WEEL clears in the auction, it shall be assigned the applicable WLR Value as determined in accordance with section F above, subject to section U.7 below, for use in determining the LSE Capacity Obligation Reduction in section I above. A WEEL Provider bidding a WEEL must comply with all applicable credit requirements as set forth in Attachment Q to the PJM Tariff.
5. A WEEL cleared in an auction for a Delivery Year may be bid in Base Residual Auctions for up to three additional consecutive Delivery Years (if the reduction in electric energy consumption is not reflected in the peak load forecast prepared for the Delivery Year for which the WEEL is committed), but shall not be assured of clearing in any such auction; provided, however, a WEEL may not be bid for any Delivery Year in which any part of the peak season is beyond the expected life of the equipment, device, system, or process providing the expected load reduction.
6. For every WEEL Provider clearing one or more WEELs in an RPM Auction for a Delivery Year, the WEEL Provider shall submit to the Office of the Interconnection, by no later than 30 days prior to each Auction an updated project status and measurement and verification plan subject to the criteria set forth in the PJM Manuals.
7. For every WEEL Provider clearing one or more WEELs in an RPM Auction for a Delivery Year, the WEEL Provider shall submit to the Office of the Interconnection, by no later than the start of such Delivery Year, an updated project status and detailed measurement and verification data meeting the standards for precision and accuracy set forth in the PJM Manuals. The final value of the WEEL during such Delivery Year shall be as determined by the Office of the Interconnection based on the data submitted in such post-installation measurement and verification report.



8. The Office of the Interconnection may audit, at the WEEL Provider's expense, any WEEL committed to the PJM Region. The audit may be conducted any time including the Performance Hours of the Delivery Year.

# Attachment B

## Revisions to the PJM Open Access Transmission Tariff and Reliability Assurance Agreement Option A

(Identified by Additional Cover Pages)

(Clean Format)

Sections of the  
PJM Open Access Transmission Tariff  
Option A  
(Clean Format)

## **ATTACHMENT Q**

### **PJM CREDIT POLICY**

#### **POLICY STATEMENT:**

It is the policy of PJM Interconnection, LLC (“PJM”) that prior to an entity participating in the PJM Markets, or in order to take Transmission Service, the entity must demonstrate its ability to meet PJMSettlement’s credit requirements.

Prior to becoming a Market Participant, Transmission Customer, and/or Member of PJM, PJMSettlement must accept and approve a Credit Application (including Credit Agreement) from such entity and establish a Working Credit Limit with PJMSettlement. PJMSettlement shall approve or deny an accepted Credit Application on the basis of a complete credit evaluation including, but not be limited to, a review of financial statements, rating agency reports, and other pertinent indicators of credit strength.

#### **POLICY INTENT:**

This credit policy describes requirements for: (1) the establishment and maintenance of credit by Market Participants, Transmission Customers, and entities seeking either such status (collectively “Participants”), pursuant to one or more of the Agreements, and (2) forms of security that will be deemed acceptable (hereinafter the “Financial Security”) in the event that the Participant does not satisfy the financial or other requirements to establish Unsecured Credit.

This policy also sets forth the credit limitations that will be imposed on Participants in order to minimize the possibility of failure of payment for services rendered pursuant to the Agreements, and conditions that will be considered an event of default pursuant to this policy and the Agreements.

These credit rules may establish certain set-asides of credit for designated purposes (such as for FTR or RPM activity). Such set-asides shall be construed to be applicable to calculation of credit requirements only, and shall not restrict PJMSettlement’s ability to apply such designated credit to any obligation(s) in case of a default.

PJMSettlement may post on PJM’s web site, and may reference on OASIS, a supplementary document which contains additional business practices (such as algorithms for credit scoring) that are not included in this document. Changes to the supplementary document will be subject to stakeholder review and comment prior to implementation. PJMSettlement may specify a required compliance date, not less than 15 days from notification, by which time all Participants must comply with provisions that have been revised in the supplementary document.

#### **APPLICABILITY:**

This policy applies to all Participants.

## **IMPLEMENTATION:**

### **I. CREDIT EVALUATION**

Each Participant will be subject to a complete credit evaluation in order for PJMSettlement to determine creditworthiness and to establish an **Unsecured Credit Allowance**, if applicable; provided, however, that a Participant need not provide the information specified in section I.A or I.B if it notifies PJMSettlement in writing that it does not seek any Unsecured Credit Allowance. PJMSettlement will identify any necessary Financial Security requirements and establish a Working Credit Limit for each Participant. In addition, PJMSettlement will perform follow-up credit evaluations on at least an annual basis.

If a **Corporate Guaranty** is being utilized to establish credit for a Participant, the guarantor will be evaluated and the Unsecured Credit Allowance or Financial Security requirement will be based on the financial strength of the Guarantor.

PJMSettlement will provide a Participant, upon request, with a written explanation for any change in credit levels or collateral requirements. PJMSettlement will provide such explanation within ten Business Days.

If a Participant believes that either its level of unsecured credit or its collateral requirement has been incorrectly determined, according to this credit policy, then the Participant may send a request for reconsideration in writing to PJMSettlement. Such a request should include:

- A citation to the applicable section(s) of the PJMSettlement credit policy along with an explanation of how the respective provisions of the credit policy were not carried out in the determination as made
- A calculation of what the Participant believes should be the correct credit level or collateral requirement, according to terms of the credit policy

PJMSettlement will reconsider the determination and will provide a written response as promptly as practical, but no longer than ten Business Days of receipt of the request. If the Participant still feels that the determination is incorrect, then the Participant may contest that determination. Such contest should be in written form, addressed to PJMSettlement, and should contain:

- ◆ A complete copy of the Participant's earlier request for reconsideration, including citations and calculations
- ◆ A copy of PJMSettlement's written response to its request for reconsideration
- ◆ An explanation of why it believes that the determination still does not comply with the credit policy

PJMSettlement will investigate and will respond to the Participant with a final determination on the matter as promptly as practical, but no longer than 20 Business Days.

Neither requesting reconsideration nor contesting the determination following such request shall relieve or delay Participant's responsibility to comply with all provisions of this credit policy.

#### **A. Initial Credit Evaluation**

In completing the initial credit evaluation, PJMSettlement will consider:

##### **1) Rating Agency Reports**

In evaluating credit strength, PJMSettlement will review rating agency reports from Standard & Poor's, Moody's Investors Service, Fitch Ratings, or other nationally known rating agencies. The focus of the review will be on senior unsecured debt ratings; however, PJMSettlement will consider other ratings if senior unsecured debt ratings are not available.

##### **2) Financial Statements and Related Information**

Each Participant must submit with its application audited financial statements for the most recent fiscal quarter, as well as the most recent three fiscal years, or the period of existence of the Participant, if shorter. All financial and related information considered for a Credit Score must be audited by an outside entity, and must be accompanied by an unqualified audit letter acceptable to PJMSettlement.

The information should include, but not be limited to, the following:

- a. If publicly traded:
  - i. Annual and quarterly reports on Form 10-K and Form 10-Q, respectively.
  - ii. Form 8-K reports disclosing Material changes, if any.
- b. If privately held:
  - i. Management's Discussion & Analysis
  - ii. Report of Independent Accountants
  - iii. Financial Statements, including:
    - Balance Sheet
    - Income Statement
    - Statement of Cash Flows
    - Statement of Stockholder's Equity
  - iv. Notes to Financial Statements

If the above information is available on the Internet, the Participant may provide a letter stating where such statements may be located and retrieved by PJMSettlement. For certain Participants, some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJMSettlement.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness.

### **3) References**

PJMSettlement may request Participants to provide with their applications at least one (1) bank and three (3) utility credit references. In the case where a Participant does not have the required utility references, trade payable vendor references may be substituted.

### **4) Litigation, Commitments and Contingencies**

Each Participant is also required to provide with its application information as to any known Material litigation, commitments or contingencies as well as any prior bankruptcy declarations or Material defalcations by the Participant or its predecessors, subsidiaries or Affiliates, if any. These disclosures shall be made upon application, upon initiation or change, and at least annually thereafter, or as requested by PJMSettlement.

### **5) Other Disclosures**

Each Participant is required to disclose any Affiliates that are currently Members of PJMSettlement or are applying for membership with PJMSettlement. Each Participant is also required to disclose the existence of any ongoing investigations by the Securities and Exchange Commission ("SEC"), Federal Energy Regulatory Commission ("FERC"), Commodity Futures Trading Commission ("CFTC"), or any other governing, regulatory, or standards body. These disclosures shall be made upon application, upon initiation or change, and at least annually thereafter, or as requested by PJMSettlement.

## **B. Ongoing Credit Evaluation**

On at least an annual basis, PJMSettlement will perform follow-up credit evaluations on all Participants. In completing the credit evaluation, PJMSettlement will consider:

### **1) Rating Agency Reports**

In evaluating credit strength, PJMSettlement will review rating agency reports from Standard & Poor's, Moody's Investors Service, Fitch Ratings, or other nationally known rating agencies. The focus of the review will be on senior unsecured debt ratings; however, PJMSettlement will consider other ratings if senior unsecured debt ratings are not available.

### **2) Financial Statements and Related Information**

Each Participant must submit audited annual financial statements as soon as they become available and no later than 120 days after fiscal year end. Each Participant is also required to provide PJMSettlement with quarterly financial statements promptly upon their issuance, but no later than 60 days after the end of each quarter. All financial and related information considered

for a Credit Score must be audited by an outside entity, and must be accompanied by an unqualified audit letter acceptable to PJMSettlement. If financial statements are not provided within the timeframe required, the Participant may not be granted an Unsecured Credit Allowance.

The information should include, but not be limited to, the following:

- a. If publicly traded:
  - i. Annual and quarterly reports on Form 10-K and Form 10-Q, respectively.
  - ii. Form 8-K reports disclosing Material changes, if any, immediately upon issuance.
- b. If privately held:
  - i. Management's Discussion & Analysis
  - ii. Report of Independent Accountants
  - iii. Financial Statements, including:
    - Balance Sheet
    - Income Statement
    - Statement of Cash Flows
    - Statement of Stockholder's Equity
  - iv. Notes to Financial Statements

If the above information is available on the Internet, the Participant may provide a letter stating where such statements may be located and retrieved by PJMSettlement. For certain Participants, some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJMSettlement.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness.

### **3) Material Changes**

Each Participant is responsible for informing PJMSettlement immediately, in writing, of any Material change in its financial condition. However, PJMSettlement may also independently establish from available information that a Participant has experienced a Material change in its financial condition without regard to whether such Participant has informed PJMSettlement of the same.

For the purpose of this policy, a Material change in financial condition may include, but not be limited to, any of the following:

- a. a downgrade of any debt rating by any rating agency;
- b. being placed on a credit watch with negative implications by any rating agency;
- c. a bankruptcy filing;
- d. insolvency;



- e. a report of a quarterly or annual loss or a decline in earnings of ten percent or more compared to the prior period;
- f. restatement of prior financial statements;
- g. the resignation of key officer(s);
- h. the filing of a lawsuit that could adversely impact any current or future financial results by ten percent or more;
- i. financial default in another organized wholesale electric market futures exchange or clearing house;
- j. revocation of a license or other authority by any Federal or State regulatory agency; where such license or authority is necessary or important to the Participants continued business for example, FERC market-based rate authority, or State license to serve retail load; or
- k. a significant change in credit default spreads, market capitalization, or other market-based risk measurement criteria, such as a recent increase in Moody's KMV Expected Default Frequency (EDF<sup>tm</sup>) that is noticeably greater than the increase in its peers' EDF<sup>tm</sup> rates, or a collateral default swap (CDS) premium normally associated with an entity rated lower than investment grade.

If PJMSettlement determines that a Material change in the financial condition of the Participant has occurred, it may require the Participant to provide Financial Security within two Business Days, in an amount and form approved by PJMSettlement. If the Participant fails to provide the required Financial Security, the Participant shall be in default under this credit policy.

In the event that PJMSettlement determines that a Material change in the financial condition of a Participant warrants a requirement to provide Financial Security, PJMSettlement shall provide the Participant with a written explanation of why such determination was made. However, under no circumstances shall the requirement that a Participant provide the requisite Financial Security be deferred pending the issuance of such written explanation.

#### **4) Litigation, Commitments, and Contingencies**

Each Participant is also required to provide information as to any known Material litigation, commitments or contingencies as well as any prior bankruptcy declarations or Material defalcations by the Participant or its predecessors, subsidiaries or Affiliates, if any. These disclosures shall be made upon initiation or change or as requested by PJMSettlement.

#### **5) Other Disclosures**

Each Participant is required to disclose any Affiliates that are currently Members of PJM or are applying for membership within PJM. Each Participant is also required to disclose the existence of any ongoing investigations by the SEC, FERC, CFTC or any other governing, regulatory, or standards body. These disclosures shall be made upon initiation or change, or as requested by PJMSettlement.

### **C. Corporate Guaranty**

If a Corporate Guaranty is being utilized to establish credit for a Participant, the Guarantor will be evaluated and the Unsecured Credit Allowance or Financial Security requirement will be based on the financial strength of the Guarantor.

An irrevocable and unconditional Corporate Guaranty may be utilized as part of the credit evaluation process, but will not be considered a form of Financial Security. The Corporate Guaranty will be considered a transfer of credit from the Guarantor to the Participant. The Corporate Guaranty must guarantee the (i) full and prompt payment of all amounts payable by the Participant under the Agreements, and (ii) performance by the Participant under this policy.

The Corporate Guaranty should clearly state the identities of the “Guarantor,” “Beneficiary” (PJMSettlement) and “Obligor” (Participant). The Corporate Guaranty must be signed by an officer of the Guarantor, and must demonstrate that it is duly authorized in a manner acceptable to PJMSettlement. Such demonstration may include either a Corporate Seal on the Guaranty itself, or an accompanying executed and sealed Secretary’s Certificate noting that the Guarantor was duly authorized to provide such Corporate Guaranty and that the person signing the Corporate Guaranty is duly authorized, or other manner acceptable to PJMSettlement.

A Participant supplying a Corporate Guaranty must provide the same information regarding the Guarantor as is required in the “Initial Credit Evaluation” §I.A. and the “Ongoing Evaluation” §I.B. of this policy, including providing the Rating Agency Reports, Financial Statements and Related Information, References, Litigation Commitments and Contingencies, and Other Disclosures. A Participant supplying a Foreign or Canadian Guaranty must also satisfy the requirements of §I.C.1 or §I.C.2, as appropriate.

If there is a Material change in the financial condition of the Guarantor or if the Corporate Guaranty comes within 30 days of expiring without renewal, the Participant will be required to provide Financial Security either in the form of a cash deposit or a letter of credit. Failure to provide the required Financial Security within two Business Days after request by PJMSettlement will constitute an event of default under this credit policy. A Participant may request PJMSettlement to perform a credit evaluation in order to determine creditworthiness and to establish an Unsecured Credit Allowance, if applicable. If PJMSettlement determines that a Participant does qualify for a sufficient Unsecured Credit Allowance, then Financial Security will not be required.

The PJMSettlement Credit Application contains an acceptable form of Corporate Guaranty that should be utilized by a Participant choosing to establish its credit with a Corporate Guaranty. If the Corporate Guaranty varies in any way from the PJMSettlement format, it must first be reviewed and approved by PJMSettlement. All costs associated with obtaining and maintaining a Corporate Guaranty and meeting the policy provisions are the responsibility of the Participant.

## **1) Foreign Guaranties**

A Foreign Guaranty is a Corporate Guaranty that is provided by an Affiliate entity that is domiciled in a country other than the United States or Canada. The entity providing a Foreign Guaranty on behalf of a Participant is a Foreign Guarantor. A Participant may provide a Foreign

Guaranty in satisfaction of part of its credit obligations or voluntary credit provision at PJMSettlement provided that all of the following conditions are met:

PJMSettlement reserves the right to deny, reject, or terminate acceptance of any Foreign Guaranty at any time, including for material adverse circumstances or occurrences.

- a. A Foreign Guaranty:
  - i. Must contain provisions equivalent to those contained in PJMSettlement's standard form of Foreign Guaranty with any modifications subject to review and approval by PJMSettlement counsel.
  - ii. Must be denominated in US currency.
  - iii. Must be written and executed solely in English, including any duplicate originals.
  - iv. Will not be accepted towards a Participant's Unsecured Credit Allowance for more than the following limits, depending on the Foreign Guarantor's credit rating:

Rating of Foreign Guarantor	Maximum Accepted Guaranty if Country Rating is AAA	Maximum Accepted Guaranty if Country Rating is AA+
A- and above	USD50,000,000	USD30,000,000
BBB+	USD30,000,000	USD20,000,000
BBB	USD10,000,000	USD10,000,000
BBB- or below	USD 0	USD 0

- v. May not exceed 50% of the Participant's total credit, if the Foreign Grantor is rated less than BBB+.
- b. A Foreign Guarantor:
  - i. Must satisfy all provisions of the PJM credit policy applicable to domestic Guarantors.
  - ii. Must be an Affiliate of the Participant.
  - iii. Must maintain an agent for acceptance of service of process in the United States; such agent shall be situated in the Commonwealth of Pennsylvania, absent legal constraint.
  - iv. Must be rated by at least one Rating Agency acceptable to PJMSettlement; the credit strength of a Foreign Guarantor may not be determined based on an evaluation of its financials without an actual credit rating as well.
  - v. Must have a Senior Unsecured (or equivalent, in PJMSettlement's sole discretion) rating of BBB (one notch above BBB-) or greater by any and all agencies that provide rating coverage of the entity.
  - vi. Must provide financials in GAAP format or other format acceptable to PJMSettlement with clear representation of net worth, intangible assets, and any other information PJMSettlement may require in order to determine the entity's Unsecured Credit Allowance

- vii. Must provide a Secretary's Certificate certifying the adoption of Corporate Resolutions:
  - 1. Authorizing and approving the Guaranty; and
  - 2. Authorizing the Officers to execute and deliver the Guaranty on behalf of the Guarantor.
- viii. Must be domiciled in a country with a minimum long-term sovereign (or equivalent) rating of AA+/Aa1, with the following conditions:
  - 1. Sovereign ratings must be available from at least two rating agencies acceptable to PJMSettlement (e.g. S&P, Moody's, Fitch, DBRS).
  - 2. Each agency's sovereign rating for the domicile will be considered to be the lowest of: country ceiling, senior unsecured government debt, long-term foreign currency sovereign rating, long-term local currency sovereign rating, or other equivalent measures, at PJMSettlement's sole discretion.
  - 3. Whether ratings are available from two or three agencies, the lowest of the two or three will be used.
- ix. Must be domiciled in a country that recognizes and enforces judgments of US courts.
- x. Must demonstrate financial commitment to activity in the United States as evidenced by one of the following:
  - 1. American Depositary Receipts (ADR) are traded on the New York Stock Exchange, American Stock Exchange, or NASDAQ.
  - 2. Equity ownership worth over USD100,000,000 in the wholly-owned or majority owned subsidiaries in the United States.
- xi. Must satisfy all other applicable provisions of the PJM Tariff and/or Operating Agreement, including this credit policy.
- xii. Must pay for all expenses incurred by PJMSettlement related to reviewing and accepting a foreign guaranty beyond nominal in-house credit and legal review.
- xiii. Must, at its own cost, provide PJMSettlement with independent legal opinion from an attorney/solicitor of PJMSettlement's choosing and licensed to practice law in the United States and/or Guarantor's domicile, in form and substance acceptable to PJMSettlement in its sole discretion, confirming the enforceability of the Foreign Guaranty, the Guarantor's legal authorization to grant the Guaranty, the conformance of the Guaranty, Guarantor, and Guarantor's domicile to all of these requirements, and such other matters as PJMSettlement may require in its sole discretion.

## **2) Canadian Guaranties**

A Canadian Guaranty is a Corporate Guaranty that is provided by an Affiliate entity that is domiciled in Canada and satisfies all of the provisions below. The entity providing a Canadian Guaranty on behalf of a Participant is a Canadian Guarantor. A Participant may provide a Canadian Guaranty in satisfaction of part of its credit obligations or voluntary credit provision at PJMSettlement provided that all of the following conditions are met.

PJMSettlement reserves the right to deny, reject, or terminate acceptance of any Canadian Guaranty at any time for reasonable cause, including adverse material circumstances.

- a. A Canadian Guaranty:
  - i. Must contain provisions equivalent to those contained in PJMSettlement's standard form of Foreign Guaranty with any modifications subject to review and approval by PJMSettlement counsel.
  - ii. Must be denominated in US currency.
  - iii. Must be written and executed solely in English, including any duplicate originals.
- b. A Canadian Guarantor:
  - i. Must satisfy all provisions of the PJM credit policy applicable to domestic Guarantors.
  - ii. Must be an Affiliate of the Participant.
  - iii. Must maintain an agent for acceptance of service of process in the United States; such agent shall be situated in the Commonwealth of Pennsylvania, absent legal constraint.
  - iv. Must be rated by at least one Rating Agency acceptable to PJMSettlement; the credit strength of a Canadian Guarantor may not be determined based on an evaluation of its financials without an actual credit rating as well.
  - v. Must provide financials in GAAP format or other format acceptable to PJMSettlement with clear representation of net worth, intangible assets, and any other information PJMSettlement may require in order to determine the entity's Unsecured Credit Allowance.
  - vi. Must satisfy all other applicable provisions of the PJM Tariff and/or Operating Agreement, including this Credit Policy.

## **Ia. MINIMUM PARTICIPATION REQUIREMENTS**

### **A. PJM Market Participation Eligibility Requirements**

To be eligible to transact in PJM Markets, a Market Participant must demonstrate in accordance with the Risk Management and Verification processes set forth below that it qualifies in one of the following ways:

1. an "appropriate person," as that term is defined under Section 4(c)(3), or successor provision, of the Commodity Exchange Act, or;
2. an "eligible contract participant," as that term is defined in Section 1a(18), or successor provision, of the Commodity Exchange Act, or;
3. a business entity or person who is in the business of: (1) generating, transmitting, or distributing electric energy, or (2) providing electric energy services that are necessary to support the reliable operation of the transmission system, or;

4. a Market Participant seeking eligibility as an “appropriate person” providing an unlimited Corporate Guaranty in a form acceptable to PJMSettlement as described in Section I.C of Attachment Q from an issuer that has at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty, or;
5. a Market Participant providing a letter of credit of at least \$5 million to PJMSettlement in a form acceptable to PJMSettlement as described in Section VI.B of Attachment Q that the Market Participant acknowledges is separate from, and cannot be applied to meet, its credit requirements to PJMSettlement.

If, at any time, a Market Participant cannot meet the eligibility requirements set forth above, it shall immediately notify PJMSettlement and immediately cease conducting transactions in the PJM Markets. PJMSettlement shall terminate a Market Participant’s transaction rights in the PJM Markets if, at any time, it becomes aware that the Market Participant does not meet the minimum eligibility requirements set forth above.

In the event that a Market Participant is no longer able to demonstrate it meets the minimum eligibility requirements set forth above, and possesses, obtains or has rights to possess or obtain, any open or forward positions in PJM’s Markets, PJMSettlement may take any such action it deems necessary with respect to such open or forward positions, including, but not limited to, liquidation, transfer, assignment or sale; provided, however, that the Market Participant will, notwithstanding its ineligibility to participate in the PJM Markets, be entitled to any positive market value of those positions, net of any obligations due and owing to PJM and/or PJMSettlement.

## **B. Risk Management and Verification**

All Participants shall provide to PJMSettlement an executed copy of the annual certification set forth in Appendix 1 to this Attachment Q. This certification shall be provided before an entity is eligible to participate in the PJM Markets and shall be initially submitted to PJMSettlement together with the entity’s Credit Application. Thereafter, it shall be submitted each calendar year by all Participants during a period beginning on January 1 and ending April 30, except that new Participants who became eligible to participate in PJM markets during the period of January through April shall not be required to resubmit such certification until the following calendar year. Except for certain FTR Participants (discussed below) or in cases of manifest error, PJMSettlement will accept such certifications as a matter of course and Participants will not need further notice from PJMSettlement before commencing or maintaining their eligibility to participate in PJM markets. A Participant that fails to provide its annual certification by April 30 shall be ineligible to transact in the PJM markets and PJM will disable the Participant’s access to the PJM markets until such time as PJMSettlement receives the Participant’s certification.

Participants acknowledge and understand that the annual certification constitutes a representation upon which PJMSettlement will rely. Such representation is additionally made under the PJM Tariff, filed with and accepted by FERC, and any inaccurate or incomplete statement may subject the Participant to action by FERC. Failure to comply with any of the criteria or

requirements listed herein or in the certification may result in suspension of a Participant's transaction rights in the PJM markets.

Certain FTR Participants (those providing representations found in paragraph 3.b of the annual certification set forth in Appendix 1 to this Attachment Q) are additionally required to submit to PJMSettlement (at the time they make their annual certification) a copy of their current governing risk control policies, procedures and controls applicable to their FTR trading activities, except that if no substantive changes have been made to such policies, practices and/or controls applicable to their FTR trading activities, they may instead submit to PJMSettlement a certification stating that no changes have been made. PJMSettlement will review such documentation to verify that it appears generally to conform to prudent risk management practices for entities trading in FTR-type markets. If principles or best practices relating to risk management in FTR-type markets are published, as may be modified from time to time, by a third-party industry association, such as the Committee of Chief Risk Officers, PJMSettlement may, following stakeholder discussion and with no less than six months prior notice to stakeholders, apply such principles or best practices in determining the fundamental sufficiency of the FTR Participant's risk controls. Those FTR Participants subject to this provision shall make a one-time payment of \$1,000.00 to PJMSettlement to cover costs associated with review and verification. Thereafter, if such FTR Participant's risk policies, procedures and controls applicable to its FTR trading activities change substantively, it shall submit such modified documentation, without charge, to PJMSettlement for review and verification at the time it makes its annual certification. Such FTR Participant's continued eligibility to participate in the PJM FTR markets is conditioned on PJMSettlement notifying such FTR Participant that its annual certification, including the submission of its risk policies, procedures and controls, has been accepted by PJMSettlement. PJMSettlement may retain outside expertise to perform the review and verification function described in this paragraph, however, in all circumstances, PJMSettlement and any third-party it may retain will treat as confidential the documentation provided by an FTR Participant under this paragraph, consistent with the applicable provisions of PJM's Operating Agreement.

An FTR Participant that makes the representation in paragraph 3.a of the annual certification understand that PJMSettlement, given the visibility it has over a Participant's overall market activity in performing billing and settlement functions, may at any time request the FTR Participant provide additional information demonstrating that it is in fact eligible to make the representation in paragraph 3.a of the annual certification. If such additional information is not provided or does not, in PJMSettlement's judgment, demonstrate eligibility to make the representation in paragraph 3.a of the annual certification, PJMSettlement will require the FTR Participant to instead make the representations required in paragraph 3.b of the annual certification, including representing that it has submitted a copy of its current governing risk control policies, procedures and controls applicable to its FTR trading activities. If the FTR Participant cannot or does not make those representations as required in paragraph 3.b of the annual certification, then PJM will terminate the FTR Participant's rights to purchase FTRs in the FTR market and may terminate the FTR Participant's rights to sell FTRs in the PJM FTR market.

PJMSettlement shall also conduct a periodic compliance verification process to review and verify, as applicable, Participants' risk management policies, practices, and procedures pertaining to the Participants' activities in the PJM markets. Such review shall include verification that:

1. The risk management framework is documented in a risk policy addressing market, credit and liquidity risks.
2. The Participant maintains an organizational structure with clearly defined roles and responsibilities that clearly segregates trading and risk management functions.
3. There is clarity of authority specifying the types of transactions into which traders are allowed to enter.
4. The Participant has requirements that traders have adequate training relative to their authority in the systems and PJM markets in which they transact.
5. As appropriate, risk limits are in place to control risk exposures.
6. Reporting is in place to ensure that risks and exceptions are adequately communicated throughout the organization.
7. Processes are in place for qualified independent review of trading activities.
8. As appropriate, there is periodic valuation or mark-to-market of risk positions.

If principles or best practices relating to risk management in PJM-type markets are published, as may be modified from time to time, by a third-party industry association, PJMSettlement may, following stakeholder discussion and with no less than six months prior notice to stakeholders, apply such principles or best practices in determining the sufficiency of the Participant's risk controls. PJMSettlement may select Participants for review on a random basis and/or based on identified risk factors such as, but not limited to, the PJM markets in which the Participant is transacting, the magnitude of the Participant's transactions in the PJM markets, or the volume of the Participant's open positions in the PJM markets. Those Participants notified by PJMSettlement that they have been selected for review shall, upon 14 calendar days notice, provide a copy of their current governing risk control policies, procedures and controls applicable to their PJM market activities and shall also provide such further information or documentation pertaining to the Participants' activities in the PJM markets as PJMSettlement may reasonably request. Participants selected for risk management verification through a random process and satisfactorily verified by PJMSettlement shall be excluded from such verification process based on a random selection for the subsequent two years. PJMSettlement shall annually randomly select for review no more than 20% of the Participants in each member sector.

Each selected Participant's continued eligibility to participate in the PJM markets is conditioned upon PJMSettlement notifying the Participant of successful completion of PJMSettlement's verification of the Participant's risk management policies, practices and procedures, as discussed



herein. However, if PJMSettlement notifies the Participant in writing that it could not successfully complete the verification process, PJMSettlement shall allow such Participant 14 calendar days to provide sufficient evidence for verification prior to declaring the Participant as ineligible to continue to participate in PJM's markets, which declaration shall be in writing with an explanation of why PJMSettlement could not complete the verification. If, prior to the expiration of such 14 calendar days, the Participant demonstrates to PJMSettlement that it has filed with the Federal Energy Regulatory Commission an appeal of PJMSettlement's risk management verification determination, then the Participant shall retain its transaction rights, pending the Commission's determination on the Participant's appeal. PJMSettlement may retain outside expertise to perform the review and verification function described in this paragraph. PJMSettlement and any third party it may retain will treat as confidential the documentation provided by a Participant under this paragraph, consistent with the applicable provisions of the Operating Agreement. If PJMSettlement retains such outside expertise, a Participant may direct in writing that PJMSettlement perform the risk management review and verification for such Participant instead of utilizing a third party, provided however, that employees and contract employees of PJMSettlement and PJM shall not be considered to be such outside expertise or third parties.

Participants are solely responsible for the positions they take and the obligations they assume in PJM markets. PJMSettlement hereby disclaims any and all responsibility to any Participant or PJM Member associated with Participant's submitting or failure to submit its annual certification or PJMSettlement's review and verification of an FTR Participant's risk policies, procedures and controls. Such review and verification is limited to demonstrating basic compliance by an FTR Participant with the representation it makes under paragraph 3.b of its annual certification showing the existence of written policies, procedures and controls to limit its risk in PJM's FTR markets and does not constitute an endorsement of the efficacy of such policies, procedures or controls.

## **C. Capitalization**

In addition to the Annual Certification requirements in Appendix 1 to this Attachment Q, a Participant must demonstrate that it meets the minimum financial requirements appropriate for the PJM market(s) in which it transacts by satisfying either the Minimum Capitalization or the Provision of Collateral requirements listed below:

### **1. Minimum Capitalization**

FTR Participants must demonstrate a tangible net worth in excess of \$1 million or tangible assets in excess of \$10 million. Other Participants must demonstrate a tangible net worth in excess of \$500,000 or tangible assets in excess of \$5 million.

- a. In either case, consideration of "tangible" assets and net worth shall exclude assets (net of any matching liabilities, assuming the result is a positive value) which PJMSettlement reasonably believes to be restricted, highly risky, or potentially unavailable to settle a claim in the event of default. Examples include, but are not

limited to, restricted assets and Affiliate assets, derivative assets, goodwill, and other intangible assets.

- b. Demonstration of “tangible” assets and net worth may be satisfied through presentation of an acceptable Corporate Guaranty, provided that both:
  - (i) the guarantor is an affiliate company that satisfies the tangible net worth or tangible assets requirements herein, and;
  - (ii) the Corporate Guaranty is either unlimited or at least \$500,000.

If the Corporate Guaranty presented by the Participant to satisfy these Capitalization requirements is limited in value, then the Participant’s resulting Unsecured Credit Allowance shall be the lesser of:

- (1) the applicable Unsecured Credit Allowance available to the Participant by the Corporate Guaranty pursuant to the creditworthiness provisions of this Credit Policy, or:
- (2) the face value of the Corporate Guaranty, reduced by \$500,000 and further reduced by 10%. (For example, a \$10.5 million Corporate Guaranty would be reduced first by \$500,000 to \$10 million and then further reduced 10% more to \$9 million. The resulting \$9 million would be the Participant’s Unsecured Credit Allowance available through the Corporate Guaranty).

In the event that a Participant provides collateral in addition to a limited Corporate Guaranty to increase its available credit, the value of such collateral shall be reduced by 10%. This reduced value shall be deemed Financial Security and available to satisfy the requirements of this Credit Policy.

Demonstrations of capitalization must be presented in the form of audited financial statements for the Participant’s most recent fiscal year.

## **2. Provision of Collateral**

If a Participant does not demonstrate compliance with its applicable Minimum Capitalization Requirements above, it may still qualify to participate in PJM’s markets by posting additional collateral, subject to the terms and conditions set forth herein.

Any collateral provided by a Participant unable to satisfy the Minimum Capitalization Requirements above will be restricted in the following manner:

- i. Collateral provided by FTR Participants shall be reduced by \$500,000 and then further reduced by 10%. This reduced amount shall be considered the Financial Security provided by the Participant and available to satisfy requirements of this Credit Policy.
- ii. Collateral provided by other Participants that engage in Virtual Transactions or Export Transactions shall be reduced by \$200,000 and then further reduced by 10%. This reduced value shall be considered Financial Security available to satisfy requirements of this Credit Policy.
- iii. Collateral provided by other Participants that do not engage in Virtual Transactions or Export Transactions shall be reduced by 10%, and this reduced value shall be considered Financial Security available to satisfy requirements of this Credit Policy.

In the event a Participant that satisfies the Minimum Participation Requirements through provision of collateral also provides a Corporate Guaranty to increase its available credit, then the Participant's resulting Unsecured Credit Allowance conveyed through such Guaranty shall be the lesser of:

- (1) the applicable Unsecured Credit Allowance available to the Participant by the Corporate Guaranty pursuant to the creditworthiness provisions of this credit policy, or,
- (2) the face value of the Guaranty, reduced by 10%.

## **II. CREDIT ALLOWANCE AND WORKING CREDIT LIMIT**

PJMSettlement's credit evaluation process will include calculating a Credit Score for each Participant. The credit score will be utilized to determine a Participant's Unsecured Credit Allowance.

Participants who do not qualify for an Unsecured Credit Allowance will be required to provide Financial Security based on their Peak Market Activity, as provided below.

A corresponding Working Credit Limit will be established based on the Unsecured Credit Allowance and/or the Financial Security provided.

Where Participant of PJM are considered Affiliates, Unsecured Credit Allowances and Working Credit Limits will be established for each individual Participant, subject to an aggregate maximum amount for all Affiliates as provided for in §II.F of this policy.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness.

## A. Credit Score

For participants with credit ratings, a Credit Score will be assigned based on their senior unsecured credit rating and credit watch status as shown in the table below. If an explicit senior unsecured rating is not available, PJMSettlement may impute an equivalent rating from other ratings that are available. For Participants without a credit rating, but who wish to be considered for unsecured Credit, a Credit Score will be generated from PJMSettlement's review and analysis of various factors that are predictors of financial strength and creditworthiness. Key factors in the scoring process include, financial ratios, and years in business. PJMSettlement will consistently apply the measures it uses in determining Credit Scores. The credit scoring methodology details are included in a supplementary document available on OASIS.

### Rated Entities Credit Scores

Rating	Score	Score Modifier	
		Credit Watch Negative	Credit Watch Positive
AAA	100	-1.0	0.0
AA+	99	-1.0	0.0
AA	99	-1.0	0.0
AA-	98	-1.0	0.0
A+	97	-1.0	0.0
A	96	-2.0	0.0
A-	93	-3.0	1.0
BBB+	88	-4.0	2.0
BBB	78	-4.0	2.0
BBB-	65	-4.0	2.0
BB+ and below	0	0.0	0.0

## B. Unsecured Credit Allowance

PJMSettlement will determine a Participant's Unsecured Credit Allowance based on its Credit Score and the parameters in the table below. The maximum Unsecured Credit Allowance is the lower of:

- 1) A percentage of the Participant's Tangible Net Worth, as stated in the table below, with the percentage based on the Participant's credit score; and
- 2) A dollar cap based on the credit score, as stated in the table below:

<b>Credit Score</b>	<b>Tangible Net Worth Factor</b>	<b>Maximum Unsecured Credit Allowance</b>  <b>(\$ Million)</b>
91-100	2.125 – 2.50%	\$50
81-90	1.708 – 2.083%	\$42
71-80	1.292 – 1.667%	\$33
61-70	0.875 – 1.25%	\$7
51-60	0.458 – 0.833%	\$0-\$2
50 and Under	0%	\$0

If a Corporate Guaranty is utilized to establish an Unsecured Credit Allowance for a Participant, the value of a Corporate Guaranty will be the lesser of:

- The limit imposed in the Corporate Guaranty;
- The Unsecured Credit Allowance calculated for the Guarantor; and
- A portion of the Unsecured Credit Allowance calculated for the Guarantor in the case of Affiliated Participants.

PJMSettlement has the right at any time to modify any Unsecured Credit Allowance and/or require additional Financial Security as may be deemed reasonably necessary to support current market activity. Failure to pay the required amount of additional Financial Security within two Business Days shall be an event of default.

PJMSettlement will maintain a posting of each Participant's unsecured Credit Allowance, along with certain other credit related parameters, on the PJM web site in a secure, password-protected location. Such information will be updated at least weekly. Each Participant will be responsible for monitoring such information and recognizing changes that may occur.

### **C. Seller Credit**

Participants that have maintained a Net Sell Position for each of the prior 12 months are eligible for Seller Credit, which is an additional form of Unsecured Credit. A Participant's Seller Credit will be equal to sixty percent of the Participant's thirteenth smallest weekly Net Sell Position invoiced in the past 52 weeks.

Each Participant receiving Seller Credit must maintain both its Seller Credit and its Total Net Sell Position equal to or greater than the Participant's aggregate credit requirements, less any Financial Security or other sources of credit provided.

For Participants receiving Seller Credit, PJMSettlement may forecast the Participant's Total Net Sell Position considering the Participant's current Total Net Sell Position, recent trends in the Participant's Total Net Sell Position, and other information available to PJMSettlement, such as, but not limited to, known generator outages, changes in load responsibility, and bilateral

transactions impacting the Participant. If PJMSettlement's forecast ever indicates that the Participant's Total Net Sell Position may in the future be less than the Participant's aggregate credit requirements, less any Financial Security or other sources of credit provided, then PJMSettlement may require Financial Security as needed to cover the difference. Failure to pay the required amount of additional Financial Security within two Business Days shall be an event of default.

Any Financial Security required by PJMSettlement pursuant to these provisions for Seller Credit will be returned once the requirement for such Financial Security has ended. Seller Credit may not be conveyed to another entity through use of a guaranty. Seller Credit shall be subject to the cap on available Unsecured Credit set forth in Section II.F.

#### **D. Peak Market Activity and Financial Security Requirement**

A PJM Participant or Applicant that has an insufficient Unsecured Credit Allowance to satisfy its Peak Market Activity will be required to provide Financial Security such that its Unsecured Credit Allowance and Financial Security together are equal to its Peak Market Activity in order to secure its transactional activity in the PJM Market.

Peak Market Activity for Participants will be determined semi-annually beginning in the first complete billing week in the months of April and October. Peak Market Activity shall be the greater of the initial Peak Market Activity, as explained below, or the greatest amount invoiced for the Participant's transaction activity for all PJM markets and services in any rolling one, two, or three week period, ending within a respective semi-annual period. However, Peak Market Activity shall not exceed the greatest amount invoiced for the Participant's transaction activity for all PJM markets and services in any rolling one, two or three week period in the prior 52 weeks.

Peak Market Activity shall exclude FTR Net Activity, Virtual Transactions Net Activity, and Export Transactions Net Activity.

The initial Peak Market Activity for Applicants will be determined by PJMSettlement based on a review of an estimate of their transactional activity for all PJM markets and services over the next 52 weeks, which the Applicant shall provide to PJMSettlement.

The initial Peak Market Activity for Participants, calculated at the beginning of each respective semi-annual period, shall be the three-week average of all non-zero invoice totals over the previous 52 weeks. This calculation shall be performed and applied within three business days following the day the invoice is issued for the first full billing week in the current semi-annual period.

Prepayments shall not affect Peak Market Activity unless otherwise agreed to in writing pursuant to this Credit Policy.

All Peak Market Activity calculations shall take into account reductions of invoice values effectuated by early payments which are applied to reduce a Participant's Peak Market Activity

as contemplated by other terms of the Credit Policy; provided that the initial Peak Market Activity shall not be less than the average value calculated using the weeks for which no early payment was made.

A Participant may reduce its Financial Security Requirement by agreeing in writing (in a form acceptable to PJMSettlement) to make additional payments, including prepayments, as and when necessary to ensure that such Participant's Total Net Obligation at no time exceeds such reduced Financial Security Requirement.

PJMSettlement may, at its discretion, adjust a Participant's Financial Security Requirement if PJMSettlement determines that the Peak Market Activity is not representative of such Participant's expected activity, as a consequence of known, measurable, and sustained changes. Such changes may include the loss (without replacement) of short-term load contracts, when such contracts had terms of three months or more and were acquired through state-sponsored retail load programs, but shall not include short-term buying and selling activities.

PJMSettlement may waive the Financial Security Requirement for a Participant that agrees in writing that it shall not, after the date of such agreement, incur obligations under any of the Agreements. Such entity's access to all electronic transaction systems administered by PJM shall be terminated.

PJMSettlement will maintain a posting of each Participant's Financial Security Requirement on the PJM web site in a secure, password-protected location. Such information will be updated at least weekly. Each Participant will be responsible for monitoring such information and recognizing changes that may occur.

#### **E. Working Credit Limit**

PJMSettlement will establish a Working Credit Limit for each Participant against which its **Total Net Obligation** will be monitored. The Working Credit Limit is defined as 75% of the Financial Security provided to PJMSettlement and/or 75% of the Unsecured Credit Allowance determined by PJMSettlement based on a credit evaluation, as reduced by any applicable credit requirement determinants defined in this policy. A Participant's Total Net Obligation should not exceed its Working Credit Limit.

Example: After a credit evaluation by PJMSettlement, a Participant is deemed able to support an Unsecured Credit Allowance of \$10.0 million. The Participant will be assigned a Working Credit Limit of \$8.5 million. PJMSettlement will monitor the Participant's Total Net Obligations against the Working Credit Limit.

A Participant with an Unsecured Credit Allowance may choose to provide Financial Security in order to increase its Working Credit Limit. A Participant with no Unsecured Credit Allowance may also choose to increase its Working Credit Limit by providing Financial Security in an amount greater than its Peak Market Activity.

If a Participant's Total Net Obligation approaches its Working Credit Limit, PJMSettlement may require the Participant to make an advance payment or increase its Financial Security in order to maintain its Total Net Obligation below its Working Credit Limit. Except as explicitly provided

below, advance payments shall not serve to reduce the Participant's Peak Market Activity for the purpose of calculating credit requirements.

Example: After 10 days, and with 5 days remaining before the bill is due to be paid, a Participant approaches its \$4.0 million Working Credit Limit. PJMSettlement may require a prepayment of \$2.0 million in order that the Total Net Obligation will not exceed the Working Credit Limit.

If a Participant exceeds its Working Credit Limit or is required to make advance payments more than ten times during a 52-week period, PJMSettlement may require Financial Security in an amount as may be deemed reasonably necessary to support its Total Net Obligation.

A Participant receiving unsecured credit may make early payments up to ten times in a rolling 52-week period in order to reduce its Peak Market Activity for credit requirement purposes. Imputed Peak Market Activity reductions for credit purposes will be applied to the billing period for which the payment was received. Payments used as the basis for such reductions must be received prior to issuance or posting of the invoice for the relevant billing period. The imputed Peak Market Activity reduction attributed to any payment may not exceed the amount of Unsecured Credit for which the Participant is eligible.

#### **F. Credit Limit Setting For Affiliates**

If two or more Participants are Affiliates and each is being granted an Unsecured Credit Allowance and a corresponding Working Credit Limit, PJMSettlement will consider the overall creditworthiness of the Affiliated Participants when determining the Unsecured Credit Allowances and Working Credit Limits in order not to grant more Unsecured Credit than the overall corporation could support.

**Example:** Participants A and B each have a \$10.0 million Corporate Guaranty from their common parent, a holding company with an Unsecured Credit Allowance calculation of \$12.0 million. PJMSettlement may limit the Unsecured Credit Allowance for each Participant to \$6.0 million, so the total Unsecured Credit Allowance does not exceed the corporate total of \$12.0 million.

PJMSettlement will work with Affiliated Participants to allocate the total Unsecured Credit Allowance among the Affiliates while assuring that no individual Participant, nor common guarantor, exceeds the Unsecured Credit Allowance appropriate for its credit strength. The aggregate Unsecured Credit for a Participant, including Unsecured Credit Allowance granted based on its own creditworthiness and any Unsecured Credit Allowance conveyed through a Guaranty shall not exceed \$50 million. The aggregate Unsecured Credit for a group of Affiliates shall not exceed \$50 million. A group of Affiliates subject to this cap shall request PJMSettlement to allocate the maximum Unsecured Credit and Working Credit Limit amongst the group, assuring that no individual Participant or common guarantor, shall exceed the Unsecured Credit level appropriate for its credit strength and activity.

#### **G. Working Credit Limit Violations**

##### **1) Notification**



A Participant is subject to notification when its Total Net Obligation to PJMSettlement approaches the Participant's established Working Credit Limit.

## **2) Suspension**

A Participant that exceeds its Working Credit Limit is subject to suspension from participation in the PJM markets and from scheduling any future Transmission Service unless and until Participant's credit standing is brought within acceptable limits. A Participant will have two Business Days from notification to remedy the situation in a manner deemed acceptable by PJMSettlement. Additionally, PJMSettlement, in coordination with PJM, will take such actions as may be required or permitted under the Agreements, including but not limited to the termination of the Participant's ongoing Transmission Service and participation in PJM Markets. Failure to comply with this policy will be considered an event of default under this credit policy.

## **H. PJM Administrative Charges**

Financial Security held by PJMSettlement shall also secure obligations to PJM for PJM administrative charges.

## **I. Pre-existing Financial Security**

PJMSettlement's credit requirements are applicable as of the effective date of the filing on May 5, 2010 by PJM and PJMSettlement of amendments to Attachment Q. Financial Security held by PJM prior to the effective date of such amendments shall be held by PJM for the benefit of PJMSettlement.

## **III. VIRTUAL TRANSACTION SCREENING**

### **A. Credit and Financial Security**

PJMSettlement does not require a Market Participant to establish separate or additional credit for submitting Virtual Transactions. If a Market Participant chooses to establish additional Financial Security and/or Unsecured Credit Allowance in order to increase its Credit Available for Virtual Transactions, the Market Participant's Working Credit Limit for Virtual Transactions shall be increased in accordance with the definition thereof. The Financial Security and/or Unsecured Credit Allowance available to increase a Market Participant's Credit Available for Virtual Transactions shall be the amount of Financial Security and/or Unsecured Credit Allowance available after subtracting any credit required for Minimum Participation Requirements, FTR, Export Transactions, or other credit requirement determinants as defined in this policy, as applicable.

If a Market Participant chooses to provide additional Financial Security in order to increase its **Credit Available for Virtual Transactions PJMSettlement** may establish a reasonable timeframe, not to exceed three months, for which such Financial Security must be maintained. PJMSettlement will not impose such restriction on a deposit unless a Market Participant is

notified prior to making the deposit. Such restriction, if applied, shall be applied to all future deposits by all Market Participants engaging in Virtual Transactions.

A Market Participant wishing to increase its Credit Available for Virtual Transactions by providing additional Financial Security may make the appropriate arrangements with PJMSettlement. PJMSettlement will make a good faith effort to make new Financial Security available as Credit Available for Virtual Transactions as soon as practicable after confirmation of receipt. In any event, however, Financial Security received and confirmed by noon on a business day will be applied (as provided under this policy) to Credit Available for Virtual Transactions no later than 10:00 am on the following business day. Receipt and acceptance of wired funds for cash deposit shall mean actual receipt by PJMSettlement's bank, deposit into PJMSettlement's customer deposit account, and confirmation by PJMSettlement that such wire has been received and deposited. Receipt and acceptance of letters of credit shall mean receipt of the original letter of credit or amendment thereto, and confirmation from PJMSettlement's credit and legal staffs that such letter of credit or amendment thereto conforms to PJMSettlement's requirements, which confirmation shall be made in a reasonable and practicable timeframe. To facilitate this process, bidders wiring funds for the purpose of increasing their Credit Available for Virtual Transactions are advised to specifically notify PJMSettlement that a wire is being sent for such purpose.

## **B. Virtual Transaction Screening Process**

All Virtual Transactions submitted to PJM shall be subject to a credit screen prior to acceptance in the Day-ahead Energy Market auction. The credit screen process will automatically reject Virtual Transactions submitted by the PJM market participant if the participant's Credit Available for Virtual Transactions is exceeded by the **Virtual Credit Exposure** that is calculated based on the participant's submitted Virtual Transactions as described below.

A Participant's Virtual Credit Exposure will be calculated on a daily basis for all Virtual Transactions submitted by the market participant for the next market day using the following equation:

Virtual Credit Exposure = INC and DEC Exposure + Up-to Congestion Exposure

Where:

1) INC and DEC Exposure is calculated as:

(a) ((the total MWh bid or offered, whichever is greater, hourly at each node) x the Nodal Reference Price x 1 day) summed over all nodes and all hours; plus (b) ((the difference between the total bid MWh cleared and total offered MWh cleared hourly at each node) x Nodal Reference Price) summed over all nodes and all hours for the previous cleared Day-ahead Energy Market.

2) Up-to Congestion Exposure is calculated as:

(a) Total MWh bid hourly for each Up-to Congestion Transaction x (price bid – Up-to Congestion Reference Price) summed over all Up-to Congestion Transactions and all hours; plus (b) Total MWh cleared hourly for each Up-to Congestion Transaction x (cleared price – Up-to Congestion Reference Price) summed over all Up-to Congestion Transactions and all hours for the previous cleared Day-ahead Energy Market, provided that hours for which the calculation for an Up-to Congestion Transaction is negative, it shall be deemed to have a zero contribution to the sum.

If a Market Participant's Virtual Transactions are rejected as a result of the credit screen process, the Market Participant will be notified via an eMKT error message. A Market Participant whose Virtual Transactions are rejected may alter its Virtual Transactions so that its Virtual Credit Exposure does not exceed its Credit Available for Virtual Transactions, and may resubmit them. Virtual Transactions may be submitted in one or more groups during a day. If one or more groups of Virtual Transactions is submitted and accepted, and a subsequent group of submitted Virtual Transactions causes the total submitted Virtual Transactions to exceed the Virtual Credit Exposure, then only that subsequent set of Virtual Transactions will be rejected. Previously accepted Virtual Transactions will not be affected, though the Market Participant may choose to withdraw them voluntarily.

#### **IV. RELIABILITY PRICING MODEL AUCTION AND PRICE RESPONSIVE DEMAND CREDIT REQUIREMENTS**

Settlement during any Delivery Year of cleared positions resulting or expected to result from any Reliability Pricing Model Auction shall be included as appropriate in Peak Market Activity, and the provisions of this Attachment Q shall apply to any such activity and obligations arising therefrom. In addition, the provisions of this section shall apply to any entity seeking to participate in any RPM Auction, to address credit risks unique to such auctions. The provisions of this section also shall apply under certain circumstances to PRD Providers that seek to commit Price Responsive Demand pursuant to the provisions of the Reliability Assurance Agreement.

##### **A. Applicability**

A Market Seller seeking to submit a Sell Offer in any Reliability Pricing Model Auction based on any Capacity Resource for which there is a materially increased risk of non-performance must satisfy the credit requirement specified in section IV.B before submitting such Sell Offer. A PRD Provider seeking to commit Price Responsive Demand for which there is a materially increased risk of non-performance must satisfy the credit requirement specified in section IV.B before it may commit the Price Responsive Demand. A Wholesale Entity seeking to submit a WLR Bid based on any WLR Load or WEEL for which there is a materially increased risk of non-performance must satisfy the credit requirement in section IV.F for WLR Loads and section IV.G for WEELs before submitting such WLR Bid. Credit must be maintained until such risk of non-performance is substantially eliminated, but may be reduced commensurate with the reduction in such risk, as set forth in Section IV.C.

For purposes of this provision, a resource for which there is a materially increased risk of non-performance shall mean: (i) a Planned Generation Capacity Resource; (ii) a Planned Demand

Resource or an Energy Efficiency Resource; (iii) a Qualifying Transmission Upgrade; (iv) an existing or Planned Generation Capacity Resource located outside the PJM Region that at the time it is submitted in a Sell Offer has not secured firm transmission service to the border of the PJM Region sufficient to satisfy the deliverability requirements of the Reliability Assurance Agreement; (v) a Planned WLR Load; (vi) a Wholesale Energy Efficiency Load; or (vii) Price Responsive Demand to the extent the responsible PRD Provider has not registered PRD-eligible load at a PRD Substation level to satisfy its Nominal PRD Value commitment, in accordance with Schedule 6.1 of the Reliability Assurance Agreement.

## **B. Reliability Pricing Model Auction and Price Responsive Demand Credit Requirement**

Except as provided for Credit-Limited Offers below, for any resource specified in Section IV.A, other than WLR Load, Wholesale Energy Efficiency Load, and Price Responsive Demand, the credit requirement shall be the RPM Auction Credit Rate, as provided in Section IV.D, times the megawatts to be offered for sale from such resource in a Reliability Pricing Model Auction. *For Qualified Transmission Upgrades, the credit requirements shall be based on the Locational Deliverability Area in which such upgrade was to increase the Capacity Emergency Transfer Limit.* The RPM Auction Credit Requirement for each Market Seller shall be the sum of the credit requirements for all such resources to be offered by such Market Seller in the auction or, as applicable, cleared by such Market Seller from the relevant auctions. For Price Responsive Demand specified in section IV.A, the credit requirement shall be based on the Nominal PRD Value (stated in Unforced Capacity terms) times the Price Responsive Demand Credit Rate as set forth in section IV.E. For WLR Load specified in Section IV.A, the credit requirement shall be based on the Nominal WLR Value (stated in Unforced Capacity terms) times the WLR Credit Rate as set forth in Section IV.F. For Wholesale Energy Efficiency Load specified in Section IV.A, the credit requirement shall be based on the Nominal WEEL Value (stated in Unforced Capacity terms) times the WEEL Credit Rate as set forth in Section IV.G.

Except for Credit-Limited Offers, the RPM Auction Credit Requirement for a Market Seller will be reduced for any Delivery Year to the extent less than all of such Market Seller's offers clear in the Base Residual Auction or any Incremental Auction for such Delivery Year. Such reduction shall be proportional to the quantity, in megawatts, that failed to clear in such Delivery Year.

A Sell Offer based on a Planned Generation Capacity Resource, Planned Demand Resource, or Energy Efficiency Resource or a WLR Bid based on a Planned WLR Load or a Wholesale Energy Efficiency Load may be submitted as a Credit-Limited Offer. An entity electing this option shall specify a maximum amount of Unforced Capacity or load reduction (in Unforced Capacity terms), in megawatts, and a maximum credit requirement, in dollars, applicable to the Sell Offer or WLR Bid. A Credit-Limited Offer or WLR Bid shall clear the RPM Auction in which it is submitted (to the extent it otherwise would clear based on the other offer parameters and the system's need for the offered capacity) only to the extent of the lesser of: (i) the quantity of Unforced Capacity or load reduction (in Unforced Capacity terms) that is the quotient of the division of the specified maximum credit requirement by the Auction Credit Rate resulting from section IV.D.b.; and (ii) the maximum amount of Unforced Capacity or load reduction (in Unforced Capacity terms) specified in the Sell Offer or WLR Bid. For an entity Market Seller

electing this alternative, the RPM Auction Credit Requirement applicable prior to the posting of results of the auction shall be the maximum credit requirement specified in its Credit-Limited Offer or WLR Bid, and the RPM Auction Credit Requirement subsequent to posting of the results will be the Auction Credit Rate, as provided in Section IV.D.b, c, or d, or Sections IV.F or IV.G as applicable, times the amount of Unforced Capacity or load reduction (in Unforced Capacity terms) from such Sell Offer or WLR Bid that cleared or was accepted in the auction. The availability and operational details of Credit-Limited Offers and WLR Bids shall be as described in the PJM Manuals.

As set forth in Sections IV.D, IV.F, and IV.G, the Auction Credit Requirement for a Market Seller, a WLR Provider, or a WEEL Provider shall be determined separately for each Delivery Year.

### **C. Reduction in Credit Requirement**

As specified in Section IV.D for Capacity Resources, Section IV.E for Price Responsive Demand, and Section IV.F for WLR Load, and Section IV.G for Wholesale Energy Efficiency Load, the RPM Auction Credit Rate may be reduced under certain circumstances after the auction has closed.

The Price Responsive Demand credit requirement shall be reduced as and to the extent the PRD Provider registers PRD-eligible load at a PRD Substation level to satisfy its Nominal PRD Value commitment, in accordance with Schedule 6.1 of the Reliability Assurance Agreement.

In addition, the RPM Auction Credit Requirement for a Participant for any given Delivery Year shall be reduced periodically, provided the Participant successfully meets progress milestones that reduce the risk of non-performance, as follows:

- a. For Planned Demand Resources and Energy Efficiency Resources, the RPM Auction Credit Requirement will be reduced in direct proportion to the megawatts of such Demand Resource that the Resource Provider qualifies as a Capacity Resource, in accordance with the procedures established under the Reliability Assurance Agreement.
- b. For Existing Generation Capacity Resources located outside the PJM Region that have not secured sufficient firm transmission to the border of the PJM Region prior to the auction in which such resource is first offered, the RPM Credit Requirement shall be reduced in direct proportion to the megawatts of firm transmission service secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement.
- c. For Planned Generation Capacity Resources, the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B beginning as of the effective date of an Interconnection Service Agreement, and shall be reduced to zero on the date of commencement of Interconnection Service.

d. For Planned Generation Capacity Resources located outside the PJM Region, the RPM Credit Requirement shall be reduced *by 50%* once the conditions in both b and c above are met, i.e., the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B when 1) the equivalent of *an* Interconnection Service Agreement *becomes effective*, and 2) 50% or more megawatts of firm transmission service have been secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement. The RPM Credit Requirement for a Planned Generation Capacity Resource located outside the PJM Region shall be reduced to zero when 1) the resource commences Interconnection Service and 2) 100% of the megawatts of firm transmission service have been secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement.

e. For Qualifying Transmission Upgrades, the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B beginning as of the effective date of the latest associated Interconnection Service Agreement (or, when a project will have no such agreement, an Upgrade Construction Service Agreement), and shall be reduced to zero on the date the Qualifying Transmission Upgrade is placed in service. In addition, a Qualifying Transmission Upgrade will be allowed a reduction in its RPM Credit Requirement equal to the amount of collateral currently posted with PJM for the facility construction when the Qualifying Transmission Upgrade meets the following requirements: the Upgrade Construction Service Agreement has been fully executed, the full estimated cost to complete as most recently determined or updated by PJM has been fully paid or collateralized, and all regulatory and other required approvals (except those that must await construction completion) have been obtained. Such reduction in RPM Credit Requirement may not be transferred across different projects.

f. For Planned WLR Load, the WLR Credit Requirement will be reduced in direct proportion to the megawatts of such WLR Load that the WLR Provider qualifies as a WLR Load, in accordance with the procedures established under the Reliability Assurance Agreement.

g. For Wholesale Energy Efficiency Load, the WEEL Credit Requirement will be reduced in direct proportion to the megawatts of such Wholesale Energy Efficiency Load that the WEEL Provider qualifies as a Wholesale Energy Efficiency Load, in accordance with the procedures established under the Reliability Assurance Agreement.

#### **D. RPM Auction Credit Rate**

As set forth in the PJM Manuals, a separate Auction Credit Rate shall be calculated for each Delivery Year prior to each Reliability Pricing Model Auction for such Delivery Year, as follows:

a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the Auction Credit Rate shall be:

(i) *For all Capacity Resources other than Capacity Performance Resources*, (the greater of (A) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (B) \$20 per MW-day) times the number of days in such Delivery Year; *and*

(ii) *For Capacity Performance Resources, the greater of ((A) 0.5 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (B) \$20 per MW-day) times the number of days in such Delivery Year.*

b. Subsequent to the posting of the results from a Base Residual Auction, the Auction Credit Rate used for ongoing credit requirements for supply committed in such auction shall be:

- (i) *For all Capacity Resources other than Capacity Performance Resources, (the greater of (A) \$20/MW-day or (B) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year; and*
- (ii) *For Capacity Performance Resources, the (greater of [(A) \$20/MW-day or (B) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) or (C) the lesser of (i) 0.5 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in \$/MW-day or (ii) 1.5 times the Net Cost of New Entry (stated on an installed capacity basis) for the PJM Region for such Delivery year, in \$/MW-day minus (the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located)] times the number of days in such Delivery Year).*

c. For any resource not previously committed for a Delivery Year that seeks to participate in an Incremental Auction, the Auction Credit Rate shall be:

- (i) *For all Capacity Resources other than Capacity Performance Resources, (the greater of (A) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (B) 0.24 times the Capacity Resource Clearing Price in the Base Residual Auction for such Delivery Year for the Locational Deliverability Area within which the resource is located or (C) \$20 per MW-day) times the number of days in such Delivery Year; and*
- (ii) *For Capacity Performance Resources, the (greater of (A) 0.5 times Net Cost of New Entry or (B) \$20/MW-day) times the number of days in such Delivery Year.*

d. Subsequent to the posting of the results of an Incremental Auction, the Auction Credit Rate used for ongoing credit requirements for supply committed in such auction shall be:

- (i) *For Base Capacity Resources: (the greater of (A) \$20/MW-day or (B) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year, but no greater than the Auction Credit Rate previously established for such resource's participation in such Incremental Auction pursuant to subsection (c) above) times the number of days in such Delivery Year; and*

- (ii) *For Capacity Performance Resources, the greater of [(A) \$20/MW-day or (B) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) or (C) the lesser of (i) 0.5 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in \$/MW-day or (ii) 1.5 times the Net Cost of New Entry (stated on an installed capacity basis) for the PJM Region for such Delivery Year, in \$/MW-day minus (the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located)] times the number of days in such Delivery Year).*

**E. Price Responsive Demand Credit Rate**

- a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the Price Responsive Demand Credit Rate shall be (the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) \$20 per MW-day) times the number of days in such Delivery Year;
- b. Subsequent to the posting of the results from a Base Residual Auction, the Price Responsive Demand Credit Rate used for ongoing credit requirements for Price Responsive Demand registered prior to such auction shall be (the greater of (i) \$20/MW-day or (ii) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the PRD load is located) times the number of days in such Delivery Year times a final price uncertainty factor of 1.05;
- c. For any additional Price Responsive Demand that seeks to commit in a Third Incremental Auction in response to a qualifying change in the final LDA load forecast, the Price Responsive Demand Credit Rate shall be the same as the rate for Price Responsive Demand that had cleared in the Base Residual Auction;
- d. Subsequent to the posting of the results of the Third Incremental Auction, the Price Responsive Demand Credit Rate used for ongoing credit requirements for all Price Responsive Demand, shall be (the greater of (i) \$20/MW-day or (ii) 0.2 times the Final Zonal Capacity Price for the Locational Deliverability Area within which the Price Responsive Demand is located) times the number of days in such Delivery Year, but no greater than the Price Responsive Demand Credit Rate previously established under subsections (a), (b), or (c) of this section for such Delivery Year.

**F. WLR Credit Rate**

- a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the WLR Credit Rate shall be:
- (i) For all WLR Loads other than Capacity Performance WLR Loads, (the greater of (A) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (B) \$20 per MW-day) times the number of days in such Delivery Year; and



- (ii). For Capacity Performance WLR Loads, (the greater of (A) 0.5 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (B) \$20 per MW-day) times the number of days in such Delivery Year.
- b. Subsequent to the posting of the results from a Base Residual Auction, the WLR Credit Rate used for ongoing credit requirements for supply committed in such auction shall be:
  - (i) For Base Capacity WLR Loads, (the greater of (A) \$20 per MW-day or (B) 0.2 times the applicable WLR Value determined in such auction for the Locational Deliverability Area within which the WLR Load is located) times the number of days in such Delivery Year; and
  - (ii) For Capacity Performance WLR Loads, [the greater of (A) \$20 per MW-day or (B) 0.2 times the applicable WLR Value determined in such auction for the Locational Deliverability Area within which the resource is located or (C) the lesser of (i) 0.5 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in \$/MW-day or (ii) 1.5 times the Net Cost of New Entry (stated on an installed capacity basis) for the PJM Region for such Delivery year, in \$ per MW-day minus (the applicable WLR Value determined in such auction for the Locational Deliverability Area within which the WLR Load is located)] times the number of days in such Delivery Year.

**G. WEEL Credit Rate**

- a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the WEEL Credit Rate shall be:
  - (i) For all WEEL other than Capacity Performance WEEL, (the greater of (A) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (B) \$20 per MW-day) times the number of days in such Delivery Year; and
  - (ii). For Capacity Performance WEEL, (the greater of (A) 0.5 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (B) \$20 per MW-day) times the number of days in such Delivery Year.
- b. Subsequent to the posting of the results from a Base Residual Auction, the WEEL Credit Rate used for ongoing credit requirements for supply committed in such auction shall be:
  - (i) For all Base Capacity WEEL, (the greater of (A) \$20 per MW-day or (B) 0.2 times the applicable WLR Value in such auction for the Locational Deliverability Area within which the WEEL is located) times the number of days in such Delivery Year; and

- (ii) For Capacity Performance WEEL, [the greater of (A) \$20 per MW-day or (B) 0.2 times the applicable WLR Value determined in such auction for the Locational Deliverability Area within which the WEEL is located or (C) the lesser of (i) 0.5 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in \$ per MW-day or (ii) 1.5 times the Net Cost of New Entry (stated on an installed capacity basis) for the PJM Region for such Delivery year, in \$/MW-day minus (the applicable WLR Value determined in such auction for the Locational Deliverability Area within which the WEEL is located)] times the number of days in such Delivery Year.

## **H. RPM Seller Credit - Additional Form of Unsecured Credit for RPM**

In addition to the forms of credit specified elsewhere in this Attachment Q, RPM Seller Credit shall be available to Market Sellers, but solely for purposes of satisfying RPM Auction Credit Requirements. If a supplier has a history of being a net seller into PJM markets, on average, over the past 12 months, then PJMSettlement will count as available Unsecured Credit twice the average of that participant's total net monthly PJMSettlement bills over the past 12 months. This RPM Seller Credit shall be subject to the cap on available Unsecured Credit as established in Section II.F.

## **I. Credit Responsibility for Traded Planned RPM Capacity Resources**

PJMSettlement may require that credit and financial responsibility for planned RPM Capacity Resources that are traded remain with the original party (which for these purposes, means the party bearing credit responsibility for the planned RPM Capacity Resource immediately prior to trade) unless the receiving party independently establishes consistent with the PJM credit policy, that it has sufficient credit with PJMSettlement and agrees by providing written notice to PJMSettlement that it will fully assume the credit responsibility associated with the traded planned RPM Capacity Resource.

## **V. FINANCIAL TRANSMISSION RIGHT AUCTIONS**

### **A. FTR Credit Limit.**

PJMSettlement will establish an FTR Credit Limit for each Participant. Participants must maintain their FTR Credit Limit at a level equal to or greater than their FTR Credit Requirement. FTR Credit Limits will be established only by a Participant providing Financial Security.

### **B. FTR Credit Requirement.**

For each Participant with FTR activity, PJMSettlement shall calculate an FTR Credit Requirement based on FTR cost less a discounted historical value. FTR Credit Requirements shall be further adjusted by ARR credits available and by an amount based on portfolio diversification, if applicable. The requirement will be based on individual monthly exposures which are then used to derive a total requirement.

The FTR Credit Requirement shall be calculated by first adding for each month the FTR Monthly Credit Requirement Contribution for each submitted, accepted, and cleared FTR and then subtracting the prorated value of any ARRs held by the Participant for that month. The resulting twelve monthly subtotals represent the expected value of net payments between PJMSettlement and the Participant for FTR activity each month during the Planning Period. Subject to later adjustment by an amount based on portfolio diversification, if applicable, the FTR Credit Requirement shall be the sum of the individual positive monthly subtotals, representing months in which net payments to PJMSettlement are expected.

**C. Rejection of FTR Bids.**

Bids submitted into an auction will be rejected if the Participant's FTR Credit Requirement including such submitted bids would exceed the Participant's FTR Credit Limit, or if the Participant fails to establish additional credit as required pursuant to provisions related to portfolio diversification.

**D. FTR Credit Collateral Returns.**

A Market Participant may request from PJMSettlement the return of any collateral no longer required for the FTR auctions. PJMSettlement is permitted to limit the frequency of such requested collateral returns, provided that collateral returns shall be made by PJMSettlement at least once per calendar quarter, if requested by a Market Participant.

**E. Credit Responsibility for Traded FTRs.**

PJMSettlement may require that credit responsibility associated with an FTR traded within PJM's eFTR system remain with the original party (which for these purposes, means the party bearing credit responsibility for the FTR immediately prior to trade) unless and until the receiving party independently establishes, consistent with the PJM credit policy, sufficient credit with PJMSettlement and agrees through confirmation of the FTR trade within the eFTR system that it will meet in full the credit requirements associated with the traded FTR.

**F. Portfolio Diversification.**

Subsequent to calculating a tentative cleared solution for an FTR auction (or auction round), PJM shall both:

1. Determine the FTR Portfolio Auction Value, including the tentative cleared solution. Any Participants with such FTR Portfolio Auction Values that are negative shall be deemed FTR Flow Undiversified.
2. Measure the geographic concentration of the FTR Flow Undiversified portfolios by testing such portfolios using a simulation model including, one at a time, each planned transmission outage or other network change which would substantially affect the network for the specific auction period. A list of such planned outages or changes anticipated to be modeled shall be posted prior to commencement of the auction (or auction round). Any FTR Flow

Undiversified portfolio that experiences a net reduction in calculated congestion credits as a result of any one or more of such modeled outages or changes shall be deemed FTR Geographically Undiversified.

For portfolios that are FTR Flow Undiversified but not FTR Geographically Undiversified, PJMSettlement shall increment the FTR Credit Requirement by an amount equal to twice the absolute value of the FTR Portfolio Auction Value, including the tentative cleared solution. For Participants with portfolios that are both FTR Flow Undiversified and FTR Geographically Undiversified, PJMSettlement shall increment the FTR Credit Requirement by an amount equal to three times the absolute value of the FTR Portfolio Auction Value, including the tentative cleared solution. For portfolios that are FTR Flow Undiversified in months subsequent to the current planning year, these incremental amounts, calculated on a monthly basis, shall be reduced (but not below zero) by an amount up to 25% of the monthly value of ARR credits that are held by a Participant. Subsequent to the ARR allocation process preceding an annual FTR auction, such ARR credits shall be reduced to zero for months associated with that ARR allocation process. PJMSettlement may recalculate such ARR credits at any time, but at a minimum shall do so subsequent to each annual FTR auction. If a reduction in such ARR credits at any time increases the amount of credit required for the Participant beyond its credit available for FTR activity, the Participant must increase its credit to eliminate the shortfall.

If the FTR Credit Requirement for any Participant exceeds its credit available for FTRs as a result of these diversification requirements for the tentatively cleared portfolio of FTRs, PJMSettlement shall immediately issue a demand for additional credit, and such demand must be fulfilled before 4:00 p.m. on the business day following the demand. If any Participant does not timely satisfy such demand, PJMSettlement, in coordination with PJM, shall cause the removal that Participant's entire set of bids for that FTR auction (or auction round) and a new cleared solution shall be calculated for the entire auction (or auction round).

If necessary, PJM shall repeat the auction clearing calculation. PJM shall repeat these portfolio diversification calculations subsequent to any such secondary clearing calculation, and PJMSettlement shall require affected Participants to establish additional credit.

#### **G. FTR Administrative Charge Credit Requirement**

In addition to any other credit requirements, PJMSettlement may apply a credit requirement to cover the maximum administrative fees that may be charged to a Participant for its bids and offers.

#### **H. Long-Term FTR Credit Recalculation**

Long-term FTR Credit Requirement calculations shall be updated annually for known history, consistent with updating of historical values used for FTR Credit Requirement calculations in the annual auctions.

### **VI. EXPORT TRANSACTION SCREENING**

Export Transactions in the Real-time Energy Market shall be subject to Export Transaction Screening. Export Transaction Screening may be performed either for the duration of the entire Export Transaction, or separately for each time interval comprising an Export Transaction. PJM will deny or curtail all or a portion (based on the relevant time interval) of an Export Transaction if that Export Transaction, or portion thereof, would otherwise cause the Market Participant's Export Credit Exposure to exceed its Credit Available for Export Transactions. Export Transaction Screening shall be applied separately for each Operating Day and shall also be applied to each Export Transaction one or more times prior to the market clearing process for each relevant time interval. Export Transaction Screening shall not apply to transactions established directly by and between PJM and a neighboring Balancing Authority for the purpose of maintaining reliability.

A Market Participant's credit exposure for an individual Export Transaction shall be the MWh volume of the Export Transaction for each relevant time interval multiplied by each relevant Export Transaction Price Factor and summed over all relevant time intervals of the Export Transaction.

## **VII. FORMS OF FINANCIAL SECURITY**

Participants that provide Financial Security must provide the security in a PJMSettlement approved form and amount according to the guidelines below.

Financial Security which is no longer required to be maintained under provisions of the Agreements shall be returned at the request of a participant no later than two Business Days following determination by PJMSettlement within a commercially reasonable period of time that such collateral is not required.

Except when an event of default has occurred, a Participant may substitute an approved PJMSettlement form of Financial Security for another PJMSettlement approved form of Financial Security of equal value. The Participant must provide three (3) Business Days notice to PJMSettlement of its intent to substitute the Financial Security. PJMSettlement will release the replaced Financial Security with interest, if applicable, within (3) Business Days of receiving an approved form of substitute Financial Security.

### **A. Cash Deposit**

Cash provided by a Participant as Financial Security will be held in a depository account by PJMSettlement with interest earned at PJMSettlement's overnight bank rate, and accrued to the Participant. PJMSettlement also may establish an array of investment options among which a Participant may choose to invest its cash deposited as Financial Security. Such investment options shall be comprised of high quality debt instruments, as determined by PJMSettlement, and may include obligations issued by the federal government and/or federal government sponsored enterprises. These investment options will reside in accounts held in PJMSettlement's name in a banking or financial institution acceptable to PJMSettlement. Where practicable, PJMSettlement may establish a means for the Participant to communicate directly with the bank or financial institution to permit the Participant to direct certain activity in the PJMSettlement

account in which its Financial Security is held. PJMSettlement will establish and publish procedural rules, identifying the investment options and respective discounts in collateral value that will be taken to reflect any liquidation, market and/or credit risk presented by such investments. PJMSettlement has the right to liquidate all or a portion of the account balances at its discretion to satisfy a Participant's Total Net Obligation to PJMSettlement in the event of default under this credit policy or one or more of the Agreements.

## **B. Letter Of Credit**

An unconditional, irrevocable standby letter of credit can be utilized to meet the Financial Security requirement. As stated below, the form, substance, and provider of the letter of credit must all be acceptable to PJMSettlement.

- The letter of credit will only be accepted from U.S.-based financial institutions or U.S. branches of foreign financial institutions ("financial institutions") that have a minimum corporate debt rating of "A" by Standard & Poor's or Fitch Ratings, or "A2" from Moody's Investors Service, or an equivalent short term rating from one of these agencies. PJMSettlement will consider the lowest applicable rating to be the rating of the financial institution. If the rating of a financial institution providing a letter of credit is lowered below A/A2 by any rating agency, then PJMSettlement may require the Participant to provide a letter of credit from another financial institution that is rated A/A2 or better, or to provide a cash deposit. If a letter of credit is provided from a U.S. branch of a foreign institution, the U.S. branch must itself comply with the terms of this credit policy, including having its own acceptable credit rating.
- The letter of credit shall state that it shall renew automatically for successive one-year periods, until terminated upon at least ninety (90) days prior written notice from the issuing financial institution. If PJM or PJMSettlement receives notice from the issuing financial institution that the current letter of credit is being cancelled, the Participant will be required to provide evidence, acceptable to PJMSettlement, that such letter of credit will be replaced with appropriate Financial Security, effective as of the cancellation date of the letter of credit, no later than thirty (30) days before the cancellation date of the letter of credit, and no later than ninety (90) days after the notice of cancellation. Failure to do so will constitute a default under this credit policy and one or more of the Agreements.
- The letter of credit must clearly state the full names of the "Issuer", "Account Party" and "Beneficiary" (PJMSettlement), the dollar amount available for drawings, and shall specify that funds will be disbursed upon presentation of the drawing certificate in accordance with the instructions stated in the letter of credit. The letter of credit should specify any statement that is required to be on the drawing certificate, and any other terms and conditions that apply to such drawings.
- The PJMSettlement Credit Application contains an acceptable form of a letter of credit that should be utilized by a Participant choosing to meet its Financial Security requirement with a letter of credit. If the letter of credit varies in any way from the

PJMSettlement format, it must first be reviewed and approved by PJMSettlement. All costs associated with obtaining and maintaining a letter of credit and meeting the policy provisions are the responsibility of the Participant

- PJMSettlement may accept a letter of credit from a Financial Institution that does not meet the credit standards of this policy provided that the letter of credit has third-party support, in a form acceptable to PJMSettlement, from a financial institution that does meet the credit standards of this policy.

## **VIII. POLICY BREACH AND EVENTS OF DEFAULT**

A Participant will have two Business Days from notification of Breach (including late payment notice) or notification of a Collateral Call to remedy the Breach or satisfy the Collateral Call in a manner deemed acceptable by PJMSettlement. Failure to remedy the Breach or satisfy such Collateral Call within such two Business Days will be considered an event of default. If a Participant fails to meet the requirements of this policy but then remedies the Breach or satisfies a Collateral Call within the two Business Day cure period, then the Participant shall be deemed to have complied with the policy. Any such two Business Day cure period will expire at 4:00 p.m. eastern prevailing time on the final day.

Only one cure period shall apply to a single event giving rise to a breach or default. Application of Financial Security towards a non-payment Breach shall not be considered a satisfactory cure of the Breach if the Participant fails to meet all requirements of this policy after such application.

Failure to comply with this policy (except for the responsibility of a Participant to notify PJMSettlement of a Material change) shall be considered an event of default. Pursuant to § 15.1.3(a) of the Operating Agreement of PJM Interconnection, L.L.C. and § I.7.3 of the PJM Open Access Transmission Tariff, non-compliance with the PJMSettlement credit policy is an event of default under those respective Agreements. In event of default under this credit policy or one or more of the Agreements, PJMSettlement, in coordination with PJM, will take such actions as may be required or permitted under the Agreements, including but not limited to the termination of the Participant's ongoing Transmission Service and participation in PJM Markets. PJMSettlement has the right to liquidate all or a portion of a Participant's Financial Security at its discretion to satisfy Total Net Obligations to PJMSettlement in the event of default under this credit policy or one or more of the Agreements.

PJMSettlement may hold a defaulting Participant's Financial Security for as long as such party's positions exist and consistent with the PJM credit policy in this Attachment Q, in order to protect PJM's membership from default.

No payments shall be due to a Participant, nor shall any payments be made to a Participant, while the Participant is in default or has been declared in Breach of this policy or the Agreements, or while a Collateral Call is outstanding. PJMSettlement may apply towards an ongoing default any amounts that are held or later become available or due to the defaulting Participant through PJM's markets and systems.

In order to cover Obligations, PJMSettlement may hold a Participant's Financial Security through the end of the billing period which includes the 90th day following the last day a Participant had activity, open positions, or accruing obligations (other than reconciliations and true-ups), and until such Participant has satisfactorily paid any obligations invoiced through such period. Obligations incurred or accrued through such period shall survive any withdrawal from PJM. In event of non-payment, PJMSettlement may apply such Financial Security to such Participant's Obligations, even if Participant had previously announced and effected its withdrawal from PJM.

## **IX. DEFINITIONS:**

All capitalized terms in this Attachment Q that are not otherwise defined herein shall have the same meaning as they are defined in the Agreements.

### **Affiliate**

Affiliate is defined in the PJM Operating Agreement, §1.2.

### **Agreements**

Agreements are the Operating Agreement of PJM Interconnection, L.L.C., the PJM Open Access Transmission Tariff, the Reliability Assurance Agreement, the Reliability Assurance Agreement – West, and/or other agreements between PJM Interconnection, L.L.C. and its Members.

### **Applicant**

Applicant is an entity desiring to become a PJM Member, or to take Transmission Service that has submitted the PJMSettlement Credit Application, PJMSettlement Credit Agreement and other required submittals as set forth in this policy.

### **Breach**

Breach is the status of a Participant that does not currently meet the requirements of this policy or other provisions of the Agreements.

### **Business Day**

A Business Day is a day in which the Federal Reserve System is open for business and is not a scheduled PJM holiday.

### **Canadian Guaranty**

Canadian Guaranty is a Corporate Guaranty provided by an Affiliate of a Participant that is domiciled in Canada, and meets all of the provisions of this credit policy.

### **Capacity**

Capacity is the installed capacity requirement of the Reliability Assurance Agreement or similar such requirements as may be established.

### **Collateral Call**

Collateral Call is a notice to a Participant that additional Financial Security, or possibly early payment, is required in order to remain in, or to regain, compliance with this policy.



**Corporate Guaranty**

Corporate Guaranty is a legal document used by one entity to guaranty the obligations of another entity.

**Credit Available for Export Transactions**

Credit Available for Export Transactions is a set-aside of credit to be used for Export Transactions that is allocated by each Market Participant from its Credit Available for Virtual Transactions, and which reduces the Market Participant's Credit Available for Virtual Transactions accordingly.

**Credit Available for Virtual Transactions**

A Market Participant's Credit Available for Virtual Transactions is the Market Participant's Working Credit Limit for Virtual Transactions calculated on its credit provided in compliance with its Peak Market Activity requirement plus available credit submitted above that amount, less any unpaid billed and unbilled amounts owed to PJMSettlement, plus any unpaid unbilled amounts owed by PJMSettlement to the Market Participant, less any applicable credit required for Minimum Participation Requirements, FTR, Export Transactions, or other credit requirement determinants as defined in this policy.

**Credit-Limited Offer**

Credit-Limited Offer shall mean a Sell Offer that is submitted by a Market Seller in an RPM Auction subject to a maximum credit requirement specified by such Market Seller.

**Credit Score**

Credit Score is a composite numerical score scaled from 0-100 as calculated by PJMSettlement that incorporates various predictors of creditworthiness.

**Export Credit Exposure**

Export Credit Exposure is determined for each Market Participant for a given Operating Day, and is the sum of credit exposures for the Market Participant's Export Transactions for that Operating Day and for the preceding Operating Day.

**Export Nodal Reference Price**

The Export Nodal Reference Price at each location is the 97th percentile real-time hourly integrated price experienced over the corresponding two-month period in the preceding calendar year, calculated separately for peak and off-peak time periods. The two-month time periods used in this calculation shall be January and February, March and April, May and June, July and August, September and October, and November and December.

**Export Transaction**

An Export Transaction is a transaction by a Market Participant that results in the transfer of energy from within the PJM Control Area to outside the PJM Control Area. Coordinated External Transactions that result in the transfer of energy from the PJM Control Area to an adjacent Control Area are one form of Export Transaction.

**Export Transactions Net Activity**

Export Transactions Net Activity shall mean the aggregate net total, resulting from Export Transactions, of (i) Spot Market Energy charges, (ii) Transmission Congestion Charges, and (iii) Transmission Loss Charges, calculated as set forth in Attachment K-Appendix. Export Transactions Net Activity may be positive or negative.

### **Export Transaction Price Factor**

The Export Transaction Price Factor for a prospective time interval shall be the greater of (i) PJM's forecast price for the time interval, if available, or (ii) the Export Nodal Reference Price, but shall not exceed the Export Transaction's dispatch ceiling price cap, if any, for that time interval. The Export Transaction Price Factor for a past time interval shall be calculated in the same manner as for a prospective time interval, except that the Export Transaction Price Factor may use a tentative or final settlement price, as available. If an Export Nodal Reference Price is not available for a particular time interval, PJM may use an Export Transaction Price Factor for that time interval based on an appropriate alternate reference price.

### **Export Transaction Screening**

Export Transaction Screening is the process PJM uses to review the Export Credit Exposure of Export Transactions against the Credit Available for Export Transactions, and deny or curtail all or a portion of an Export Transaction, if the credit required for such transactions is greater than the credit available for the transactions.

### **Financial Security**

Financial Security is a cash deposit or letter of credit in an amount and form determined by and acceptable to PJMSettlement, provided by a Participant to PJMSettlement as security in order to participate in the PJM Markets or take Transmission Service.

### **Foreign Guaranty**

Foreign Guaranty is a Corporate Guaranty provided by an Affiliate of a Participant that is domiciled in a foreign country, and meets all of the provisions of this credit policy.

### **FTR Credit Limit**

FTR Credit Limit will be equal to the amount of credit established with PJMSettlement that a Participant has specifically designated to PJMSettlement to be set aside and used for FTR activity. Any such credit so set aside shall not be considered available to satisfy any other credit requirement the Participant may have with PJMSettlement.

### **FTR Credit Requirement**

FTR Credit Requirement is the amount of credit that a Participant must provide in order to support the FTR positions that it holds and/or is bidding for. The FTR Credit Requirement shall not include months for which the invoicing has already been completed, provided that PJMSettlement shall have up to two Business Days following the date of the invoice completion to make such adjustments in its credit systems.

### **FTR Flow Undiversified**

FTR Flow Undiversified shall have the meaning established in section V.G of this Attachment Q.

**FTR Geographically Undiversified**

FTR Geographically Undiversified shall have the meaning established in section V.G of this Attachment Q.

**FTR Historical Value**

FTR Historical Value – For each FTR for each month, this is the historical weighted average value over three years for the FTR path using the following weightings: 50% - most recent year; 30% - second year; 20% - third year. FTR Historical Values shall be calculated separately for on-peak, off-peak, and 24-hour FTRs for each month of the year. FTR Historical Values shall be adjusted by plus or minus ten percent (10%) for cleared counterflow or normal flow FTRs, respectively, in order to mitigate exposure due to uncertainty and fluctuations in actual FTR value.

**FTR Monthly Credit Requirement Contribution**

FTR Monthly Credit Requirement Contribution - For each FTR for each month, this is the total FTR cost for the month, prorated on a daily basis, less the FTR Historical Value for the month. For cleared FTRs, this contribution may be negative; prior to clearing, FTRs with negative contribution shall be deemed to have zero contribution.

**FTR Net Activity**

FTR Net Activity shall mean the aggregate net value of the billing line items for auction revenue rights credits, FTR auction charges, FTR auction credits, and FTR congestion credits, and shall also include day-ahead and balancing/real-time congestion charges up to a maximum net value of the sum of the foregoing auction revenue rights credits, FTR auction charges, FTR auction credits and FTR congestion credits.

**FTR Participant**

FTR Participant shall mean any Market Participant that is required to provide Financial Security in order to participate in PJM's FTR auctions.

**FTR Portfolio Auction Value**

FTR Portfolio Auction Value shall mean for each Participant (or Participant account), the sum, calculated on a monthly basis, across all FTRs, of the FTR price times the FTR volume in MW.

**Market Participant**

Market Participant shall have the meaning provided in the Operating Agreement.

**Material**

For these purposes, material is defined in §I.B.3, Material Changes. For the purposes herein, the use of the term "material" is not necessarily synonymous with use of the term by governmental agencies and regulatory bodies.

**Member**

Member shall have the meaning provided in the Operating Agreement.

**Minimum Participation Requirements**

A set of minimum training, risk management, communication and capital or collateral requirements required for Participants in the PJM markets, as set forth herein and in the Form of Annual Certification set forth as Appendix 1 to this Attachment Q. Participants transacting in FTRs in certain circumstances will be required to demonstrate additional risk management procedures and controls as further set forth in the Annual Certification found in Appendix 1 to this Attachment Q.

### **Net Obligation**

Net Obligation is the amount owed to PJMSettlement and PJM for purchases from the PJM Markets, Transmission Service, (under both Part II and Part III of the O.A.T.T.), and other services pursuant to the Agreements, after applying a deduction for amounts owed to a Participant by PJMSettlement as it pertains to monthly market activity and services. Should other markets be formed such that Participants may incur future Obligations in those markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

### **Net Sell Position**

Net Sell Position is the amount of Net Obligation when Net Obligation is negative.

### **Nodal Reference Price**

The Nodal Reference Price at each location is the 97th percentile price differential between hourly day-ahead and real-time prices experienced over the corresponding two-month reference period in the prior calendar year. In order to capture seasonality effects and maintain a two-month reference period, reference months will be grouped by two, starting with January (e.g., Jan-Feb, Mar-Apr, ... , Jul-Aug, ... Nov-Dec). For any given current-year month, the reference period months will be the set of two months in the prior calendar year that include the month corresponding to the current month. For example, July and August 2003 would each use July-August 2002 as their reference period.

### **Obligation**

Obligation is all amounts owed to PJMSettlement for purchases from the PJM Markets, Transmission Service, (under both Part II and Part III of the O.A.T.T.), and other services or obligations pursuant to the Agreements. In addition, aggregate amounts that will be owed to PJMSettlement in the future for Capacity purchases within the PJM Capacity markets will be added to this figure. Should other markets be formed such that Participants may incur future Obligations in those markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

### **Operating Agreement of PJM Interconnection, L.L.C., (“Operating Agreement”)**

The Amended and Restated Operating Agreement of PJM Interconnection, L.L.C., dated as of June 2, 1997, on file with the Federal Energy Regulatory Commission, and as revised from time to time.

### **Participant**

A Participant is a Market Participant and/or Transmission Customer and/or Applicant requesting to be an active Market Participant and/or Transmission Customer.

**Peak Market Activity**

Peak Market Activity is a measure of exposure for which credit is required, involving peak exposures in rolling three-week periods over a year timeframe, with two semi-annual reset points, pursuant to provisions of section II.D of this Credit Policy.

**PJM Markets**

The PJM Markets are the PJM Interchange Energy Market and the PJM Capacity markets as established by the Operating Agreement. Also any other markets that exist or may be established in the future wherein Participants may incur Obligations to PJMSettlement.

**PJM Open Access Transmission Tariff (“O.A.T.T.”)**

The Open Access Transmission Tariff of PJM Interconnection, L.L.C., on file with the Federal Energy Regulatory Commission, and as revised from time to time.

**Reliability Assurance Agreement (“R.A.A.”)**

See the definition of the Reliability Assurance Agreement (“R.A.A.”) in the Operating Agreement.

**RPM Seller Credit**

RPM Seller Credit is an additional form of Unsecured Credit defined in section IV of this document.

**Seller Credit**

A Seller Credit is a form of Unsecured Credit extended to Participants that have a consistent long-term history of selling into PJM Markets, as defined in this document.

**Tangible Net Worth**

Tangible Net Worth is all assets (not including any intangible assets such as goodwill) less all liabilities. Any such calculation may be reduced by PJMSettlement upon review of the available financial information.

**Total Net Obligation**

Total Net Obligation is all unpaid billed Net Obligations plus any unbilled Net Obligation incurred to date, as determined by PJMSettlement on a daily basis, plus any other Obligations owed to PJMSettlement at the time.

**Total Net Sell Position**

Total Net Sell Position is all unpaid billed Net Sell Positions plus any unbilled Net Sell Positions accrued to date, as determined by PJMSettlement on a daily basis.

**Transmission Customer**

Transmission Customer is a Transmission Customer is an entity taking service under Part II or Part III of the O.A.T.T.

**Transmission Service**

Transmission Service is any or all of the transmission services provided by PJM pursuant to Part II or Part III of the O.A.T.T.

### **Uncleared Bid Exposure**

Uncleared Bid Exposure is a measure of exposure from Increment Offers and Decrement Bids activity relative to a Participant's established credit as defined in this policy. It is used only as a pre-screen to determine whether a Participant's Increment Offers and Decrement Bids should be subject to Increment Offer and Decrement Bid Screening.

### **Unsecured Credit**

Unsecured Credit is any credit granted by PJMSettlement to a Participant that is not secured by a form of Financial Security.

### **Unsecured Credit Allowance**

Unsecured Credit Allowance is Unsecured Credit extended by PJMSettlement in an amount determined by PJMSettlement's evaluation of the creditworthiness of a Participant. This is also defined as the amount of credit that a Participant qualifies for based on the strength of its own financial condition without having to provide Financial Security. See also: "Working Credit Limit."

### **Up-to Congestion Counterflow Transaction**

An Up-to Congestion Transaction will be deemed an Up-to Congestion Counterflow Transaction if the following value is negative: (a) when bidding, the lower of the bid price and the prior Up-to Congestion Historical Month's average real-time value for the transaction; or (b) for cleared Virtual Transactions, the cleared day-ahead price of the Virtual Transactions.

### **Up-to Congestion Historical Month**

An Up-to Congestion Historical Month is a consistently-defined historical period nominally one month long that is as close to a calendar month as PJM determines is practical.

### **Up-to Congestion Prevailing Flow Transaction**

An Up-to Congestion Transaction will be deemed an Up-to Congestion Prevailing Flow Transaction if it is not an Up-to Congestion Counterflow Transaction.

### **Up-to Congestion Reference Price**

The Up-to Congestion Reference Price for an Up-to Congestion Transaction is the specified percentile price differential between source and sink (defined as sink price minus source price) for hourly real-time prices experienced over the prior Up-to Congestion Historical Month, averaged with the same percentile value calculated for the second prior Up-to Congestion Historical Month. Up-to Congestion Reference Prices shall be calculated using the following historical percentiles:

For Up-to Congestion Prevailing Flow Transactions: 30<sup>th</sup> percentile

For Up-to Congestion Counterflow Transactions when bid: 20<sup>th</sup> percentile

For Up-to Congestion Counterflow Transactions when cleared: 5<sup>th</sup> percentile

### **Virtual Credit Exposure**

Virtual Credit Exposure is the amount of potential credit exposure created by a market participant's bid submitted into the Day-ahead market, as defined in this policy.

### **Virtual Transaction Screening**

Virtual Transaction Screening is the process of reviewing the Virtual Credit Exposure of submitted Virtual Transactions against the Credit Available for Virtual Transactions. If the credit required is greater than credit available, then the Virtual Transactions will not be accepted.

### **Virtual Transactions Net Activity**

Virtual Transactions Net Activity shall mean the aggregate net total, resulting from Virtual Transactions, of (i) Spot Market Energy charges, (ii) Transmission Congestion Charges, and (iii) Transmission Loss Charges, calculated as set forth in Attachment K-Appendix. Virtual Transactions Net Activity may be positive or negative.

### **Working Credit Limit**

Working Credit Limit amount is 75% of the Market Participant's Unsecured Credit Allowance and/or 75% of the Financial Security provided by the Market Participant to PJMSettlement. The Working Credit Limit establishes the maximum amount of Total Net Obligation that a Market Participant may have outstanding at any time. The calculation of Working Credit Limit shall take into account applicable reductions for Minimum Participation Requirements, FTR, or other credit requirement determinants as defined in this policy.

### **Working Credit Limit for Virtual Transactions**

The Working Credit Limit for Virtual Transactions shall be calculated as 75% of the Market Participant's Unsecured Credit Allowance and/or 75% of the Financial Security provided by the Market Participant to PJMSettlement when the Market Participant is at or below its Peak Market Activity credit requirements as specified in section II.D of this Credit Policy. When the Market Participant provides additional Unsecured Credit Allowance and/or Financial Security in excess of its Peak Market Activity credit requirements, such additional Unsecured Credit Allowance and/or Financial Security shall not be discounted by 25% when calculating the Working Credit Limit for Virtual Transactions. The Working Credit Limit for Virtual Transactions is a component in the calculation of Credit Available for Virtual Transactions. The calculation of Working Credit Limit for Virtual Transactions shall take into account applicable reductions for Minimum Participation Requirements, FTR, or other credit requirement determinants as defined in this policy.

**Appendix 1 to Attachment Q**



**PJM MINIMUM PARTICIPATION CRITERIA  
OFFICER CERTIFICATION FORM**

Participant Name: _____ ("Participant")
---

I, \_\_\_\_\_, a duly authorized officer of Participant, understanding that PJM Interconnection, L.L.C. and PJM Settlement, Inc. ("PJMSettlement") are relying on this certification as evidence that Participant meets the minimum requirements set forth in Attachment Q to the PJM Open Access Transmission Tariff ("PJM Tariff"), hereby certify that I have full authority to represent on behalf of Participant and further represent as follows, as evidenced by my initialing each representation in the space provided below:

1. All employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Amended and Restated Operating Agreement ("PJM Operating Agreement") on behalf of the Participant have received appropriate<sup>1</sup> training and are authorized to transact on behalf of Participant. \_\_\_\_\_
2. Participant has written risk management policies, procedures, and controls, approved by Participant's independent risk management function<sup>2</sup> and applicable to transactions in the PJM markets in which it participates and for which employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Operating Agreement have been trained, that provide an appropriate, comprehensive risk management framework that, at a minimum, clearly identifies and documents the range of risks to which Participant is exposed, including, but not limited to credit risks, liquidity risks and market risks. \_\_\_\_\_
3. An FTR Participant (as defined in Attachment Q to the PJM Tariff) must make either the following 3.a. or 3.b. additional representations, evidenced by the undersigned officer initialing either the one 3.a. representation or the six 3.b. representations in the spaces provided below:
  - 3.a. Participant transacts in PJM's FTR markets with the sole intent to hedge congestion risk in connection with either obligations Participant has to serve load or rights Participant has to generate electricity in the PJM Region ("physical

<sup>1</sup> As used in this representation, the term "appropriate" as used with respect to training means training that is (i) comparable to generally accepted practices in the energy trading industry, and (ii) commensurate and proportional in sophistication, scope and frequency to the volume of transactions and the nature and extent of the risk taken by the participant.

<sup>2</sup> As used in this representation, a Participant's "independent risk management function" can include appropriate corporate persons or bodies that are independent of the Participant's trading functions, such as a risk management committee, a risk officer, a Participant's board or board committee, or a board or committee of the Participant's parent company.

transactions”) and monitors all of the Participant’s FTR market activity to endeavor to ensure that its FTR positions, considering both the size and pathways of the positions, are either generally proportionate to or generally do not exceed the Participant’s physical transactions, and remain generally consistent with the Participant’s intention to hedge its physical transactions.\_\_\_\_\_

- 3.b. On no less than a weekly basis, Participant values its FTR positions and engages in a probabilistic assessment of the hypothetical risk of such positions using analytically based methodologies, predicated on the use of industry accepted valuation methodologies.\_\_\_\_\_

Such valuation and risk assessment functions are performed either by persons within Participant’s organization independent from those trading in PJM’s FTR markets or by an outside firm qualified and with expertise in this area of risk management.\_\_\_\_\_

Having valued its FTR positions and quantified their hypothetical risks, Participant applies its written policies, procedures and controls to limit its risks using industry recognized practices, such as value-at-risk limitations, concentration limits, or other controls designed to prevent Participant from purposefully or unintentionally taking on risk that is not commensurate or proportional to Participant’s financial capability to manage such risk.\_\_\_\_\_

Exceptions to Participant’s written risk policies, procedures and controls applicable to Participant’s FTR positions are documented and explain a reasoned basis for the granting of any exception.\_\_\_\_\_

Participant has provided to PJMSettlement, in accordance with Section I A. of Attachment Q to the PJM Tariff, a copy of its current governing risk management policies, procedures and controls applicable to its FTR trading activities.\_\_\_\_\_

If the risk management policies, procedures and controls applicable to Participant’s FTR trading activities submitted to PJMSettlement were submitted prior to the current certification, Participant certifies that no substantive changes have been made to such policies, procedures and controls applicable to its FTR trading activities since such submission.\_\_\_\_\_

4. Participant has appropriate personnel resources, operating procedures and technical abilities to promptly and effectively respond to all PJM communications and directions.\_\_\_\_\_
5. Participant has demonstrated compliance with the Minimum Capitalization criteria set forth in Attachment Q of the PJM Open Access Transmission Tariff that are applicable to the PJM market(s) in which Participant transacts, and is not aware of any change having occurred or being imminent that would invalidate such compliance.\_\_\_\_\_

6. All Participants must certify and initial in at least one of the four sections below:

- a. I certify that Participant qualifies as an “appropriate person” as that term is defined under Section 4(c)(3), or successor provision, of the Commodity Exchange Act or an “eligible contract participant” as that term is defined under Section 1a(18), or successor provision, of the Commodity Exchange Act. I certify that Participant will cease transacting in PJM’s Markets and notify PJMSettlement immediately if Participant no longer qualifies as an “appropriate person” or “eligible contract participant.” \_\_\_\_\_

If providing financial statements to support Participant’s certification of qualification as an “appropriate person:”

I certify, to the best of my knowledge and belief, that the financial statements provided to PJMSettlement present fairly, pursuant to such disclosures in such financial statements, the financial position of Participant as of the date of those financial statements. Further, I certify that Participant continues to maintain the minimum \$1 million total net worth and/or \$5 million total asset levels reflected in these financial statements as of the date of this certification. I acknowledge that both PJM and PJMSettlement are relying upon my certification to maintain compliance with federal regulatory requirements. \_\_\_\_\_

If providing financial statements to support Participant’s certification of qualification as an “eligible contract participant:”

I certify, to the best of my knowledge and belief, that the financial statements provided to PJMSettlement present fairly, pursuant to such disclosures in such financial statements, the financial position of Participant as of the date of those financial statements. Further, I certify that Participant continues to maintain the minimum \$1 million total net worth and/or \$10 million total asset levels reflected in these financial statements as of the date of this certification. I acknowledge that both PJM and PJMSettlement are relying upon my certification to maintain compliance with federal regulatory requirements. \_\_\_\_\_

- b. I certify that Participant has provided an unlimited Corporate Guaranty in a form acceptable to PJM as described in Section I.C of Attachment Q from an issuer that has at least \$1 million of total net worth or \$5 million of total assets per Participant per Participant for which the issuer has issued an unlimited Corporate Guaranty. I certify that Participant will cease transacting PJM’s Markets and notify PJMSettlement immediately if issuer of the unlimited Corporate Guaranty for Participant no longer has at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty. \_\_\_\_\_

I certify that the issuer of the unlimited Corporate Guaranty to Participant continues to have at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty. I acknowledge that PJM and PJMSettlement are relying upon my certifications to maintain compliance with federal regulatory requirements.\_\_\_\_\_

c. I certify that Participant fulfills the eligibility requirements of the Commodity Futures Trading Commission exemption order (78 F.R. 19880 – April 2, 2013) by being in the business of at least one of the following in the PJM Region as indicated below (initial those applicable):

1. Generating electric energy, including Participants that resell physical energy acquired from an entity generating electric energy:\_\_\_\_\_
2. Transmitting electric energy:\_\_\_\_\_
3. Distributing electric energy delivered under Point-to-Point or Network Integration Transmission Service, including scheduled import, export and wheel through transactions:\_\_\_\_\_
4. Other electric energy services that are necessary to support the reliable operation of the transmission system:\_\_\_\_\_

Description only if c(4) is initialed:

---

Further, I certify that Participant will cease transacting in PJM's Markets and notify PJMSettlement immediately if Participant no longer performs at least one of the functions noted above in the PJM Region. I acknowledge that PJM and PJMSettlement are relying on my certification to maintain compliance with federal energy regulatory requirements.\_\_\_\_\_

- d. I certify that Participant has provided a letter of credit of \$5 million or more to PJMSettlement in a form acceptable to PJMSettlement as described in Section VI.B of Attachment Q that the Participant acknowledges cannot be utilized to meet its credit requirements to PJMSettlement. I acknowledge that PJM and PJMSettlement are relying on the provision of this letter of credit and my certification to maintain compliance with federal regulatory requirements.\_\_\_\_\_
7. I acknowledge that I have read and understood the provisions of Attachment Q of the PJM Tariff applicable to Participant's business in the PJM markets, including those provisions describing PJM's minimum participation requirements and the enforcement actions available to PJMSettlement of a Participant not satisfying those requirements. I acknowledge that the information provided herein is true and accurate to the best of my belief and knowledge after due investigation. In addition, by signing this Certification, I

acknowledge the potential consequences of making incomplete or false statements in this  
Certification. \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_  
(Signature)

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

## **1. INTRODUCTION**

This Attachment sets forth the terms and conditions governing the Reliability Pricing Model for the PJM Region. In the event of a conflict between this Attachment DD and Attachment M and its Appendix with respect to the responsibilities of the Market Monitoring Unit, the provisions of Attachment M and its Appendix shall control. As more fully set forth in this Attachment and the PJM Manuals, and in conjunction with the Reliability Assurance Agreement, the Reliability Pricing Model provides:

- (a) support for LSEs in satisfying Daily Unforced Capacity Obligations for future Delivery Years through Self Supply of Capacity Resources;
- (b) a competitive auction mechanism to secure the forward commitment of additional Capacity Resources and Qualifying Transmission Upgrades as necessary to satisfy the portion of LSEs' Unforced Capacity Obligations not satisfied through Self-Supply, in order to ensure the reliability of the PJM Region for future Delivery Years;
- (c) long-term pricing signals for the development of Capacity Resources, including demand resources and planned generation resources, to ensure the reliability of the PJM Region;
- (d) recognition for the locational benefits of Capacity Resources;
- (e) deficiency charges to ensure progress toward, and fulfillment of, forward commitments by demand and generation resources to satisfy capacity requirements;
- (f) measures to identify and mitigate capacity market structure deficiencies; and
- (g) a Reliability Backstop mechanism to ensure that sufficient generation, transmission and demand response solutions will be available to preserve system reliability.

Notwithstanding any other provision of this Attachment DD, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **2. DEFINITIONS**

Definitions specific to this Attachment are set forth below. In addition, any capitalized terms used in this Attachment not defined herein shall have the meaning given to such terms elsewhere in this Tariff or in the *Operating Agreement or RAA*. References to section numbers in this Attachment DD refer to sections of this attachment, unless otherwise specified.

### **2.1 Annual Demand Resource**

“Annual Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.1A Annual Energy Efficiency Resource**

*“Annual Energy Efficiency Resource” shall have the meaning specified in the Reliability Assurance Agreement.*

#### **2.1B Annual Resource**

“Annual Resource” shall mean a Generation Capacity Resource, an *Annual Energy Efficiency Resource* or an Annual Demand Resource.

#### **2.1C Annual Resource Price Adder**

“Annual Resource Price Adder” shall mean, for Delivery Years starting June 1, 2014 and ending May 31, 2017, an addition to the marginal value of Unforced Capacity and the Extended Summer Resource Price Adder as necessary to reflect the price of Annual Resources required to meet the applicable Minimum Annual Resource Requirement.

#### **2.1D Annual Revenue Rate**

“Annual Revenue Rate” shall mean the rate employed to assess a compliance penalty charge on a Curtailment Service Provider under section 11.

### **2.2 Avoidable Cost Rate**

“Avoidable Cost Rate” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

#### **2.2A Base Capacity Demand Resource**

*“Base Capacity Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.*

#### **2.2B Base Capacity Demand Resource Constraint**

*“Base Capacity Demand Resource Constraint” for the PJM Region or an LDA, shall mean, for the 2018/2019 and 2019/2020 Delivery Years, the maximum Unforced Capacity amount, determined by PJM, of Base Capacity Demand Resources and Base Capacity Energy Efficiency Resources that is consistent with the maintenance of reliability. As more fully set forth in the PJM Manuals, PJM calculates the Base Capacity Demand Resource Constraint for the PJM Region or an LDA, by first determining a reference annual loss of load expectation (“LOLE”) assuming no Base Capacity Resources, including no Base Capacity Demand Resources or Base Capacity Energy Efficiency Resources. The calculation for the PJM Region uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast and iteratively shifting the load distributions to result in the Installed Reserve Margin established for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). The calculation for each relevant LDA uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). For the relevant LDA calculation, the weekly capacity distributions are adjusted to reflect the Capacity Emergency Transfer Limit for the Delivery Year in question.*

*For both the PJM Region and LDA analyses, PJM then models the commitment of varying amounts of Base Capacity Demand Resources and Base Capacity Energy Efficiency Resources (displacing otherwise committed generation) as interruptible from June 1 through September 30 and unavailable the rest of the Delivery Year in question and calculates the LOLE at each DR and EE level. The Base Capacity Demand Resource Constraint is the combined amount of Base Capacity Demand Resources and Base Capacity Energy Efficiency Resources, stated as a percentage of the unrestricted annual peak load, that produces no more than a five percent increase in the LOLE, compared to the reference value. The Base Capacity Demand Resource Constraint shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].*

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **2.2C Base Capacity Demand Resource Price Decrement**

*“Base Capacity Demand Resource Price Decrement” shall mean, for the 2018/2019 and 2019/2020 Delivery Years, a difference between the clearing price for Base Capacity Demand Resources and Base Capacity Energy Efficiency Resources and the clearing price for Base Capacity Resources and Capacity Performance Resources, representing the cost to procure*



*additional Base Capacity Resources or Capacity Performance Resources out of merit order when the Base Capacity Demand Resource Constraint is binding.*

## **2.2D Base Capacity Energy Efficiency Resource**

*“Base Capacity Energy Efficiency Resource” shall have the meaning specified in the Reliability Assurance Agreement.*

## **2.2E Base Capacity Resource**

*“Base Capacity Resource” shall mean a Capacity Resource as described in section 5.5A(b).*

## **2.2F Base Capacity Resource Constraint**

*“Base Capacity Resource Reliability Constraint” for the PJM Region or an LDA, shall mean, for the 2018/2019 and 2019/2020 Delivery Years, the maximum Unforced Capacity amount, determined by PJM, of Base Capacity Resources, including Base Capacity Demand Resources and Base Capacity Energy Efficiency Resources, that is consistent with the maintenance of reliability. As more fully set forth in the PJM Manuals, PJM calculates the above Base Capacity Resource Constraint for the PJM Region or an LDA, by first determining a reference annual loss of load expectation (“LOLE”) assuming no Base Capacity Resources, including no Base Capacity Demand Resources or Base Capacity Energy Efficiency Resources. The calculation for the PJM Region uses the weekly load distribution from the Installed Reserve Margin study for the Delivery Year in question (based on the most recent load forecast and iteratively shifting the load distributions to result in the Installed Reserve Margin established for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). The calculation for each relevant LDA uses a weekly load distribution (based on the Installed Reserve Margin study and the most recent load forecast for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). For the relevant LDA calculation, the weekly capacity distributions are adjusted to reflect the Capacity Emergency Transfer Limit for the Delivery Year in question. Additionally, for the PJM Region and relevant LDA calculation, the weekly capacity distributions are adjusted to reflect winter ratings.*

*For both the PJM Region and LDA analyses, PJM models the commitment of an amount of Base Capacity Demand Resources and Base Capacity Energy Efficiency Resources equal to the Base Capacity Demand Resource Constraint (displacing otherwise committed generation). PJM then models the commitment of varying amounts of Base Capacity Resources (displacing otherwise committed generation) as unavailable during the peak week of winter and available the rest of the Delivery Year in question and calculates the LOLE at each Base Capacity Resource level. The Base Capacity Resource Constraint is the combined amount of Base Capacity Demand Resources, Base Capacity Energy Efficiency Resources and Base Capacity Resources, stated as a percentage of the unrestricted annual peak load, that produces no more than a ten percent increase in the LOLE, compared to the reference value. The Base Capacity Resource Constraint shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA*

*and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [one minus the pool-wide average EFORD] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].*

*“Base Capacity Resource Price Decrement” shall mean, for the 2018/2019 and 2019/2020 Delivery Years, a difference between the clearing price for Base Capacity Resources and the clearing price for Capacity Performance Resources, representing the cost to procure additional Capacity Performance Resources out of merit order when the Base Capacity Resource Constraint is binding.*

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **2.2G Base Capacity Resource Price Decrement**

*“Base Capacity Resource Price Decrement” shall mean, for the 2018/2019 and 2019/2020 Delivery Years, a difference between the clearing price for Base Capacity Resources and the clearing price for Capacity Performance Resources, representing the cost to procure additional Capacity Performance Resources out of merit order when the Base Capacity Resource Constraint is binding.*

## **2.2H Base Capacity WEEL**

“Base Capacity WEEL” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.2I Base Capacity WLR Load**

“Base Capacity WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.2J Base Capacity WLR Load Constraint**

“Base Capacity WLR Load Constraint” for the PJM Region or an LDA, shall mean, for the 2018/2019 and 2019/2020 Delivery Years, the maximum Unforced Capacity amount, determined by PJM, of Base Capacity WLR Load and Base Capacity WEEL that is consistent with the maintenance of reliability. As more fully set forth in the PJM Manuals, PJM calculates the Base Capacity WLR Load Constraint for the PJM Region or an LDA, by first determining a reference annual LOLE assuming no Base Capacity Resources and no Base Capacity WLR Load or Base Capacity WEEL. The calculation for the PJM Region uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast and iteratively shifting the load distributions to result in the Installed Reserve Margin established for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability

distributions developed for the Installed Reserve Margin study for the Delivery Year in question). The calculation for each relevant LDA uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). For the relevant LDA calculation, the weekly capacity distributions are adjusted to reflect the Capacity Emergency Transfer Limit for the Delivery Year in question.

For both the PJM Region and LDA analyses, PJM then models the commitment of varying amounts of Base Capacity WLR Loads and Base Capacity WEEL (displacing otherwise committed generation) as interruptible from June 1 through September 30 and unavailable the rest of the Delivery Year in question and calculates the LOLE at each WLR Load and WEEL level. The Base Capacity WLR Load Constraint is the combined amount of Base Capacity WLR Loads and Base Capacity WEEL, stated as a percentage of the unrestricted annual peak load, that produces no more than a five percent increase in the LOLE, compared to the reference value. The Base Capacity WLR Load Constraint shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

### **2.3 Base Load Generation Resource**

“Base Load Generation Resource” shall mean a Generation Capacity Resource that operates at least 90 percent of the hours that it is available to operate, as determined by the Office of the Interconnection in accordance with the PJM Manuals.

### **2.4 Base Offer Segment**

“Base Offer Segment” shall mean a component of a Sell Offer based on an existing Generation Capacity Resource, equal to the Unforced Capacity of such resource, as determined in accordance with the PJM Manuals. If the Sell Offers of multiple Market Sellers are based on a single Existing Generation Capacity Resource, the Base Offer Segments of such Market Sellers shall be determined pro rata based on their entitlements to Unforced Capacity from such resource.

### **2.5 Base Residual Auction**

“Base Residual Auction” shall mean the auction conducted three years prior to the start of the Delivery Year to secure commitments from Capacity Resources as necessary to satisfy any portion of the Unforced Capacity Obligation of the PJM Region not satisfied through Self-Supply.

### **2.6 Buy Bid**

“Buy Bid” shall mean a bid to buy Capacity Resources in any Incremental Auction.

## **2.6A Compliance Aggregation Area (CAA)**

“Compliance Aggregation Area” or “CAA” shall mean a geographic area of Zones or sub-Zones that are electrically-contiguous and experience for the relevant Delivery Year, based on Resource Clearing Prices of, *for Delivery Years through May 31, 2018, Annual Resources and for the 2018/2019 Delivery Year and subsequent Delivery Years, Capacity Performance Resources*, the same locational price separation in the Base Residual Auction, the same locational price separation in the First Incremental Auction, the same locational price separation in the Second Incremental Auction, or the same locational price separation in the Third Incremental Auction.

## **2.7 Capacity Credit**

“Capacity Credit” shall have the meaning specified in Schedule 11 of the Operating Agreement, including Capacity Credits obtained prior to the termination of such Schedule applicable to periods after the termination of such Schedule.

## **2.8 Capacity Emergency Transfer Limit**

“Capacity Emergency Transfer Limit” or “CETL” shall have the meaning provided in the Reliability Assurance Agreement.

## **2.9 Capacity Emergency Transfer Objective**

“Capacity Emergency Transfer Objective” or “CETO” shall have the meaning provided in the Reliability Assurance Agreement.

## **2.9A Capacity Export Transmission Customer**

“Capacity Export Transmission Customer” shall mean a customer taking point to point transmission service under Part II of this Tariff to export capacity from a generation resource located in the PJM Region that has qualified for an exception to the RPM must-offer requirement as described in section 6.6(g).

## **2.9B Capacity Import Limit**

“Capacity Import Limit” shall have the meaning provided in the Reliability Assurance Agreement.

## **2.10 Capacity Market Buyer**

“Capacity Market Buyer” shall mean a Member that submits bids to buy Capacity Resources in any Incremental Auction.

## **2.11 Capacity Market Seller**

“Capacity Market Seller” shall mean a Member that owns, or has the contractual authority to control the output or load reduction capability of, a Capacity Resource, that has not transferred such authority to another entity, and that offers such resource in the Base Residual Auction or an Incremental Auction.

#### **2.11A Capacity Performance Resource**

*“Capacity Performance Resource” shall mean a Capacity Resource as described in section 5.5A(a).*

#### **2.11B Capacity Performance Transition Incremental Auction**

*“Capacity Performance Transition Incremental Auction” shall have the meaning specified in section 5.14D.*

#### **2.11C Capacity Performance WEEL**

“Capacity Performance WEEL” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.11D Capacity Performance WLR Load**

“Capacity Performance WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.12 Capacity Resource**

“Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.13 Capacity Resource Clearing Price**

“Capacity Resource Clearing Price” shall mean the price calculated for a Capacity Resource that offered and cleared in a Base Residual Auction or Incremental Auction, in accordance with Section 5.

#### **2.13A Capacity Storage Resource**

*“Capacity Storage Resource” shall mean any hydroelectric power plant, flywheel, battery storage, or other such facility solely used for short term storage and injection of energy at a later time to participate in the PJM energy and/or Ancillary Services markets and which participates in the Reliability Pricing Model.*

#### **2.14 Capacity Transfer Right**

“Capacity Transfer Right” shall mean a right, allocated to LSEs serving load in a Locational Deliverability Area, to receive payments, based on the transmission import capability into such

Locational Deliverability Area, that offset, in whole or in part, the charges attributable to the Locational Price Adder, if any, included in the Zonal Capacity Price calculated for a Locational Delivery Area.

#### **2.14A Conditional Incremental Auction**

“Conditional Incremental Auction” shall mean an Incremental Auction conducted for a Delivery Year if and when necessary to secure commitments of additional capacity to address reliability criteria violations arising from the delay in a Backbone Transmission upgrade that was modeled in the Base Residual Auction for such Delivery Year.

#### **2.15 CONE Area**

“CONE Area” shall mean the areas listed in section 5.10(a)(iv)(A) and any LDAs established as CONE Areas pursuant to section 5.10(a)(iv)(B).

#### **2.16 Cost of New Entry**

“Cost of New Entry” or “CONE” shall mean the nominal levelized cost of a Reference Resource, as determined in accordance with section 5.

#### **2.16A Credit-Limited Offer**

“Credit-Limited Offer” shall have the meaning provided in Attachment Q to this Tariff.

#### **2.17 Daily Deficiency Rate**

“Daily Deficiency Rate” shall mean the rate employed to assess certain deficiency charges under sections 7, 8, 9, or 13.

#### **2.18 Daily Unforced Capacity Obligation**

“Daily Unforced Capacity Obligation” shall mean the capacity obligation of a Load Serving Entity during the Delivery Year, determined in accordance with Schedule 8 of the Reliability Assurance Agreement.

#### **2.19 Delivery Year**

Delivery Year shall mean the Planning Period for which a Capacity Resource is committed pursuant to the auction procedures specified in Section 5.

#### **2.20 Demand Resource**

“Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.21 Demand Resource Factor or DR Factor**

“Demand Resource Factor” or “*DR Factor*” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.22 [Reserved for Future Use]**

## **2.23 EFORD**

“EFORD” shall have the meaning specified in the PJM Reliability Assurance Agreement.

### **2.23A Emergency Action**

*“Emergency Action” shall mean any emergency action for locational or system-wide capacity shortages that either utilizes pre-emergency mandatory load management reductions or other emergency capacity, or initiates a more severe action including, but not limited to, a Voltage Reduction Warning, Voltage Reduction Action, Manual Load Dump Warning, or Manual Load Dump Action.*

## **2.24 Energy Efficiency Resource**

“Energy Efficiency Resource” shall have the meaning specified in the PJM Reliability Assurance Agreement.

### **2.24.01 Existing WLR Load**

“Existing WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.24A Extended Summer Demand Resource**

“Extended Summer Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.24B Extended Summer Resource Price Adder**

“Extended Summer Resource Price Adder” shall mean, *for Delivery Years through May 31, 2018*, an addition to the marginal value of Unforced Capacity as necessary to reflect the price of Annual Resources and Extended Summer Demand Resources required to meet the applicable Minimum Extended Summer Resource Requirement.

### **2.24C Sub-Annual Resource Reliability Target**

“Sub-Annual Reliability Target” for the PJM Region or an LDA, shall mean the maximum amount of the combination of Extended Summer Demand Resources and Limited Demand Resources in Unforced Capacity determined by PJM to be consistent with the maintenance of reliability, stated in Unforced Capacity, that shall be used to calculate the Minimum Annual Resource Requirement for Delivery Years through May 31, 2017 and the Sub-Annual Resource Constraint for *the 2017/2018* Delivery Year. As more fully set forth in the PJM Manuals, PJM

calculates the Sub-Annual Resource Reliability Target, by first determining a reference annual loss of load expectation (“LOLE”) assuming no Demand Resources. The calculation for the unconstrained portion of the PJM Region uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast and iteratively shifting the load distributions to result in the Installed Reserve Margin established for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). The calculation for each relevant LDA uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Capacity Emergency Transfer Objective study for the Delivery Year in question). For the relevant LDA calculation, the weekly capacity distributions are adjusted to reflect the Capacity Emergency Transfer Limit for the Delivery Year in question.

For both the PJM Region and LDA analyses, PJM then models the commitment of varying amounts of DR (displacing otherwise committed generation) as interruptible from May 1 through October 31 and unavailable from November 1 through April 30 and calculates the LOLE at each DR level. The Extended Summer DR Reliability Target is the DR amount, stated as a percentage of the unrestricted peak load, that produces no more than a ten percent increase in the LOLE, compared to the reference value. The Sub-Annual Resource Reliability Target shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the DR Factor] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

## **2.25 Sub-Annual Resource Constraint**

“Sub-Annual Resource Constraint” shall mean, *for the 2017/2018 Delivery Year*, for the PJM Region or for each LDA for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for a Delivery Year, a limit on the total amount of Unforced Capacity that can be committed as Limited Demand Resources and Extended Summer Demand Resources for *the 2017/2018 Delivery Year* in the PJM Region or in such LDA, calculated as the Sub-Annual Resource Reliability Target for the PJM Region or for such LDA, respectively, minus the Short-Term Resource Procurement Target for the PJM Region or for such LDA, respectively.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **2.26 Final RTO Unforced Capacity Obligation**



“Final RTO Unforced Capacity Obligation” shall mean the capacity obligation for the PJM Region, determined in accordance with Schedule 8 of the Reliability Assurance Agreement.

#### **2.26A [Reserved]**

#### **2.27 First Incremental Auction**

“First Incremental Auction” shall mean an Incremental Auction conducted 20 months prior to the start of the Delivery Year to which it relates.

#### **2.28 Forecast Pool Requirement**

“Forecast Pool Requirement” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.29 [Reserved]**

#### **2.30 [Reserved]**

#### **2.31 Generation Capacity Resource**

“Generation Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.32 Generator Forced Outage**

*“Generator Forced Outage” shall have the meaning specified in the Operating Agreement.*

#### **2.33 Generator Maintenance Outage**

*“Generator Maintenance Outage” shall have the meaning specified in the Operating Agreement.*

#### **2.33A Generator Planned Outage**

*“Generator Planned Outage” shall have the meaning specified in the Operating Agreement.*

#### **2.34 Incremental Auction**

“Incremental Auction” shall mean any of several auctions conducted for a Delivery Year after the Base Residual Auction for such Delivery Year and before the first day of such Delivery Year, including the First Incremental Auction, Second Incremental Auction, Third Incremental Auction or Conditional Incremental Auction. Incremental Auctions (other than the Conditional Incremental Auction), shall be held for the purposes of:

- (i) allowing Market Sellers that committed Capacity Resources in the Base Residual Auction for a Delivery Year, which subsequently are determined to be unavailable to deliver the

committed Unforced Capacity in such Delivery Year (due to resource retirement, resource cancellation or construction delay, resource derating, EFORd increase, a decrease in the Nominated Demand Resource Value of a Planned Demand Resource, delay or cancellation of a Qualifying Transmission Upgrade, or similar occurrences) to submit Buy Bids for replacement Capacity Resources; and

(ii) allowing the Office of the Interconnection to reduce or increase the amount of committed capacity secured in prior auctions for such Delivery Year if, as a result of changed circumstances or expectations since the prior auction(s), there is, respectively, a significant excess or significant deficit of committed capacity for such Delivery Year, for the PJM Region or for an LDA.

### **2.35 Incremental Capacity Transfer Right**

“Incremental Capacity Transfer Right” shall mean a Capacity Transfer Right allocated to a Generation Interconnection Customer or Transmission Interconnection Customer obligated to fund a transmission facility or upgrade, to the extent such upgrade or facility increases the transmission import capability into a Locational Deliverability Area, or a Capacity Transfer Right allocated to a Responsible Customer in accordance with Schedule 12A of the Tariff.

### **2.36 Intermittent Resource**

*“Intermittent Resource” shall mean a Generation Capacity Resource with output that can vary as a function of its energy source, such as wind, solar, run of river hydroelectric power and other renewable resources.*

### **2.36A Limited Demand Resource**

“Limited Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.36B Limited Demand Resource Reliability Target**

“Limited Demand Resource Reliability Target” for the PJM Region or an LDA, shall mean the maximum amount of Limited Demand Resources determined by PJM to be consistent with the maintenance of reliability, stated in Unforced Capacity that shall be used to calculate the Minimum Extended Summer Demand Resource Requirement for Delivery Years through May 31, 2017 and the Limited Resource Constraint for *the 2017/2018* Delivery Year for the PJM Region or such LDA. As more fully set forth in the PJM Manuals, PJM calculates the Limited Demand Resource Reliability Target by first: i) testing the effects of the ten-interruption requirement by comparing possible loads on peak days under a range of weather conditions (from the daily load forecast distributions for the Delivery Year in question) against possible generation capacity on such days under a range of conditions (using the cumulative capacity distributions employed in the Installed Reserve Margin study for the PJM Region and in the Capacity Emergency Transfer Objective study for the relevant LDAs for such Delivery Year) and, by varying the assumed amounts of DR that is committed and displaces committed

generation, determines the DR penetration level at which there is a ninety percent probability that DR will not be called (based on the applicable operating reserve margin for the PJM Region and for the relevant LDAs) more than ten times over those peak days; ii) testing the six-hour duration requirement by calculating the MW difference between the highest hourly unrestricted peak load and seventh highest hourly unrestricted peak load on certain high peak load days (e.g., the annual peak, loads above the weather normalized peak, or days where load management was called) in recent years, then dividing those loads by the forecast peak for those years and averaging the result; and (iii) (for the 2016/2017 and 2017/2018 Delivery Years) testing the effects of the six-hour duration requirement by comparing possible hourly loads on peak days under a range of weather conditions (from the daily load forecast distributions for the Delivery Year in question) against possible generation capacity on such days under a range of conditions (using a Monte Carlo model of hourly capacity levels that is consistent with the capacity model employed in the Installed Reserve Margin study for the PJM Region and in the Capacity Emergency Transfer Objective study for the relevant LDAs for such Delivery Year) and, by varying the assumed amounts of DR that is committed and displaces committed generation, determines the DR penetration level at which there is a ninety percent probability that DR will not be called (based on the applicable operating reserve margin for the PJM Region and for the relevant LDAs) for more than six hours over any one or more of the tested peak days. Second, PJM adopts the lowest result from these three tests as the Limited Demand Resource Reliability Target. The Limited Demand Resource Reliability Target shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the DR Factor] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

### **2.36C Limited Resource Constraint**

“Limited Resource Constraint” shall mean, *for the 2017/2018 Delivery Year*, for the PJM Region or each LDA for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for a Delivery Year, a limit on the total amount of Unforced Capacity that can be committed as Limited Demand Resources for *the 2017/2018 Delivery Year* in the PJM Region or in such LDA, calculated as the Limited Demand Resource Reliability Target for the PJM Region or such LDA, respectively, minus the Short Term Resource Procurement Target for the PJM Region or such LDA, respectively.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### **2.36D Limited Resource Price Decrement**

“Limited Resource Price Decrement” shall mean, for the *2017/2018 Delivery Year*, a difference between the clearing price for Limited Demand Resources and the clearing price for Extended Summer Demand Resources and Annual Resources, representing the cost to procure additional

Extended Summer Demand Resources or Annual Resources out of merit order when the Limited Resource Constraint is binding.

### **2.37 Load Serving Entity (LSE)**

“Load Serving Entity” or “LSE” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.38 Locational Deliverability Area (LDA)**

“Locational Deliverability Area” or “LDA” shall mean a geographic area within the PJM Region that has limited transmission capability to import capacity to satisfy such area’s reliability requirement, as determined by the Office of the Interconnection in connection with preparation of the Regional Transmission Expansion Plan, and as specified in Schedule 10.1 of the Reliability Assurance Agreement.

### **2.39 Locational Deliverability Area Reliability Requirement**

“Locational Deliverability Area Reliability Requirement” shall mean the projected internal capacity in the Locational Deliverability Area plus the Capacity Emergency Transfer Objective for the Delivery Year, as determined by the Office of the Interconnection in connection with preparation of the Regional Transmission Expansion Plan, less the minimum internal resources required for all FRR Entities in such Locational Deliverability Area.

### **2.40 Locational Price Adder**

“Locational Price Adder” shall mean an addition to the marginal value of Unforced Capacity within an LDA as necessary to reflect the price of Capacity Resources required to relieve applicable binding locational constraints.

### **2.41 Locational Reliability Charge**

“Locational Reliability Charge” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.41A Locational UCAP**

“Locational UCAP” shall mean unforced capacity that a Member with available uncommitted capacity sells in a bilateral transaction to a Member that previously committed capacity or load reduction through an RPM Auction but now requires replacement capacity to fulfill its RPM Auction commitment. The Locational UCAP Seller retains responsibility for performance of the resource providing such replacement capacity. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and

subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **2.41B Locational UCAP Seller**

“Locational UCAP Seller” shall mean a Member that sells Locational UCAP.

#### **2.41C Market Seller Offer Cap**

“Market Seller Offer Cap” shall mean a maximum offer price applicable to certain Market Sellers under certain conditions, as determined in accordance with section 6 of Attachment DD and section II.E of Attachment M - Appendix.

#### **2.41D Minimum Annual Resource Requirement**

“Minimum Annual Resource Requirement” shall mean, for Delivery Years through May 31, 2017, the minimum amount of capacity that PJM will seek to procure from Annual Resources for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. For the PJM Region, the Minimum Annual Resource Requirement shall be equal to the RTO Reliability Requirement minus [the Sub-Annual Resource Reliability Target for the RTO in Unforced Capacity]. For an LDA, the Minimum Annual Resource Requirement shall be equal to the LDA Reliability Requirement minus [the LDA CETL] minus [the Sub-Annual Resource Reliability Target for such LDA in Unforced Capacity]. The LDA CETL may be adjusted pro rata for the amount of load served under the FRR Alternative.

#### **2.41E Minimum Extended Summer Resource Requirement**

“Minimum Extended Summer Resource Requirement” shall mean, for Delivery Years through May 31, 2017, the minimum amount of capacity that PJM will seek to procure from Extended Summer Demand Resources and Annual Resources for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. For the PJM Region, the Minimum Extended Summer Resource Requirement shall be equal to the RTO Reliability Requirement minus [the Limited Demand Resource Reliability Target for the PJM Region in Unforced Capacity]. For an LDA, the Minimum Extended Summer Resource Requirement shall be equal to the LDA Reliability Requirement minus [the LDA CETL] minus [the Limited Demand Resource Reliability Target for such LDA in Unforced Capacity]. The LDA CETL may be adjusted pro rata for the amount of load served under the FRR Alternative. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **2.42 Net Cost of New Entry**

“Net Cost of New Entry” shall mean the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset, as defined in Section 5.

## **2.43 Nominated Demand Resource Value**

“Nominated Demand Resource Value” shall mean the amount of load reduction that a Demand Resource commits to provide either through direct load control, firm service level or guaranteed load drop programs. For existing Demand Resources, the maximum Nominated Demand Resource Value is limited, in accordance with the PJM Manuals, to the value appropriate for the method by which the load reduction would be accomplished, at the time the Base Residual Auction or Incremental Auction is being conducted.

### **2.43A Nominated Energy Efficiency Value**

“Nominated Energy Efficiency Value” shall mean the amount of load reduction that an Energy Efficiency Resource commits to provide through installation of more efficient devices or equipment or implementation of more efficient processes or systems.

### **2.43B Nominated WLR Quantity**

“Nominated WLR Quantity” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.44 Nominated WEEL Quantity**

“Nominated WEEL Quantity” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.45 Opportunity Cost**

“Opportunity Cost” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

## **2.46 Peak-Hour Dispatch**

“Peak-Hour Dispatch” shall mean, for purposes of calculating the Energy and Ancillary Services Revenue Offset under section 5 of this Attachment, an assumption, as more fully set forth in the PJM Manuals, that the Reference Resource is committed in the Day-Ahead Energy Market in four distinct blocks of four hours of continuous output for each block from the peak-hour period beginning with the hour ending 0800 EPT through to the hour ending 2300 EPT for any day when the average day-ahead LMP for the area for which the Net Cost of New Entry is being determined is greater than, or equal to, the cost to generate (including the cost for a complete start and shutdown cycle) for at least two hours during each four-hour block, where such blocks

shall be assumed to be committed independently; provided that, if there are not at least two economic hours in any given four-hour block, then the Reference Resource shall be assumed not to be committed for such block; and to the extent not committed in any such block in the Day-Ahead Energy Market under the above conditions based on Day-Ahead LMPs, is dispatched in the Real-Time Energy Market for such block if the Real-Time LMP is greater than or equal to the cost to generate under the same conditions as described above for the Day-Ahead Energy Market.

## **2.47 Peak Season**

“Peak Season” shall mean the weeks containing the 24th through 36th Wednesdays of the calendar year. Each such week shall begin on a Monday and end on the following Sunday, except for the week containing the 36th Wednesday, which shall end on the following Friday.

## **2.48 Percentage Internal Resources Required**

“Percentage Internal Resources Required” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.48A Performance Assessment Hour**

“Performance Assessment Hour” shall mean each whole or partial clock-hour for which an Emergency Action has been declared by the Office of the Interconnection, provided, however, that Performance Assessment Hours for a Base Capacity Resource shall not include any hours outside the calendar months of June through September.

## **2.49 Planned Demand Resource**

“Planned Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.50 Planned External Generation Capacity Resource**

“Planned External Generation Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.50A Planned Generation Capacity Resource**

“Planned Generation Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.50B Planned WLR Load**

“Planned WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.51 Planning Period**

“Planning Period” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.52 PJM Region**

“PJM Region” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.53 PJM Region Installed Reserve Margin**

“PJM Region Installed Reserve Margin” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.54 PJM Region Peak Load Forecast**

“PJM Region Peak Load Forecast” shall mean the peak load forecast used by the Office of the Interconnection in determining the PJM Region Reliability Requirement, and shall be determined on both a preliminary and final basis as set forth in section 5.

## **2.55 PJM Region Reliability Requirement**

“PJM Region Reliability Requirement” shall mean, for purposes of the Base Residual Auction, the Forecast Pool Requirement multiplied by the Preliminary PJM Region Peak Load Forecast, less the sum of all Preliminary Unforced Capacity Obligations of FRR Entities in the PJM Region; and, for purposes of the Incremental Auctions, the Forecast Pool Requirement multiplied by the updated PJM Region Peak Load Forecast, less the sum of all updated Unforced Capacity Obligations of FRR Entities in the PJM Region.

## **2.56 Projected PJM Market Revenues**

“Projected PJM Market Revenues” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

## **2.57 Qualifying Transmission Upgrade**

“Qualifying Transmission Upgrade” shall mean a proposed enhancement or addition to the Transmission System that: (a) will increase the Capacity Emergency Transfer Limit into an LDA by a megawatt quantity certified by the Office of the Interconnection; (b) the Office of the Interconnection has determined will be in service on or before the commencement of the first Delivery Year for which such upgrade is the subject of a Sell Offer in the Base Residual Auction; (c) is the subject of a Facilities Study Agreement executed before the conduct of the Base Residual Auction for such Delivery Year and (d) a New Service Customer is obligated to fund through a rate or charge specific to such facility or upgrade.

## **2.58 Reference Resource**



“Reference Resource” shall mean a combustion turbine generating station, configured with two General Electric Frame 7FA turbines with inlet air cooling to 50 degrees, Selective Catalytic Reduction technology all CONE Areas, dual fuel capability, and a heat rate of 10.096 Mmbtu/MWh.

## **2.59 Reliability Assurance Agreement**

“Reliability Assurance Agreement” shall mean that certain “Reliability Assurance Agreement Among Load-Serving Entities in the PJM Region,” on file with FERC as PJM Interconnection, L.L.C. Rate Schedule FERC No.44.

## **2.60 Reliability Pricing Model Auction**

“Reliability Pricing Model Auction” or “RPM Auction” shall mean the Base Residual Auction or any Incremental Auction, *or, for the 2016/2017 and 2017/2018 Delivery Years, any Capacity Performance Transition Incremental Auction.*

### **2.60A Repowered / Repowering**

“Repowering” or “Repowered” shall refer to a partial or total replacement of existing steam production equipment with new technology or a partial or total replacement of steam production process and power generation equipment, or an addition of steam production and/or power generation equipment, or a change in the primary fuel being used at the plant. A resource can be considered Repowered whether or not such aforementioned replacement, addition, or fuel change provides an increase in installed capacity, and whether or not the pre-existing plant capability is formally deactivated or retired.

## **2.61 Resource Substitution Charge**

“Resource Substitution Charge” shall mean a charge assessed on Capacity Market Buyers in an Incremental Auction to recover the cost of replacement Capacity Resources.

### **2.61A Scheduled Incremental Auctions**

“Scheduled Incremental Auctions” shall refer to the First, Second, or Third Incremental Auction.

## **2.62 Second Incremental Auction**

“Second Incremental Auction” shall mean an Incremental Auction conducted ten months before the Delivery Year to which it relates.

## **2.63 Sell Offer**

“Sell Offer” shall mean an offer to sell Capacity Resources in a Base Residual Auction, Incremental Auction, or Reliability Backstop Auction.

## **2.64 [Reserved for Future Use]**

## **2.65 Self-Supply**

“Self-Supply” shall mean Capacity Resources secured by a Load-Serving Entity, by ownership or contract, outside a Reliability Pricing Model Auction, and used to meet obligations under this Attachment or the Reliability Assurance Agreement through submission in a Base Residual Auction or an Incremental Auction of a Sell Offer indicating such Market Seller’s intent that such Capacity Resource be Self-Supply. Self-Supply may be either committed regardless of clearing price or submitted as a Sell Offer with a price bid. A Load Serving Entity’s Sell Offer with a price bid for an owned or contracted Capacity Resource shall not be deemed “Self-Supply,” unless it is designated as Self-Supply and used by the LSE to meet obligations under this Attachment or the Reliability Assurance Agreement.

### **2.65A Short-Term Resource Procurement Target**

“Short-Term Resource Procurement Target” shall mean, *for Delivery Years through May 31, 2018*, as to the PJM Region, for purposes of the Base Residual Auction, 2.5% of the PJM Region Reliability Requirement determined for such Base Residual Auction, for purposes of the First Incremental Auction, 2% of the of the PJM Region Reliability Requirement as calculated at the time of the Base Residual Auction; and, for purposes of the Second Incremental Auction, 1.5% of the of the PJM Region Reliability Requirement as calculated at the time of the Base Residual Auction; and, as to any Zone, an allocation of the PJM Region Short-Term Resource Procurement Target based on the Preliminary Zonal Forecast Peak Load, reduced by the amount of load served under the FRR Alternative. For any LDA, the LDA Short-Term Resource Procurement Target shall be the sum of the Short-Term Resource Procurement Targets of all Zones in the LDA.

### **2.65B Short-Term Resource Procurement Target Applicable Share**

“Short-Term Resource Procurement Target Applicable Share” shall mean, *for Delivery Years through May 31, 2018*: (i) for the PJM Region, as to the First and Second Incremental Auctions, 0.2 times the Short-Term Resource Procurement Target used in the Base Residual Auction and, as to the Third Incremental Auction for the PJM Region, 0.6 times such target; and (ii) for an LDA, as to the First and Second Incremental Auctions, 0.2 times the Short-Term Resource Procurement Target used in the Base Residual Auction for such LDA and, as to the Third Incremental Auction, 0.6 times such target.

#### **2.65B.01 Small Commercial Customer**

“Small Commercial Customer,” as used in Schedule 6 of the RAA and Attachment DD-1 of the Tariff, shall mean a commercial retail electric end-use customer of an electric distribution company that participates in a mass market demand response program under the jurisdiction of a RERRA and satisfies the definition of a “small commercial customer” under the terms of the applicable RERRA’s program, provided that the customer has an annual peak demand no greater than 100kW.

## **2.65C Sub-Annual Resource Price Decrement**

“Sub-Annual Resource Price Decrement” shall mean, for the 2017/2018 Delivery Year, a difference between the clearing price for Extended Summer Demand Resources and the clearing price for Annual Resources, representing the cost to procure additional Annual Resources out of merit order when the Sub-Annual Resource Constraint is binding.

## **2.66 Third Incremental Auction**

“Third Incremental Auction” shall mean an Incremental Auction conducted three months before the Delivery Year to which it relates.

## **2.67 [Reserved for Future Use]**

## **2.68 Unconstrained LDA Group**

“Unconstrained LDA Group” shall mean a combined group of LDAs that form an electrically contiguous area and for which a separate Variable Resource Requirement Curve has not been established under Section 5.10 of Attachment DD. Any LDA for which a separate Variable Resource Requirement Curve has not been established under Section 5.10 of Attachment DD shall be combined with all other such LDAs that form an electrically contiguous area.

## **2.69 Unforced Capacity**

“Unforced Capacity” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.69A Updated VRR Curve**

“Updated VRR Curve” shall mean the Variable Resource Requirement Curve as defined in section 5.10(a) of this Attachment for use in the Base Residual Auction of the relevant Delivery Year, updated to reflect any change in the Reliability Requirement from the Base Residual Auction to such Incremental Auction, *and for Delivery Years through May 31, 2018, the Short-term Resource Procurement Target applicable to the relevant Incremental Auction.*

## **2.69B Updated VRR Curve Increment**

“Updated VRR Curve Increment” shall mean the portion of the Updated VRR Curve to the right of a vertical line at the level of Unforced Capacity on the x-axis of such curve equal to the net Unforced Capacity committed to the PJM Region as a result of all prior auctions conducted for such Delivery Year *and adjusted, if applicable, by the reduction in Unforced Capacity commitments associated with the transition provision of section 5.14C of this Attachment DD.*

## **2.69C Updated VRR Curve Decrement**

“Updated VRR Curve Decrement” shall mean the portion of the Updated VRR Curve to the left of a vertical line at the level of Unforced Capacity on the x-axis of such curve equal to the net Unforced Capacity committed to the PJM Region as a result of all prior auctions conducted for such Delivery Year *and adjusted, if applicable, by the reduction in Unforced Capacity commitments associated with the transition provision of section 5.14C of this attachment DD.*

## **2.70 Variable Resource Requirement Curve**

“Variable Resource Requirement Curve” shall mean a series of maximum prices that can be cleared in a Base Residual Auction for Unforced Capacity, corresponding to a series of varying resource requirements based on varying installed reserve margins, as determined by the Office of the Interconnection for the PJM Region and for certain Locational Deliverability Areas in accordance with the methodology provided in Section 5.

### **2.70A WEEL Provider**

“WEEL Provider” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.70B Wholesale Energy Efficiency Load or WEEL**

“Wholesale Energy Efficiency Load or WEEL” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.70C Wholesale Entity**

“Wholesale Entity” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.70D Wholesale Load Reduction or WLR**

“Wholesale Load Reduction or WLR” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.70E WLR Bid**

“WLR Bid” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.70F WLR Bid Price**

“WLR Bid Price” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.70G WLR Load**

“WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.70H WLR Provider**

“WLR Provider” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70I WLR Value**

“WLR Value” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.71 Zonal Capacity Price**

“Zonal Capacity Price” shall mean the clearing price required in each Zone to meet the demand for Unforced Capacity and satisfy Locational Deliverability Requirements for the LDA or LDAs associated with such Zone. 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. RESPONSIBILITIES OF THE OFFICE OF THE INTERCONNECTION**

#### **3.1 Support for Self-Supply and Bilateral Transactions**

The Office of the Interconnection shall:

- (a) support electronic tools to facilitate communication by Market Sellers and Market Buyers of information to the Office of the Interconnection concerning Self-Supply arrangements;
- (b) support an electronic bulletin board providing a forum for prospective buyers and sellers to transact Capacity Resources outside the Reliability Pricing Model Auctions, including Locational UCAP transactions (including mechanisms to allow prospective Sellers with partial-year resources to explore voluntary opportunities to combine their resources such that they can be offered together for a full Delivery Year) and support electronic tools to report bilateral capacity transactions and bilateral load reduction transactions between Market Participants to the Office of the Interconnection, in accordance with procedures set forth in the PJM Manuals; and
- (c) define one or more capacity trading hubs and determine and publicize values for such hubs based on the capacity prices determined for one or more Locational Deliverability Areas, in accordance with the PJM Manuals.

#### **3.2 Administration of the Base Residual Auction and Incremental Auctions**

The Office of the Interconnection shall conduct and administer the Base Residual Auction and Incremental Auctions in accordance with this Attachment, the Operating Agreement, and the Reliability Assurance Agreement. Administration of the Base Residual Auction and Incremental Auctions shall include, but not be limited to, the following:

- a) Determining the qualification of entities to become Capacity Market Sellers, Capacity Market Buyers, and Wholesale Entities;
- b) Determining PJM Region Peak Load Forecasts and Locational Deliverability Area Reliability Requirements;
- c) Determining the Minimum Annual Resource Requirements and the Minimum Extended Summer Resource Requirements for the PJM Region and applicable LDAs for Delivery Years starting June 1, 2014 and ending May 31, 2017;
- d) Determining Limited Resource Constraints and Sub-Annual Resource Constraints for *the 2017/2018 Delivery Year*;
- e) *Determining Base Capacity Demand Resource Constraints, Base Capacity Resource Constraints, and Base Capacity WLR Load Constraints for the 2018/2019 and 2019/2020 Delivery Years;*

- f)* Determining the need, if any, for a Conditional Incremental Auction and providing appropriate prior notice of any such auction
- g)* Calculating the EFORD for each Generation Capacity Resource in the PJM Region to be used in the Third Incremental Auction;
- h)* Receiving WLR Bids, Buy Bids, and Sell Offers, determining Locational Deliverability Requirements and Variable Resource Requirement Curves, and determining the clearing price that reflects all such inputs;
- i)* Conducting settlements for auction transactions, including but not limited to rendering bills to, receiving payments from, and disbursing payments to, participants in Base Residual Auctions and Incremental Auctions.
- j)* Maintaining such records of WLR Bids, Sell Offers, and Buy Bids, clearing price determinations, and other aspects of auction transactions, as may be appropriate to the administration of Base Residual Auctions and Incremental Auctions; and
- k)* Posting of selected non-confidential data used in Reliability Pricing Model Auctions to calculate clearing prices, WLR Values, and other auction results, as appropriate to inform market participants of auction conditions.

### **3.3 Records and Reports**

The Office of the Interconnection shall prepare and maintain such records as are required for the administration of the Base Residual Auction and Incremental Auctions. For each auction conducted, the Office of the Interconnection shall, consistent with section 18.17 of the Operating Agreement, publish the following: (i) Zonal Capacity Prices for each LDA; (ii) Capacity Resource Clearing Prices for each LDA; (iii) Locational Price Adders; (iv) the total megawatts of Unforced Capacity that cleared; and (v) such other auction data as may be appropriate to the efficient and competitive conduct of the Base Residual Auction and Incremental Auctions. Such information shall be available on the PJM internet site through the end of the Delivery Year to which such auctions apply.

### **3.4 Counterparty**

(a) PJMSettlement shall be the Counterparty to the transactions arising from the cleared Base Residual Auctions and Incremental Auctions; provided, however, PJMSettlement shall not be a contracting party to (i) any bilateral transactions between Market Participants, or (ii) with respect to Self-Supply for which designation of Self-Supply has been reported to the Office of the Interconnection.

(b) Charges. PJMSettlement shall be the Counterparty with respect to the obligations to pay, and the payment of, charges pursuant to this Attachment DD.

## **4. GENERAL PROVISIONS**

### **4.1 Capacity Market Sellers**

Only Capacity Market Sellers shall be eligible to submit Sell Offers into the Base Residual Auction and Incremental Auctions. Capacity Market Sellers shall comply with the terms and conditions of all Sell Offers, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M - Appendix and the Operating Agreement.

### **4.2 Capacity Market Buyers**

Only Capacity Market Buyers shall be eligible to submit Buy Bids into an Incremental Auction. Capacity Market Buyers shall comply with the terms and conditions of all Buy Bids, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M - Appendix and the Operating Agreement.

#### **4.2A Wholesale Entity**

Only Wholesale Entities shall be eligible to submit WLR Bids into a Base Residual Auction. Wholesale Entities shall comply with the terms and conditions of all WLR Bids, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M – Appendix, and the Reliability Assurance Agreement.

### **4.3 Agents**

A Capacity Market Seller or Wholesale Entity may participate in a Base Residual Auction or Incremental Auction through an Agent, provided that the Capacity Market Seller or Wholesale Entity informs the Office of the Interconnection in advance in writing of the appointment and authority of such Agent. A Capacity Market Buyer or Wholesale Entity may participate in an Incremental Auction through an Agent, provided that the Capacity Market Buyer informs the Office of the Interconnection in advance in writing of the appointment and authority of such Agent. A Wholesale Entity, Capacity Market Buyer, or Capacity Market Seller participating in such an auction through an Agent shall be bound by all of the acts or representations of such Agent with respect to transactions in such auction. Any written instrument establishing the authority of such Agent shall provide that any such Agent shall comply with the requirements of this Attachment, the Reliability Assurance Agreement, and the Operating Agreement, as applicable.

### **4.4 General Obligations of Wholesale Entities, Capacity Market Buyers, and Capacity Market Sellers**

Each Wholesale Entity, Capacity Market Buyer, and Capacity Market Seller shall comply with all laws and regulations applicable to the operation of the Base Residual and Incremental Auctions and the use of these auctions shall comply with all applicable provisions of this Attachment, Attachment M, Attachment M - Appendix, the Operating Agreement, and the Reliability Assurance Agreement, and all procedures and requirements for the conduct of the



Base Residual and Incremental Auctions and the PJM Region established by the Office of the Interconnection in accordance with the foregoing.

#### **4.5 Confidentiality**

The following information submitted to the Office of the Interconnection in connection with any Base Residual Auction, Incremental Auction, Reliability Backstop Auction, *or Capacity Performance Transition Incremental Auction* shall be deemed confidential information for purposes of Section 18.17 of the Operating Agreement, Attachment M and Attachment M - Appendix: (i) the terms and conditions of the WLR Bids, Sell Offers, and Buy Bids; and (ii) the terms and conditions of any bilateral transactions for Capacity Resources, Wholesale Load Reductions, or Wholesale Energy Efficiency Loads.

#### **4.6 Bilateral Capacity Transactions**

(a) Unit-Specific Internal Capacity Bilateral Transaction Transferring All Rights and Obligations (“Section 4.6(a) Bilateral”).

(i) Market Participants may enter into unit-specific internal bilateral capacity contracts for the purchase and sale of title and rights to a specified amount of installed capacity from a specific generating unit or units. Such bilateral capacity contracts shall be for the transfer of rights to capacity to and from a Market Participant and shall be reported to the Office of the Interconnection in accordance with this Attachment DD and the Office of the Interconnection’s rules related to its eRPM tools.

(ii) For purposes of clarity, with respect to all Section 4.6(a) Bilateral transactions, the rights to, and obligations regarding, the capacity that is the subject of the transaction shall pass to the buyer under the contract at the location of the unit and further transactions and rights and obligations associated with such capacity shall be the responsibility of the buyer under the contract. Such obligations include any charges, including penalty charges, relating to the capacity under this Attachment DD. In no event shall the purchase and sale of the rights to capacity pursuant to a Section 4.6(a) Bilateral constitute a transaction with the Office of the Interconnection or PJMSettlement or a transaction in any auction under this Attachment DD.

(iii) All payments and related charges associated with a Section 4.6(a) Bilateral shall be arranged between the parties to the transaction and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The Office of the Interconnection, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Section 4.6(a) Bilateral reported to the Office of the Interconnection under this Attachment DD.

(iv) With respect to capacity that is the subject of a Section 4.6(a) Bilateral that has cleared an auction under this Attachment DD prior to a transfer, the buyer of the cleared capacity shall be considered in the Delivery Year the party to a transaction with PJMSettlement as Counterparty for the cleared capacity at the Capacity Resource Clearing Price published for the applicable auction.

(v) A buyer under a Section 4.6(a) Bilateral contract shall pay any penalties or charges associated with the capacity transferred under the contract. To the extent the capacity that is the subject of a Section 4.6(a) Bilateral contract has cleared an auction under this Attachment DD prior to a transfer, then the seller under the contract also shall guarantee and indemnify the Office of the Interconnection, PJMSettlement, and the Members for the buyer's obligation to pay any penalties or charges associated with the capacity and for which payment is not made to PJMSettlement by the buyer as determined by the Office of the Interconnection. All claims regarding a default of a buyer to a seller under a Section 4.6(a) Bilateral contract shall be resolved solely between the buyer and the seller.

(vi) To the extent the capacity that is the subject of the Section 4.6(a) Bilateral transaction already has cleared an auction under this Attachment DD, such bilateral capacity transactions shall be subject to the prior consent of the Office of the Interconnection and its determination that sufficient credit is in place for the buyer with respect to the credit exposure associated with such obligations.

(b) Bilateral Capacity Transaction Transferring Title to Capacity But Not Transferring Performance Obligations ("Section 4.6(b) Bilateral").

(i) Market Participants may enter into bilateral capacity transactions for the purchase and sale of a specified megawatt quantity of capacity that has cleared an auction pursuant to this Attachment DD. The parties to a Section 4.6(b) Bilateral transaction shall identify (1) each unit from which the transferred megawatts are being sold, and (2) the auction in which the transferred megawatts cleared. Such bilateral capacity transactions shall transfer title and all rights with respect to capacity and shall be reported to the Office of the Interconnection on an annual basis prior to each Delivery Year in accordance with this Attachment DD and pursuant to the Office of the Interconnection's rules related to its eRPM tools. Reported transactions with respect to a unit will be accepted by the Office of the Interconnection only to the extent that the total of all bilateral sales from the reported unit (including Section 4.6(a) Bilaterals, Section 4.6(b) Bilaterals, and Locational UCAP bilaterals) do not exceed the unit's cleared unforced capacity.

(ii) For purposes of clarity, with respect to all Section 4.6(b) Bilateral transactions, the rights to the capacity shall pass to the buyer at the location of the unit(s) specified in the reported transaction. In no event shall the purchase and sale of the rights to capacity pursuant to a Section 4.6(b) Bilateral constitute a transaction with PJMSettlement or the Office of the Interconnection or a transaction in any auction under this Attachment DD.

(iii) With respect to a Section 4.6(b) Bilateral, the buyer of the cleared capacity shall be considered in the Delivery Year the party to a transaction with PJMSettlement as Counterparty for the cleared capacity at the Capacity Resource Clearing Price published for the applicable auction; provided, however, with respect to all Section 4.6(b) Bilateral transactions, such transactions do not effect a novation of the seller's obligations to make RPM capacity available to PJM pursuant to the terms and conditions originally agreed to by the seller; provided further, however, the buyer shall indemnify PJMSettlement, the LLC, and the Members for any

failure by a seller under a Section 4.6(b) Bilateral to meet any resulting obligations, including the obligation to pay deficiency penalties and charges owed to PJMSettlement, associated with the capacity.

(iv) All payments and related charges associated with a Section 4.6(b) Bilateral shall be arranged between the parties to the contract and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The Office of the Interconnection, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Section 4.6(b) Bilateral capacity contract reported to the Office of the Interconnection under this Attachment DD.

(v) All claims regarding a default of a buyer to a seller under a Section 4.6(b) Bilateral shall be resolved solely between the buyer and the seller.

(c) Locational UCAP Bilateral Transactions.

(i) Market Participants may enter into Locational UCAP bilateral transactions as defined in, and pursuant to the rules set forth in, section 5.3A of this Attachment DD, which shall be reported to the Office of the Interconnection in accordance with this Attachment DD and the LLC's rules related to its eRPM tools.

(ii) For purposes of clarity, with respect to all Locational UCAP bilateral transactions, the rights to the Locational UCAP that are the subject of the Locational UCAP bilateral transaction shall pass to the buyer under the Locational UCAP bilateral contract subject to the provisions of section 5.3A. In no event, shall the purchase and sale of Locational UCAP pursuant to a Locational UCAP bilateral transaction constitute a transaction with the Office of the Interconnection or PJMSettlement, or a transaction in any auction under this Attachment DD.

(iii) A Locational UCAP Seller shall have the obligation to make the capacity available to PJM in the same manner as capacity that has cleared an auction under this Attachment DD and the Locational UCAP Seller shall have all obligations for charges and penalties associated with the capacity that is the subject of the Locational UCAP bilateral contract; provided, however, the buyer shall indemnify PJMSettlement, the LLC, and the Members for any failure by a seller to meet any resulting obligations, including the obligation to pay deficiency penalties and charges owed to PJMSettlement, associated with the capacity. All claims regarding a default of a buyer to a seller under a Locational UCAP bilateral contract shall be resolved solely between the buyer and the seller.

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

(d) The bilateral transactions provided for in this section 4.6 shall be for the physical transfer of capacity to or from a Market Participant and shall be reported to and coordinated with the Office of the Interconnection in accordance with this Attachment DD and pursuant to the Office of the Interconnection's rules relating to its eRPM tools. Bilateral transactions that do not contemplate the physical transfer of capacity to and from a Market Participant are not subject to this Attachment DD and shall not be reported to and coordinated with the Office of the Interconnection. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **5.1 Introduction**

In accordance with the Reliability Assurance Agreement, each Load Serving Entity is obligated to pay a Locational Reliability Charge for each Zone in which it serves load based on the Daily Unforced Capacity Obligation of its loads in such Zone. An LSE may offset the Locational Reliability charge for a Delivery Year, in whole or in part, by: (a) Self-Supply of Capacity Resources in the Base Residual Auction or an Incremental Auction; (b) offering and clearing Capacity Resources in the Base Residual Auction or an Incremental Auction (but only to the extent of the additional resources committed to meet Unforced Capacity Obligations through such Incremental Auction); (c) receiving payments from Capacity Transfer Rights; (d) offering and clearing Qualifying Transmission Upgrades in the Base Residual Auction; or (e) bidding and clearing WLR Load(s) or Wholesale Energy Efficiency Load(s) in the Base Residual Auction.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **5.2 Nomination of Self Supplied Capacity Resources**

A Capacity Market Seller, including a Load Serving Entity, may designate a Capacity Resource as Self-Supply for a Delivery year by submitting a Sell Offer for such resource in the Base Residual Auction or an Incremental Auction in accordance with the procedure and time schedule set forth in the PJM Manuals. The LSE shall indicate its intent in the Sell Offer that the Capacity Resource be deemed Self-Supply and shall indicate whether it is committing the resource regardless of clearing price or with a price bid. Any such Sell Offer shall be subject to the minimum offer price rule set forth in section 5.14(h). Upon receipt of a Self-Supply Sell Offer, the Office of the Interconnection will verify that the designated Capacity Resource is available, in accordance with Section 5.6, and, if the LSE indicated that it is committing the resource regardless of clearing price, will treat such Capacity Resource as committed in the clearing process of the Reliability Pricing Model Auction for which it was offered for such Delivery Year. To address capacity obligation quantity uncertainty associated with the Variable Resource Requirement Curve, a Load Serving Entity may submit a Sell Offer with a contingent designation of a portion of its Capacity Resources as either Self-Supply (to the extent required to meet a portion (as specified by the LSE) of the LSE's peak load forecast in each transmission zone) or as not Self-Supply (to the extent not so required) and subject to an offer price, in accordance with the PJM Manuals. PJMSettlement shall not be the Counterparty with respect to a Capacity Resource designated as Self-Supply. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### **5.3A Locational UCAP Bilateral Transactions**

A Member that has committed capacity or load reduction through an RPM Auction for a Delivery Year may purchase Locational UCAP as replacement capacity from a Member with available uncommitted capacity for such Delivery Year in accordance with the terms of this section and the PJM Manuals. Locational UCAP may not be sold or purchased prior to the date that the final EFORD is established for such Delivery Year, and if designated to PJM by the Locational UCAP Seller as sold prior to the Third Incremental Auction for a Delivery Year must be confirmed by the buyer prior to such Third Incremental Auction as purchased for replacement capacity, or such transaction shall be rejected. In accordance with procedures specified in the PJM Manuals, the parties to a Locational UCAP transaction must notify PJM of such transaction, which notification must specify: i) the buyer, ii) the Locational UCAP Seller, iii) the start and end dates of the transaction (which may not be retroactive), iv) the Locational UCAP amount (no less than 0.1 megawatts), v) the demand or generation resource with available uncommitted capacity that is the basis for the sale, and vi) the Locational Delivery Area in which the resource is located. The Locational UCAP Seller shall be responsible for any charges imposed under sections 7, 8, 9, 10, 10A, 11, or 13, as applicable, for such Delivery Year, with respect to the increment of capacity sold as Locational UCAP; any other settlement of charges under the Locational UCAP transaction shall be between the parties. A purchaser of Locational UCAP may not offer such capacity into an RPM Auction. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **5.4 Reliability Pricing Model Auctions**

The Office of the Interconnection shall conduct the following Reliability Pricing Model Auctions:

a) Base Residual Auction.

PJM shall conduct for each Delivery Year a Base Residual Auction to secure commitments of Capacity Resources, WLR Loads, and Wholesale Energy Efficiency Loads as needed to satisfy the portion of the RTO Unforced Capacity Obligation not satisfied through Self-Supply of Capacity Resources for such Delivery Year. All Self-Supply Capacity Resources must be offered in the Base Residual Auction. As set forth in section 6.6, all other Capacity Resources, and certain other existing generation resources, must be offered in the Base Residual Auction. The Base Residual Auction shall be conducted in the month of May that is three years prior to the start of such Delivery Year. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement from Load Serving Entities through the Locational Reliability Charge during such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and the payments, by Load Serving Entities; provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

b) Scheduled Incremental Auctions.

PJM shall conduct for each Delivery Year a First, a Second, and a Third Incremental Auction for the purposes set forth in section 2.34. The First Incremental Auction shall be conducted in the month of September that is twenty months prior to the start of the Delivery Year; the Second Incremental Auction shall be conducted in the month of July that is ten months prior to the start of the Delivery Year; and the Third Incremental Auction shall be conducted in the month of February that is three months prior to the start of the Delivery Year.

c) Adjustment through Scheduled Incremental Auctions of Capacity Previously Committed.

The Office of the Interconnection shall recalculate the PJM Region Reliability Requirement and each LDA Reliability Requirement prior to each Scheduled Incremental Auction, based on an updated peak load forecast, updated Installed Reserve Margin, WLR Bids that cleared in the Base Residual Auction for that Delivery Year, any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year, and an updated Capacity Emergency Transfer Objective; shall update such reliability requirements for the Third Incremental Auction to reflect any change from such recalculation; and shall update such reliability requirements for the First Incremental Auction or Second Incremental Auction only if the change is greater than or equal to the lesser of: (i) 500 MW or (ii) one percent of the applicable prior reliability requirement. Based on such update, the Office of the Interconnection shall, under certain conditions, seek through the Scheduled



Incremental Auction to secure additional commitments of capacity or release sellers from prior capacity commitments. Specifically, the Office of the Interconnection shall:

1) seek additional capacity commitments to serve the PJM Region or an LDA if the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year (including any reductions to such reliability requirements as a result of any WLR Bids that cleared in the Base Residual Auction for that Delivery Year and any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year) is less than, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; provided, however, that in the First Incremental Auction or Second Incremental Auction the Office of the Interconnection shall seek such additional capacity commitments only if such shortfall is in an amount greater than or equal to the lesser of: (i) 500 MW or (ii) one percent of the applicable prior reliability requirement;

LDA if:

2) seek additional capacity commitments to serve the PJM Region or an

i) the updated PJM Region Reliability Requirement less, *for Delivery Years through May 31, 2018*, the PJM Region Short-Term Resource Procurement Target utilized in the most recent auction conducted for the Delivery Year, or if the LDA Reliability Requirement less, *for Delivery Years through May 31, 2018*, the LDA Short Term Resource Procurement Target applicable to such auction, exceeds the total capacity committed in all prior auctions in such region or area, respectively, for such Delivery Year by an amount greater than or equal to the lesser of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement; or

ii) PJM conducts a Conditional Incremental Auction for such Delivery Year and does not obtain all additional commitments of Capacity Resources sought in such Conditional Incremental Auction, in which case, PJM shall seek in the Incremental Auction the commitments that were sought in the Conditional Incremental Auction but not obtained.

3) seek agreements to release prior capacity commitments to the PJM Region or to an LDA if:

i) the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year (including any reductions to such reliability requirements as a result of any WLR Bids that cleared in the Base Residual Auction for that Delivery Year and any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year) exceeds, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; provided, however, that in the First Incremental Auction or Second Incremental Auction the Office of the Interconnection shall seek such

agreements only if such excess is in an amount greater than or equal to the lesser of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement; or

ii) PJM obtains additional commitments of Capacity Resources in a Conditional Incremental Auction, in which case PJM shall seek release of an equal number of megawatts (comparing the total purchase amount for all LDAs and the PJM Region related to the delay in Backbone Transmission with the total sell amount for all LDAs and the PJM Region related to the delay in Backbone Transmission) of prior committed capacity that would not have been committed had the delayed Backbone Transmission upgrade that prompted the Conditional Incremental Auction not been assumed, at the time of the Base Residual Auction, to be in service for the relevant Delivery Year; and if PJM obtains additional commitments of capacity in an incremental auction pursuant to subsection c.2.ii above, PJM shall seek in such Incremental Auction to release an equal amount of capacity (in total for all LDAs and the PJM Region related to the delay in Backbone Transmission) previously committed that would not have been committed absent the Backbone Transmission upgrade.

4) The cost of payments to Market Sellers for additional Capacity Resources cleared in such auctions, and the credits from payments from Market Sellers for the release of previously committed Capacity Resources, shall be apportioned to Load Serving Entities in the PJM Region or LDA, as applicable, through adjustments to the Locational Reliability Charge for such Delivery Year.

5) PJMSettlement shall be the Counterparty to the sales (including releases) of Capacity Resources that clear in such auctions and to the obligations to pay, and the payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

d) Commitment of Replacement Capacity through Scheduled Incremental Auctions.

Each Scheduled Incremental Auction for each Delivery Year shall allow Capacity Market Sellers that committed Capacity Resources in any prior Reliability Pricing Model Auction for such Delivery Year and Wholesale Entities that committed WLR Loads or Wholesale Energy Efficiency Loads in the Base residual Auction for such Delivery Year to submit Buy Bids for replacement Capacity Resources. Capacity Market Sellers and Wholesale Entities that submit Buy Bids into an Incremental Auction must specify the type of Unforced Capacity desired, i.e., Annual Resource, Extended Summer Demand Resource, or Limited Demand Resource. The need to purchase replacement Capacity Resources may arise for any reason, including but not limited to resource retirement, resource cancellation or construction delay, resource derating, EFORd increase, a decrease in the Nominated Demand Resource Value of a Planned Demand Resource, delay or cancellation of a Qualifying Transmission Upgrade, a decrease in the Nominated WLR Quantity of a WLR Load, or similar occurrences. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement from Capacity Market Buyers and

Wholesale Entities that purchase replacement Capacity Resources in such auction. PJMSettlement shall be the Counterparty to the sales and purchases that clear in such auction, provided, however, PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

e) Conditional Incremental Auction.

PJM shall conduct for any Delivery Year a Conditional Incremental Auction if the in service date of a Backbone Transmission Upgrade that was modeled in the Base Residual Auction is announced as delayed by the Office of the Interconnection beyond July 1 of the Delivery Year for which it was modeled and if such delay causes a reliability criteria violation. If conducted, the Conditional Incremental Auction shall be for the purpose of securing commitments of additional capacity for the PJM Region or for any LDA to address the identified reliability criteria violation. If PJM determines to conduct a Conditional Incremental Auction, PJM shall post on its website the date and parameters for such auction (including whether such auction is for the PJM Region or for an LDA, *and the type of Capacity Resources required*) at least one month prior to the start of such auction. The cost of payments to Market Sellers for Capacity Resources cleared in such auction shall be collected by PJMSettlement from Load Serving Entities in the PJM Region or LDA, as applicable, through an adjustment to the Locational Reliability Charge for such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

## **5.5 Eligibility for Participation in RPM Auctions**

A Capacity Market Seller may submit a Sell Offer for a Capacity Resource in a Base Residual Auction, Incremental Auction, *or Capacity Performance Transition Incremental Auction* only if such seller owns or has the contractual authority to control the output or load reduction capability of such resource and has not transferred such authority to another entity *prior to submitting such Sell Offer*. Capacity Resources must satisfy the capability and deliverability requirements of Schedules 9 and 10 of the PJM Reliability Assurance Agreement, the requirements for Demand Resources or Energy Efficiency Resources in Attachment DD-1 and Schedule 6 of the Reliability Assurance Agreement, *as applicable, and, for the 2018/2019 Delivery Year and subsequent Delivery Years, the criteria in section 5.5A*.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **5.5A Capacity Resource Types**

### **a) Capacity Performance Resources**

*Capacity Performance Resources are Capacity Resources which, to the extent such resources cleared in a Reliability Pricing Model Auction or are otherwise committed as a Capacity Resource, are obligated to deliver energy during the relevant Delivery Year as scheduled and/or dispatched by the Office of Interconnection during the Performance Assessment Hours. As further detailed in Section 10A of this Attachment, Capacity Performance Resources that fail to meet this obligation will be subject to a Non-Performance Assessment Charge, unless excused pursuant to Section 10A(d) of this Attachment. Subject to 5.5A(a)(i)-(ii), the following types of Capacity Resources are eligible to submit a Sell Offer as a Capacity Performance Resource: internal or external Generation Capacity Resources; Annual Demand Resources; Capacity Storage Resources; Annual Energy Efficiency Resources; and Qualifying Transmission Upgrades. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.*

#### **i). Capacity Performance Resource Sell Offer Representations**

*In submitting a Sell Offer for a Capacity Performance Resource in an RPM Auction for a Delivery Year, a Capacity Market Seller is representing that it:*

- A. has made, or is capable of demonstrating that it will make, the necessary investment to ensure the Capacity Resource has the capability for the entire such Delivery Year to provide energy at any time when called upon by the Office of the Interconnection;*
- B. shall be capable of complying with the performance obligations specified in this Attachment DD and in Schedule 1 of the Operating Agreement by the relevant Delivery Year;*
- C. meets the criteria for obtaining an exception to the Capacity Import Limit as contained in section 1.7A of the Reliability Assurance Agreement, to the extent the underlying Capacity Resource is an external Generation Capacity Resource; and*
- D. contemplates the physical delivery of the Capacity Performance Resource underlying such Sell Offer by no later than the commencement of the applicable Delivery Year. A Sell Offer shall not meet the standard of physical delivery, for purposes of this section, if at the time it is submitted in an RPM Auction, the Capacity Market Seller intends to satisfy its obligation for the*

*applicable Delivery Year by subsequently securing a replacement Capacity Performance Resource through either an Incremental Auction or bilateral transaction(s). Capacity Market Sellers acknowledge and agree that the Office of the Interconnection will rely on this representation to meet the physical capacity resource adequacy objectives upon which RPM is based. A Capacity Market Seller that is unable to make such representation shall not submit a Sell Offer for that resource into an RPM Auction. Capacity Market Sellers are cautioned that representations made hereunder that are knowingly false or otherwise inconsistent with the requirements of this section may constitute a violation of, and may subject the Capacity Market Seller to penalties under, the PJM Market Rules and the FERC Market Rules.*

**ii). *Process for Support and Review of Capacity Performance Resource Offers***

- A. The Capacity Market Seller shall provide to the Office of the Interconnection and the Market Monitoring Unit, upon their request, all supporting data and information requested by either the Office of the Interconnection or the Market Monitoring Unit to evaluate whether the underlying Capacity Resource can meet the operational and performance requirements of Capacity Performance Resources. 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.*
- B. The Office of the Interconnection and the Market Monitoring Unit shall review any requested supporting data and information, and the Office of the Interconnection, considering advice and recommendation from the Market Monitoring Unit, shall reject a request for a resource to offer as a Capacity Performance Resource if the Capacity Market Seller does not demonstrate to the satisfaction of the Office of the Interconnection that the resource meets the necessary requirements. The Office of Interconnection shall provide its determination to reject eligibility of the resource as a Capacity Performance Resource, and notify the Market Monitoring Unit, by no later than sixty-five (65) days prior to the date on which the offer period for the applicable RPM Auction commences. 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.*

**b) *Base Capacity Resources***

*For the 2018/2019 and 2019/2020 Delivery Years, following types of Capacity Resources*

*eligible to submit a Sell Offer as a Base Capacity Resource: Generation Capacity Resources, Capacity Storage Resources, Annual Demand Resources, Base Capacity Demand Resources, and Base Capacity Energy Efficiency Resources. Each resource that clears a RPM Auction as a Base Capacity Resource must provide energy output to PJM if called during Performance Assessment Hours occurring in the calendar months of June through September, including any necessary recall of such capacity and energy from service to areas outside the PJM Region. As further detailed in Section 10A of this Attachment, Base Capacity Resources that fail to meet this obligation will be subject to a Non-Performance Assessment Charge, unless excused pursuant to Section 10A(d) of this section. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.*

## 5.6 Sell Offers

Sell Offers shall be submitted or withdrawn via the internet site designated by the Office of the Interconnection, *under* the procedures and time schedule set forth in the PJM Manuals.

### 5.6.1 Specifications

A Sell Offer shall state quantities in increments of 0.1 megawatts and shall specify, as appropriate:

- a) Identification of the Generation Capacity Resource, Demand Resource, *Capacity Storage Resource* or Energy Efficiency Resource on which such Sell Offer is based;
- b) Minimum and maximum megawatt quantity of installed capacity that the Capacity Market Seller is willing to offer (notwithstanding such specification, the product offered shall be Unforced Capacity), or designate as Self-Supply, from a Generation Capacity Resource;
  - i) Price, in dollars and cents per megawatt-day, that will be accepted by the Capacity Market Seller for the megawatt quantity of Unforced Capacity offered from such Generation Capacity Resource.
  - ii) The Sell Offer may take the form of offer segments with varying price-quantity pairs for varying output levels from the underlying resource, but may not take the form of an offer curve with nonzero slope.
- c) EFORD of each Generation Capacity Resource offered.
  - i) If a Capacity Market Seller is offering such resource in a Base Residual Auction, First Incremental Auction, Second Incremental Auction, or Conditional Incremental Auction occurring before the Third Incremental Auction, the Capacity Market Seller shall specify the EFORD to apply to the offer.
  - ii) If a Capacity Market Seller is committing the resource as Self-Supply, the Capacity Market Seller shall specify the EFORD to apply to the commitment.
  - iii) The EFORD applied to the Third Incremental Auction will be the final EFORD established by the Office of the Interconnection six (6) months prior to the Delivery Year, based on the actual EFORD in the PJM Region during the 12-month period ending September 30 that last precedes such Delivery Year.
- d) The Nominated Demand Resource Value for each Demand Resource offered and the Nominated Energy Efficiency Value for each Energy Efficiency Resource offered. The Office of the Interconnection shall, in both cases, convert such value to an Unforced Capacity basis by multiplying such value by the DR Factor (*for Delivery Years through May 31, 2018*) times the Forecast Pool Requirement. Demand Resources shall specify the LDA in which the



Demand Resource is located, including the location of such resource within any Zone that includes more than one LDA as identified on Schedule 10.1 of the RAA.

e) *For Delivery Years through May 31, 2018, a Demand Resource with the potential to qualify as two or more of a Limited Demand Resource, Extended Summer Demand Resource or Annual Demand Resource may submit separate but coupled Sell Offers for each Demand Resource type for which it qualifies at different prices and the auction clearing algorithm will select the Sell Offer that yields the least-cost solution. For such coupled Demand Resource offers, the offer price of an Annual Demand Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Extended Summer Demand Resource offer and the offer price of a Extended Summer Demand Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Limited Demand Resource offer.*

f) *For a Qualifying Transmission Upgrade, the Sell Offer shall identify such upgrade, and the Office of the Interconnection shall determine and certify the increase in CETL provided by such upgrade. The Capacity Market Seller may offer the upgrade with an associated increase in CETL to an LDA in accordance with such certification, including an offer price that will be accepted by the Capacity Market Seller, stated in dollars and cents per megawatt-day as a price difference between a Capacity Resource located outside such an LDA and a Capacity Resource located inside such LDA; and the increase in CETL into such LDA to be provided by such Qualifying Transmission Upgrade, as certified by the Office of the Interconnection.*

g) *For the 2018/2019 and 2019/2020 Delivery Years, each Capacity Market Seller owning or controlling a resource that qualifies as both a Base Capacity Resource and a Capacity Performance Resource may submit separate but coupled Sell Offers for such resource as a Base Capacity Resource and as a Capacity Performance Resource, at different prices, and the auction clearing algorithm will select the Sell Offer that yields the least-cost solution. Submission of a coupled Base Capacity Resource Sell Offer shall be mandatory for any Capacity Performance Resource Sell Offer that exceeds a Sell Offer Price equal to the applicable Net Cost of New Entry. For such coupled Sell Offers, the offer price of a Capacity Performance Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Base Capacity Resource offer.*

(h) *For the 2018/2019 Delivery Year and subsequent Delivery Years, a Capacity Market Seller that owns or controls one or more Capacity Storage Resources, Intermittent Resources, Demand Resources, or Energy Efficiency Resources located within the same Locational Deliverability Area may submit a Sell Offer which represents the aggregated Unforced Capacity value of such resources. For the 2018/2019 and 2019/2020 Delivery Years, any such offer may be submitted as Capacity Performance Resource, Base Capacity Resource, or as a coupled offer for Capacity Performance Resource and Base Capacity Resource, provided that, for any such coupled Sell Offers, the offer price of a Capacity Performance Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Base Capacity Resource offer. For the 2020/2021 Delivery Year and subsequent Delivery Years, any such offer must be submitted as a Capacity Performance Resource.*

(i) Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **5.6.2 Compliance with PJM Credit Policy**

Capacity Market Sellers shall comply with the provisions of the PJM Credit Policy as set forth in Attachment Q to this Tariff, including the provisions specific to the Reliability Pricing Model, prior to submission of Sell Offers in any Reliability Pricing Model Auction. A Capacity Market Seller desiring to submit a Credit-Limited Offer shall specify in its Sell Offer the maximum auction credit requirement, in dollars, and the maximum amount of Unforced Capacity, in megawatts, applicable to its Sell Offer.

#### **5.6.3 [reserved]**

#### **5.6.4 Qualifying Transmission Upgrades**

A Qualifying Transmission Upgrade may not be the subject of any Sell Offer in a Base Residual Auction unless it has been approved by the Office of the Interconnection, including certification of the increase in Import Capability to be provided by such Qualifying Transmission Upgrade, no later than 45 days prior to such Base Residual Auction. No such approval shall be granted unless, at a minimum, a Facilities Study Agreement has been executed with respect to such upgrade, and such upgrade conforms to all applicable standards of the Regional Transmission Expansion Plan process.

#### **5.6.5 Market-based Sell Offers**

Subject to section 6, a Market Seller authorized by FERC to sell electric generating capacity at market-based prices, or that is not required to have such authorization, may submit Sell Offers that specify market-based prices in any Base Residual Auction or Incremental Auction.

#### **5.6.6 Availability of Capacity Resources for Sale**

(a) The Office of the Interconnection shall determine the quantity of megawatts of available installed capacity that each Capacity Market Seller must offer in any RPM Auction pursuant to Section 6.6 of Attachment DD, through verification of the availability of megawatts of installed capacity from: (i) all Generation Capacity Resources owned by or under contract to the Capacity Market Seller, including all Generation Capacity Resources obtained through bilateral contract; (ii) the results of prior Reliability Pricing Model Auctions, if any, for such Delivery Year (including consideration of any restriction imposed as a consequence of a prior failure to offer); and (iii) such other information as may be available to the Office of the Interconnection. The Office of the Interconnection shall reject Sell Offers or portions of Sell Offers for Capacity Resources in excess of the quantity of installed capacity *from such Capacity Market Seller's Capacity Resource* that it determines to be available for sale.

(b) The Office of the Interconnection shall determine the quantity of installed capacity available for sale in a Base Residual Auction or Incremental Auction as of the beginning of the period during which Buy Bids and Sell Offers are accepted for such auction, as applicable, in accordance with the time schedule set forth in the PJM Manuals. Removal of a resource from Capacity Resource status shall not be reflected in the determination of available installed capacity unless the associated unit-specific bilateral transaction is approved, the designation of such resource (or portion thereof) as a network resource for the external load is demonstrated to the Office of the Interconnection, or equivalent evidence of a firm external sale is provided prior to the deadline established therefor. The determination of available installed capacity shall also take into account, as they apply in proportion to the share of each resource owned or controlled by a Capacity Market Seller, any approved capacity modifications, and existing capacity commitments established in a prior RPM Auction, an FRR Capacity Plan, Locational UCAP transactions and/or replacement capacity transactions under this Attachment DD. To enable the Office of the Interconnection to make this determination, no bilateral transactions for Capacity Resources applicable to the period covered by an auction will be processed from the beginning of the period for submission of Sell Offers and Buy Bids, as appropriate, for that auction until completion of the clearing determination for such auction. Processing of such bilateral transactions will reconvene once clearing for that auction is completed. A Generation Capacity Resource located in the PJM Region shall not be removed from Capacity Resource status to the extent the resource is committed to service of PJM loads as a result of an RPM Auction, FRR Capacity Plan, Locational UCAP transaction and/or by designation as a replacement resource under this Attachment DD.

(c) In order for a bilateral transaction for the purchase and sale of a Capacity Resource to be processed by the Office of the Interconnection, both parties to the transaction must notify the Office of the Interconnection of the transfer of the Capacity Resource from the seller to the buyer in accordance with procedures established by the Office of the Interconnection and set forth in the PJM Manuals. If a material change with respect to any of the prerequisites for the application of Section 5.6.6 to the Generation Capacity Resource occurs, the Capacity Resource Owner shall immediately notify the Market Monitoring Unit and the Office of the Interconnection.

## **5.9 Time Standard**

All deadlines for the submission or withdrawal of Sell Offers, WLR Bids, or Buy Bids, or for other purposes specified in this Attachment, shall be determined by the prevailing time observed in the Eastern Time zone.

## 5.10 Auction Clearing Requirements

The Office of the Interconnection shall clear each Base Residual Auction and Incremental Auction for a Delivery Year in accordance with the following:

a) Variable Resource Requirement Curve

The Office of the Interconnection shall determine Variable Resource Requirement Curves for the PJM Region and for such Locational Deliverability Areas as determined appropriate in accordance with subsection (a)(iii) for such Delivery Year to establish the level of Capacity Resources that will provide an acceptable level of reliability consistent with the Reliability Principles and Standards. It is recognized that the variable resource requirement reflected in the Variable Resource Requirement Curve can result in an optimized auction clearing in which the level of Capacity Resources committed for a Delivery Year exceeds the PJM Region Reliability Requirement (*for Delivery Years through May 31, 2018*, less the Short-Term Resource Procurement Target) or Locational Deliverability Area Reliability Requirement (*for Delivery Year through May 31, 2018*, less the Short-Term Resource Procurement Target for the Zones associated with such LDA) for such Delivery Year. For any auction, the Updated Forecast Peak Load, and Short-Term Resource Procurement Target applicable to such auction, shall be used, and Price Responsive Demand from any applicable approved PRD Plan, including any associated PRD Reservation Prices, shall be reflected in the derivation of the Variable Resource Requirement Curves, in accordance with the methodology specified in the PJM Manuals.

i) Methodology to Establish the Variable Resource Requirement Curve

Prior to the Base Residual Auction, in accordance with the schedule in the PJM Manuals, the Office of the Interconnection shall establish the Variable Resource Requirement Curve for the PJM Region as follows:

- Each Variable Resource Requirement Curve shall be plotted on a graph on which Unforced Capacity is on the x-axis and price is on the y-axis;
- For the 2015/2016, 2016/2017, and 2017/2018 Delivery Years, the Variable Resource Requirement Curve for the PJM Region shall be plotted by combining (i) a horizontal line from the y-axis to point (1), (ii) a straight line connecting points (1) and (2), (iii) a straight line connecting points (2) and (3), and (iv) a vertical line from point (3) to the x-axis, where:
  - For point (1), price equals: {the greater of [the Cost of New Entry] or [1.5 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)]} divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus the approved PJM Region Installed Reserve Margin (“IRM”)% minus 3%) divided by (100% plus IRM%)], *and for Delivery Years*

*through May 31, 2018, minus the Short-Term Resource Procurement Target;*

- For point (2), price equals: (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset) divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 1%) divided by (100% plus IRM%)], *and for Delivery Years through May 31, 2018, minus the Short-Term Resource Procurement Target; and*
- For point (3), price equals [0.2 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)] divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 5%) divided by (100% plus IRM%)], *and for Delivery Years through May 31, 2018, minus the Short-Term Resource Procurement Target;*
- For the 2018/2019 Delivery Year and subsequent Delivery Years, the Variable Resource Requirement Curve for the PJM Region shall be plotted by combining (i) a horizontal line from the y-axis to point (1), (ii) a straight line connecting points (1) and (2), and (iii) a straight line connecting points (2) and (3), where:
  - For point (1), price equals: {the greater of [the Cost of New Entry] or [1.5 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)]} divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus the approved PJM Region Installed Reserve Margin (“IRM”)% minus 0.2%) divided by (100% plus IRM%)] minus the Short-Term Resource Procurement Target;
  - For point (2), price equals: [0.75 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)] divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 2.9%) divided by (100% plus IRM%)] minus the Short-Term Resource Procurement Target; and
  - For point (3), price equals zero and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 8.8%) divided by (100% plus IRM%)] minus the Short-Term Resource Procurement Target.

ii) For any Delivery Year, the Office of the Interconnection shall establish a separate Variable Resource Requirement Curve for each LDA for which:

- A. the Capacity Emergency Transfer Limit is less than 1.15 times the Capacity Emergency Transfer Objective, as determined by the Office of the Interconnection in accordance with NERC and Applicable Regional Entity guidelines; or
- B. such LDA had a Locational Price Adder in any one or more of the three immediately preceding Base Residual Auctions; or
- C. such LDA is determined in a preliminary analysis by the Office of the Interconnection to be likely to have a Locational Price Adder, based on historic offer price levels; provided however that for the Base Residual Auction conducted for the Delivery Year commencing on June 1, 2012, the Eastern Mid-Atlantic Region (“EMAR”), Southwest Mid-Atlantic Region (“SWMAR”), and Mid-Atlantic Region (“MAR”) LDAs shall employ separate Variable Resource Requirement Curves regardless of the outcome of the above three tests; and provided further that the Office of the Interconnection may establish a separate Variable Resource Requirement Curve for an LDA not otherwise qualifying under the above three tests if it finds that such is required to achieve an acceptable level of reliability consistent with the Reliability Principles and Standards, in which case the Office of the Interconnection shall post such finding, such LDA, and such Variable Resource Requirement Curve on its internet site no later than the March 31 last preceding the Base Residual Auction for such Delivery Year. The same process as set forth in subsection (a)(i) shall be used to establish the Variable Resource Requirement Curve for any such LDA, except that the Locational Deliverability Area Reliability Requirement for such LDA shall be substituted for the PJM Region Reliability Requirement and, *for Delivery Years through May 31, 2018*, the LDA Short-Term Resource Procurement Target shall be substituted for the PJM Region Short-Term Resource Procurement Target. For purposes of calculating the Capacity Emergency Transfer Limit under this section, all generation resources located in the PJM Region that are, or that qualify to become, Capacity Resources, shall be modeled at their full capacity rating, regardless of the amount of capacity cleared from such resource for the immediately preceding Delivery Year.

For each such LDA, for the 2018/2019 Delivery Year and subsequent Delivery Years, the Office of the Interconnection shall (a) determine the Net Cost of New Entry for each Zone in such LDA, with such Net Cost of New Entry equal to the applicable Cost of New Entry value for such Zone minus the Net Energy and Ancillary Services Revenue Offset value for such Zone, and (b) compute the average of the Net Cost of New Entry

values of all such Zones to determine the Net Cost of New Entry for such LDA; provided however, that the Net Cost of New Entry for an LDA may be greater than, but shall be no less than, the Net Cost of New Entry determined for any other LDA in which the first LDA resides (immediately or successively) including the Net Cost of New Entry for the RTO. The Net Cost of New Entry for use in an LDA in any Incremental Auction for the 2015/2016, 2016/2017, and 2017/2018 Delivery Years shall be the Net Cost of New Entry used for such LDA in the Base Residual Auction for such Delivery Year.

iii) Procedure for ongoing review of Variable Resource Requirement Curve shape.

Beginning with the Delivery Year that commences June 1, 2018, and continuing no later than for every fourth Delivery Year thereafter, the Office of the Interconnection shall perform a review of the shape of the Variable Resource Requirement Curve, as established by the requirements of the foregoing subsection. Such analysis shall be based on simulation of market conditions to quantify the ability of the market to invest in new Capacity Resources and to meet the applicable reliability requirements on a probabilistic basis. Based on the results of such review, PJM shall prepare a recommendation to either modify or retain the existing Variable Resource Requirement Curve shape. The Office of the Interconnection shall post the recommendation and shall review the recommendation through the stakeholder process to solicit stakeholder input. If a modification of the Variable Resource Requirement Curve shape is recommended, the following process shall be followed:

- A) If the Office of the Interconnection determines that the Variable Resource Requirement Curve shape should be modified, Staff of the Office of the Interconnection shall propose a new Variable Resource Requirement Curve shape on or before May 15, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
- B) The PJM Members shall review the proposed modification to the Variable Resource Requirement Curve shape.
- C) The PJM Members shall either vote to (i) endorse the proposed modification, (ii) propose alternate modifications or (iii) recommend no modification, by August 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
- D) The PJM Board of Managers shall consider a proposed modification to the Variable Resource Requirement Curve shape, and the Office of the Interconnection shall file any approved modified Variable Resource Requirement Curve shape 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.

iv) Cost of New Entry

- A) For the Incremental Auctions for the 2015/2016, 2016/2017, and 2017/2018 Delivery Years, the Cost of New Entry for the PJM Region and for each LDA shall be the respective value used in the Base Residual Auction for such Delivery Year and LDA. For the Delivery Year commencing on June 1, 2018, and continuing thereafter unless and until changed pursuant to subsection (B) below, the Cost of New Entry for the PJM Region shall be the average of the Cost of New Entry for each CONE Area listed in this section as adjusted pursuant to subsection (a)(iv)(B).

<b>Geographic Location Within the PJM Region Encompassing These Zones</b>	<b>Cost of New Entry in \$/MW-Year</b>
PS, JCP&L, AE, PECO, DPL, RECO (“CONE Area 1”)	132,200
BGE, PEPCO (“CONE Area 2”)	130,300
AEP, Dayton, ComEd, APS, DQL, ATSI, DEOK, EKPC, Dominion (“CONE Area 3”)	128,900
PPL, MetEd, Penelec (“CONE Area 4”)	130,300

- B) Beginning with the 2019/2020 Delivery Year, the CONE for each CONE Area shall be adjusted to reflect changes in generating plant construction costs based on changes in the Applicable United States Bureau of Labor Statistics (“BLS”) Composite Index, in accordance with the following:

(1) The Applicable BLS Composite Index for any Delivery Year and CONE Area shall be the most recently published twelve-month change, at the time CONE values are required to be posted for the Base Residual Auction for such Delivery Year, in a composite of the BLS Quarterly Census of Employment and Wages for Utility System Construction (weighted 20%), the BLS Producer Price Index for Construction Materials and Components (weighted 50%), and the BLS Producer Price Index Turbines and Turbine Generator Sets (weighted 30%), as each such index is further specified for each CONE Area in the PJM Manuals.

(2) The CONE in a CONE Area shall be adjusted prior to the Base Residual Auction for each Delivery Year by applying the Applicable BLS Composite Index for such CONE Area to the Benchmark CONE for such CONE Area.

(3) The Benchmark CONE for a CONE Area shall be the CONE used for such CONE Area in the Base Residual Auction for the prior Delivery Year (provided, however that the Gross CONE values stated in subsection (a)(iv)(A) above shall be the Benchmark CONE values for the 2018/2019 Delivery Year to which the Applicable BLS Composite Index shall be applied to determine the CONE for subsequent Delivery Years).

(4) Notwithstanding the foregoing, CONE values for any CONE Area for any Delivery Year shall be subject to amendment pursuant to appropriate filings with FERC under the Federal Power Act, including, without limitation, any filings resulting from the process described in section 5.10(a)(vi)(C) or any filing to establish new or revised CONE Areas.

v) Net Energy and Ancillary Services Revenue Offset

- A) The Office of the Interconnection shall determine the Net Energy and Ancillary Services Revenue Offset each year for the PJM Region as (A) the annual average of the revenues that would have been received by the Reference Resource from the PJM energy markets during a period of three consecutive calendar years preceding the time of the determination, based on (1) the heat rate and other characteristics of such Reference Resource; (2) fuel prices reported during such period at an appropriate pricing point for the PJM Region with a fuel transmission adder appropriate for such region, as set forth in the PJM Manuals, assumed variable operation and maintenance expenses for such resource of \$6.47 per MWh, and actual PJM hourly average Locational Marginal Prices recorded in the PJM Region during such period; and (3) an assumption that the Reference Resource would be dispatched for both the Day-Ahead and Real-Time Energy Markets on a Peak-Hour Dispatch basis; plus (B) ancillary service revenues of \$2,199 per MW-year.
- B) For the Incremental Auctions for the 2015/2016, 2016/2017 and 2017/2018 Delivery Years, the Office of the Interconnection will employ for purposes of the Variable Resource Requirement Curves for such Delivery Years the same calculations of the sub-regional Net Energy and Ancillary Services Revenue Offsets that were used in the Base Residual Auctions for such Delivery year and sub-region. For the 2018/2019 Delivery Year and subsequent Delivery Years, the Office of the Interconnection also shall determine a Net Energy and Ancillary Service Revenue Offset each year for each Zone, using the same procedures and methods as set forth in the previous subsection; provided, however, that: (1) the average hourly LMPs for such Zone shall be used in place of the PJM Region average hourly LMPs; (2) if such Zone was not integrated into the PJM Region for the entire applicable period, then the offset shall be calculated using only those whole calendar

years during which the Zone was integrated; and (3) a posted fuel pricing point in such Zone, if available, and (if such pricing point is not available in such Zone) a fuel transmission adder appropriate to such Zone from an appropriate PJM Region pricing point shall be used for each such Zone.

## Curve

### vi) Process for Establishing Parameters of Variable Resource Requirement

- A) The parameters of the Variable Resource Requirement Curve will be established prior to the conduct of the Base Residual Auction for a Delivery Year and will be used for such Base Residual Auction.
- B) The Office of the Interconnection shall determine the PJM Region Reliability Requirement and the Locational Deliverability Area Reliability Requirement for each Locational Deliverability Area for which a Variable Resource Requirement Curve has been established for such Base Residual Auction on or before February 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values will be applied, in accordance with the Reliability Assurance Agreement.
- C) Beginning with the Delivery Year that commences June 1, 2018, and continuing no later than for every fourth Delivery Year thereafter, the Office of the Interconnection shall review the calculation of the Cost of New Entry for each CONE Area.
  - 1) If the Office of the Interconnection determines that the Cost of New Entry values should be modified, the Staff of the Office of the Interconnection shall propose new Cost of New Entry values on or before May 15, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
  - 2) The PJM Members shall review the proposed values.
  - 3) The PJM Members shall either vote to (i) endorse the proposed values, (ii) propose alternate values or (iii) recommend no modification, by August 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
  - 4) The PJM Board of Managers shall consider Cost of New Entry values, and the Office of the Interconnection shall file any approved modified Cost of New Entry values 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.

- D) Beginning with the Delivery Year that commences June 1, 2018, and continuing no later than for every fourth Delivery Year thereafter, the Office of the Interconnection shall review the methodology set forth in this Attachment for determining the Net Energy and Ancillary Services Revenue Offset for the PJM Region and for each Zone.
  - 1) If the Office of the Interconnection determines that the Net Energy and Ancillary Services Revenue Offset methodology should be modified, Staff of the Office of the Interconnection shall propose a new Net Energy and Ancillary Services Revenue Offset methodology on or before May 15, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new methodology would be applied.
  - 2) The PJM Members shall review the proposed methodology.
  - 3) The PJM Members shall either vote to (i) endorse the proposed methodology, (ii) propose an alternate methodology or (iii) recommend no modification, by August 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new methodology would be applied.
  - 4) The PJM Board of Managers shall consider the Net Revenue Offset methodology, and the Office of the Interconnection shall file any approved modified Net Energy and Ancillary Services Revenue Offset values 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.

b) Locational Requirements

The Office of Interconnection shall establish locational requirements prior to the Base Residual Auction to quantify the amount of Unforced Capacity that must be committed in each Locational Deliverability Area, in accordance with the PJM Reliability Assurance Agreement.

c) Resource Requirements and Constraints

Prior to the Base Residual Auction and each Incremental Auction for the Delivery Years starting on June 1, 2014 and ending May 31, 2017, the Office of the Interconnection shall establish the Minimum Annual Resource Requirement and the Minimum Extended Summer Resource Requirement for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. Prior to the Base Residual Auction and Incremental Auctions for *the 2017/2018 Delivery Year*, the Office of the Interconnection shall establish the Limited Resource Constraints and the Sub-Annual Resource Constraints for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. *Prior to the Base Residual Auction and Incremental Auctions for 2018/2019 and 2019/2020 Delivery Years, the Office of the Interconnection shall establish the Base Capacity Demand Resource Constraints, the Base Capacity Resource Constraints, and the Base Capacity WLR Load Constraints for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year.* Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

d) Preliminary PJM Region Peak Load Forecast for the Delivery Year

The Office of the Interconnection shall establish the Preliminary PJM Region Load Forecast for the Delivery Year in accordance with the PJM Manuals by February 1, prior to the conduct of the Base Residual Auction for such Delivery Year.

e) Updated PJM Region Peak Load Forecasts for Incremental Auctions

The Office of the Interconnection shall establish the updated PJM Region Peak Load Forecast for a Delivery Year in accordance with the PJM Manuals by February 1, prior to the conduct of the First, Second, and Third Incremental Auction for such Delivery Year.

## 5.11 Posting of Information Relevant to the RPM Auctions

a) In accordance with the schedule provided in the PJM Manuals, PJM will post the following information for a Delivery Year prior to conducting the Base Residual Auction for such Delivery Year:

i) The Preliminary PJM Region Peak Load Forecast (for the PJM Region, and allocated to each Zone);

ii) The PJM Region Installed Reserve Margin, the Pool-wide average EFORD, the Forecast Pool Requirement, *and all applicable Capacity Import Limits*;

iii) *For the Delivery Years through May 31, 2018*, the Demand Resource Factor;

iv) The PJM Region Reliability Requirement, and the Variable Resource Requirement Curve for the PJM Region, including the details of any adjustments to account for Price Responsive Demand and any associated PRD Reservation Prices;

v) The Locational Deliverability Area Reliability Requirement and the Variable Resource Requirement Curve for each Locational Deliverability Area for which a separate Variable Resource Requirement Curve has been established for such Base Residual Auction, including the details of any adjustments to account for Price Responsive Demand and any associated PRD Reservation Prices, and the CETO and CETL values for all Locational Deliverability Areas;

vi) For the 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 PJM is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year; and for the 2017/2018 Delivery Year, the Limited Resource Constraints and the Sub-Annual Resource Constraints for the PJM Region and for each Locational Deliverability Area for which PJM is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. *For the 2018/2019 and 2019/2020 Delivery Years, the Office of the Interconnection shall establish the Base Capacity Demand Resource Constraints, the Base Capacity Resource Constraints, the Base Capacity WLR Load Constraints for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year;*

vii) Any Transmission Upgrades that are expected to be in service for such Delivery Year, provided that a Transmission Upgrade that is Backbone Transmission satisfies the project development milestones set forth in section 5.11A;

viii) The bidding window time schedule for each auction to be conducted for such Delivery Year; and

ix) The Net Energy and Ancillary Services Revenue Offset values for the PJM Region for use in the Variable Resource Requirement Curves for the PJM Region and each Locational Deliverability Area for which a separate Variable Resource Requirement Curve has been established for such Base Residual Auction.

b) In addition to the information required to be posted by subsection (a), PJM will post for a Delivery Year, at least sixty (60) days prior to conducting the Base Residual Auction for such Delivery Year, the aggregate megawatt quantity of, for the PJM Region, all Self-Supply Exemption requests under section 5.14(h), all Competitive Entry Exemption requests under section 5.14(h), and such exemptions granted in each such category, and to the extent PJM has made any such determination, notice that PJM has determined that one or more state-sponsored or state-mandated procurement processes is Competitive and Non-Discriminatory pursuant to section 5.14(h).

c) The information listed in (a) will be posted and applicable for the First, Second, Third, and Conditional Incremental Auctions for such Delivery Year, except to the extent updated or adjusted as required by other provisions of this Tariff.

d) In accordance with the schedule provided in the PJM Manuals, PJM will post the Final PJM Region Peak Load Forecast and the allocation to each zone of the obligation resulting from such final forecast, following the completion of the final Incremental Auction (including any Conditional Incremental Auction) conducted for such Delivery Year;

e) In accordance with the schedule provided in the PJM Manuals, PJM will advise owners of Generation Capacity Resources of the updated EFORd values for such Generation Capacity Resources prior to the conduct of the Third Incremental Auction for such Delivery Year.

f) After conducting the Reliability Pricing Model Auctions, PJM will post the results of each auction as soon thereafter as possible, including any adjustments to PJM Region or LDA Reliability Requirements to reflect Price Responsive Demand with a PRD Reservation Price equal to or less than the applicable Base Residual Auction clearing price, or to any VRR Curves to reflect commitments of WLR Loads or WEELs with a bid price equal to or less than the applicable Base Residual Auction clearing price. The posted results shall include graphical supply curves that are (a) provided for the entire PJM Region, (b) provided for any Locational Deliverability Area for which there are four (4) or more suppliers, and (c) developed using a formulaic approach to smooth the curves using a statistical technique that fits a smooth curve to the underlying supply curve data while ensuring that the point of intersection between supply and demand curves is at the market clearing price. At such time, PJM also shall post the aggregate megawatt quantity requested and granted in the Self-Supply and Competitive Entry Exemption categories in the EMAAC, MAAC and Rest of RTO LDAs/regions; the aggregate megawatt quantity cleared in the RPM Auction for Self-Supply and Competitive Entry Exemption categories; and the aggregate megawatt quantity of Self-Supply and Competitive Entry Exemptions requested and granted for any LDA other than those specified in the preceding clause if the LDA has more than four new generation projects in the generation interconnection

queue that could have offered into the applicable RPM Auction and the LDA had a separate VRR Curve posted for the applicable RPM Auction.

If PJM discovers an error in the initial posting of auction results for a particular Reliability Pricing Model Auction, it shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 5:00 p.m. of the fifth business day following the initial publication of the results of the auction. After this initial notification, if PJM determines it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the seventh business day following the initial publication of the results of the auction. Thereafter, PJM must post on its Web site any corrected auction results by no later than 5:00 p.m. of the tenth business day following the initial publication of the results of the auction. Should any of the above deadlines pass without the associated action on the part of the Office of the Interconnection, the originally posted results will be considered final. Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced auction results are under publicly noticed review by the FERC.



## 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, WLR Bids, and other inputs to such auction to determine the Sell Offers and the WLR Bids 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;
- all WLR Bids 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; for the 2017/2018 Delivery Year, 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; *and for the 2018/2019 and 2019/2020 Delivery Years, the Base Capacity Demand Resource Constraints, the Base Capacity Resource Constraints, and the Base Capacity WLR Load 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;*
- *For the Delivery Years through May 31, 2018, the PJM Region Reliability Requirement minus the Short-Term Resource Procurement Target;*
- *For the 2018/2019 Delivery Year and subsequent Delivery Years, the PJM Reliability Requirement.*

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. The Variable Resource Requirement Curve for the PJM Region,

or LDA, as applicable, shall shift to the left to reflect the Nominated WLR Quantity, Nominated WEEL Quantity, and WLR Bid Price of any WLR Bids for the PJM Region or such LDA, as applicable, in such RPM Auction. Each such leftward shift shall begin at the price point on the Variable Resource Requirement Curve corresponding to the WLR Bid Price of the WLR Bid, and shall uniformly shift the Variable Resource Requirement Curve to the left in the amount of the combined sum of the Nominated WLR Quantity and Nominated WEEL Quantity times FPR at that price point and all higher price points. 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.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

b)      Scheduled Incremental Auctions.

For purposes of a Scheduled Incremental Auction, the optimization algorithm shall consider:

- *For the Delivery years through May 31, 2018, the PJM Region Reliability Requirement, less the Short-term Resource Procurement Target;*

- *For the 2018/2019 Delivery Year and subsequent Delivery Years, the PJM Reliability Requirement;*
- 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 Conditional Incremental Auction;
- All applicable Capacity Import Limits;
- *For the Delivery Years through May 31, 2018, for each LDA, such LDA's updated Reliability Requirement, less such LDA's Short-Term Resource Procurement Target;*
- *For the 2018/2019 Delivery Year and subsequent Delivery Years, for each LDA, such LDA's updated Reliability Requirement*
- 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; for the 2017/2018 Delivery Year, 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; *and for the 2018/2019 and 2019/2020 Delivery Years, the Base Capacity Demand Resource Constraints and the Base Capacity 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;
- To the extent relevant to any necessary shifting of the Updated VRR Curve Increment or Decrement, the WLR Loads and WEELs previously committed for such Delivery Year; and
- The Unforced Capacity previously committed for such Delivery Year.

(i) When the requirement to seek additional resource commitments in a Scheduled Incremental Auction 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.

(ii) When 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 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, *plus, for the Delivery Years through May 31, 2018, the Short-Term Resource Procurement Target Applicable Share for such auction*, minus (B) 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 (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 5.4(c)(2)(ii), plus (D) the reduction in Unforced Capacity commitments associated with the *transition provisions* of sections 5.14B and 5.14C of this Attachment DD. 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.

(iii) When 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 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, *plus, for the Delivery Years through May 31, 2018, the Short-Term Resource Procurement Target Applicable Share for such auction*, minus (B) 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 (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 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 (D) the reduction in Unforced Capacity commitments associated with the *transition provisions* of sections 5.14B and 5.14C of this Attachment DD; 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.

(iv) If none of the tests for adjustment of capacity procurement in subsections (i), (ii), or (iii) 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 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, *plus, for the Delivery Years through May 31, 2018, the Short-Term Resource Procurement Target Applicable Share for such auction*, minus (B) 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. *For the Delivery Years through May 31, 2018, if more than one of the tests for adjustment of capacity procurement in subsections (i), (ii), or (iii) 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*

(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), (ii), (iii) or (iv) 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), (ii), or (iii) 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) above in the Scheduled Incremental Auctions for such Delivery Year that does not clear such auctions, 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 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 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.

(ix) Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

c) Conditional Incremental Auction

For each 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 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 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.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

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, Sub-Annual Resource Price Decrements, *Base Capacity Demand Resource Price Decrements*, and *Base Capacity 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.

For each Base Residual Auction, the Office of the Interconnection shall determine a WLR Value for Capacity Performance WLR Loads and Capacity Performance WEELs equal to the Capacity Resource Clearing Price for Capacity Performance Resources, as determined in such auction. For the Base Residual Auctions for the 2018/2019 and 2019/2020 Delivery Years, the Office of the Interconnection shall determine a WLR Value for Base Capacity WLR Loads and Base Capacity WEELs equal to the price determined by the auction-clearing algorithm as the optimum price at which to recognize the binding of the Base Capacity WLR Load Constraint or, if such constraint does not bind, such WLR Value shall be equal to the capacity resource clearing price for Base Capacity generation 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, 5.14C, 5.14D, and 5.15) equal to such LSE's Daily Unforced Capacity Obligation in a Zone during such Delivery Year, as may be adjusted pursuant to Schedule 6.2 of the Reliability Assurance Agreement, 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.

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

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.

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 2018/2019 Delivery Year and subsequent Delivery Years, 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. *For purposes of Incremental Auctions for the 2015/2016, 2016/2017 and 2017/2018 Delivery Years, the MOPR Floor Offer Price shall be the same as that used in the Base Residual Auction for such Delivery Year.* 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
CT \$/MW-yr	132,200	130,300	128,900	130,300
CC \$/MW-yr	185,700	176,000	172,600	179,400
IGCC \$/MW-yr	582,042	558,486	547,240	537,306

i) Commencing with the Delivery Year that begins on June 1, 2019, 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 the Applicable BLS Composite Index used for CC plants shall be calculated from the three indices referenced in that section but weighted 25% for the wages index, 60% for the construction materials index, and 15% for the turbines index, and provided further 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 *section 5.14A*. A Demand Resource cleared for a Transition Delivery Year is not viable for purposes of this *section 5.14A* 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 *section 5.14A*, 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 *section 5.14A* 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 *section 5.14A*, 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) and 5.12(b)(iii) 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.

#### **5.14C Demand Response Operational Resource Flexibility Transition Provision for RPM Delivery Years 2015/2016 and 2016/2017**

A. This transition provision applies only to Demand Resources for which a Curtailment Service Provider has existing RPM commitments for the 2015/2016 or 2016/2017 Delivery Years (alternatively referred to in this section 5.14C as “Applicable Delivery Years” and each an “Applicable Delivery Year”) that (i) cannot satisfy the 30-minute notification requirement as described in Section A.2 of Attachment DD-1 of the Tariff and the parallel provision of Schedule 6 of the RAA; (ii) are not excepted from the 30-minute notification requirement as described in Section A.2 of Attachment DD-1 of the Tariff and the parallel provision of Schedule 6 of the RAA; and (iii) cleared in the Base Residual Auction or First Incremental Auction for the 2015/2016 Delivery Year, or cleared in the Base Residual Auction for the 2016/2017 Delivery Year. A Demand Resource meeting these criteria and the Curtailment Service Provider of such a resource are hereafter in this section 5.14C referred to as an “Affected Demand Resource” and an “Affected Curtailment Service Provider,” respectively.

B. For this section 5.14C to apply to an Affected Demand Resource, the Affected Curtailment Service Provider must notify the Office of the Interconnection in writing, with regard to the Affected Demand Resource, of the number of cleared megawatts of Unforced Capacity for the Applicable Delivery Year, by type of Demand Resource (i.e., Limited DR, Annual DR, Extended Summer DR) and by Zone or sub-Zone, by the applicable deadline as follows:

1. For the 2015/2016 Delivery Year, the notice shall be provided by no later than seven (7) days prior to the posting by the Office of the Interconnection of planning parameters for the Third Incremental Auction for the 2015/2016 Delivery Year. Such Affected Curtailment Service Provider that utilizes this transition provision may not sell or offer to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Third Incremental Auction for the 2015/2016 Delivery Year.

2. For the 2016/2017 Delivery Year, the notice shall be provided by no later than seven (7) days prior to the posting by the Office of the Interconnection of planning parameters for the Second Incremental Auction for the 2016/2017 Delivery Year. Such Affected Curtailment Service Provider that utilizes this transition provision may not sell or offer to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Second or Third Incremental Auctions for the 2016/2017 Delivery Year.

3. For the 2016/2017 Delivery Year, the notice shall be provided by no later than seven (7) days prior to the posting by the Office of the Interconnection of planning parameters for the Third Incremental Auction for the 2016/2017 Delivery Year. Such Affected Curtailment Service Provider that utilizes this transition provision must not have sold or offered to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Second Incremental Auction for the 2016/2017 Delivery Year, and may not sell or offer to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Third Incremental Auction for the 2016/2017 Delivery Year.

C. For the Third Incremental Auction for the 2015/2016 Delivery Year and the First, Second, and Third Incremental Auctions for the 2016/2017 Delivery Year, the Office of the Interconnection shall publish aggregate information on the undeliverable megawatts declared under this transition provision (hereafter, “non-viable megawatts”), by type of Demand Resource and by Zone or sub-Zone, concurrently with its posting of planning parameters for the applicable Scheduled Incremental Auction. Non-viable megawatts for a Scheduled Incremental Auction for an Applicable Delivery Year represent those megawatts meeting the criteria of subsection A above and declared in accordance with subsection B above. Prior to each Third Incremental Auction for an Applicable Delivery Year, the Office of the Interconnection shall apply adjustments equal to the declared non-viable megawatt quantity to the quantity of Buy Bid or Sell Offer activity in the upcoming Scheduled Incremental Auctions for the Applicable Delivery Year, as described in sections 5.12(b)(ii) and 5.12(b)(iii) of this Attachment DD. Prior to the Second Incremental Auction for the 2016/2017 Delivery Year, the Office of the Interconnection shall adjust the recalculated PJM Region Reliability Requirement and recalculated LDA Reliability Requirements, as described in section 5.4(c) of this Attachment DD, by the applicable quantity of declared non-viable megawatts, and shall update the PJM Region Reliability Requirement and each LDA Reliability Requirement for such Second Incremental Auction only if the combined change of the applicable adjustment and applicable recalculation is greater than or equal to the lesser of (i) 500 megawatts or (ii) one percent of the prior PJM Region Reliability Requirement or one percent of the prior LDA Reliability Requirement, as applicable.

D. Prior to the start of each Applicable Delivery Year, the Office of the Interconnection shall reduce, by type of Demand Resource and by Zone or sub-Zone, the capacity commitment of each Affected Curtailment Service Provider that utilizes this transition provision for the Applicable Delivery Year based on the non-viable megawatts declared by the Affected Curtailment Service Provider under this transition provision. If the Affected Curtailment Service Provider cleared megawatts from multiple Affected Demand Resources of the same type and Zone or sub-Zone, or cleared megawatts in multiple RPM Auctions for the Applicable Delivery Year, the Office of the Interconnection shall allocate the reduction in capacity commitment by type of Demand

Resource and by Zone or sub-Zone across the applicable Affected Demand Resources and relevant RPM Auctions. Such allocation shall be performed on a pro-rata basis, based on megawatts cleared by the Affected Demand Resources in the relevant RPM Auctions.

E. For each Applicable Delivery Year, an Affected Curtailment Service Provider that utilizes this transition provision for the Applicable Delivery Year relinquishes an Affected Demand Resource's RPM Auction Credits for the amount of capacity commitment reduction as determined under subsection D above. Locational Reliability Charges as described in section 5.14(e) of this Attachment DD are also adjusted accordingly.

***5.14D Capacity Performance and Base Capacity Transition Provision for RPM Delivery Years 2016/2017 and 2017/2018***

A. *This transition provision applies only for procuring Capacity Performance Resources for the 2016/2017 and 2017/2018 Delivery Years.*

B. *For both the 2016/2017 and 2017/2018 Delivery Years, PJM will hold a Capacity Performance Transition Incremental Auction to procure Capacity Performance Resources.*

1. *For each Capacity Performance Transition Incremental Auction, the optimization algorithm shall consider:*

- *the target quantities of Capacity Performance Resources specified below;*
- *the Sell Offers submitted in such auction.*

*The Office of the Interconnection shall submit a Buy Bid based on the quantity of Capacity Performance Resources specified for that Delivery Year. For the 2016/2017 Delivery Year, the Office of the Interconnection shall submit a Buy Bid, at a price no higher than 0.5 times the Net CONE value for the PJM Region determined for the Base Residual Auction for that Delivery Year, for a quantity of Capacity Performance Resources equal to 60 percent of the updated Reliability Requirement for the PJM Region. For the 2017/2018 Delivery Year, the Office of the Interconnection shall submit a Buy Bid, at a price no higher than 0.6 times the Net CONE value for the PJM Region determined for the Base Residual Auction for that Delivery Year, for a quantity of Capacity Performance Resources equal to 70 percent of the updated Reliability Requirement for the PJM Region.*

2. *For each Capacity Performance Transition 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. For the 2016/2017 Delivery Year, the Capacity Resource Clearing Price for any Capacity Performance Transition Incremental Auction shall not exceed 0.5 times the Net CONE value for the PJM Region determined for the Base Residual Auction for that Delivery Year. For the 2017/2018 Delivery Year, the Capacity Resource Clearing Price for any Capacity Performance Transition Incremental Auction shall not exceed 0.6 times the Net*



*CONE value for the PJM Region determined for the Base Residual Auction for that Delivery Year.*

3. *A Capacity Market Seller may offer any Generation Capacity Resource that has not been committed in an FRR Capacity Plan, that qualifies as a Capacity Performance Resource under section 5.5A(a) and that (i) has not cleared an RPM Auction for that Delivery Year; or (ii) has cleared in an RPM Auction for that Delivery Year. A Capacity Market Seller may offer an external Generation Capacity Resource to the extent that such resource: (i) is reasonably expected, by the relevant Delivery Year, to meet all applicable requirements to be treated as equivalent to PJM Region internal generation that is not subject to NERC tagging as an interchange transaction; (ii) has long-term firm transmission service confirmed on the complete transmission path from such resource into PJM; and (iii) is, by written commitment of the Capacity Market Seller, subject to the same obligations imposed on Generation Capacity Resources located in the PJM Region by section 6.6 of Attachment DD of the PJM Tariff to offer their capacity into RPM Auctions.*

4. *Capacity Resources that already cleared an RPM Auction for a Delivery Year, retain the capacity obligations for that Delivery Year, and clear in a Capacity Performance Transition Incremental Auction for the same Delivery Year shall: (i) receive a payment equal to the Capacity Resource Clearing Price as established in that Capacity Performance Transition Incremental Auction; and (ii) not be eligible to receive a payment for clearing in any prior RPM Auction for that Delivery Year.*

D. *All Capacity Performance Resources that clear in a Capacity Performance Transition Incremental Auction will be subject to the Non-Performance Charge set forth in section 10A.*

#### **10A. CHARGES FOR NON-PERFORMANCE AND CREDITS FOR PERFORMANCE**

(a) For the 2018/2019 Delivery Year and any subsequent Delivery Year (and for certain purposes for the 2016/2017 and 2017/2018 Delivery Years as provided in subsections (h) and (i) hereof), each Capacity Market Seller that commits a Capacity Resource for a Delivery Year (whether through an RPM Auction, a bilateral transaction, or as Locational UCAP), and each Locational UCAP Seller that sells Locational UCAP from a Capacity Resource for a Delivery Year, shall be charged to the extent the performance of each of its committed Capacity Resources during all or any part of a clock-hour when an Emergency Action is in effect falls short of the expected performance of such resources (as determined herein) and the revenue from such charges shall be provided to Market Participants with generation or demand response resources that perform during such hour in excess of the level expected based on commitments (if any) of such resources.

(b) Performance shall be measured for purposes of this assessment during each Performance Assessment Hour.

(c) For each Performance Assessment Hour, the Office of the Interconnection shall determine whether, and the extent to which, the actual performance of each Capacity Resource and Locational UCAP has fallen short of the performance expected of such committed Capacity Resource, and the magnitude of any such shortfall, based on the following formula:

*Performance Shortfall = Expected Performance - Actual Performance*

Where the result of such formula is a positive number and where:

*Expected Performance =*

*for Generation Capacity Resources and Capacity Storage Resources: [(Resource Committed Capacity / All Committed Generation and Storage Capacity) \* (All Actual Generation Performance, Storage Resource Performance, Net Energy Imports and Demand Response Bonus Performance)];*

*where*

*Resource Committed Capacity = the total megawatts of Unforced Capacity of the Capacity Resource committed by such Capacity Market Seller or Locational UCAP Seller;*

*All Committed Generation and Storage Capacity = the total megawatts of Unforced Capacity of all Generation Capacity Resources and all Capacity Storage Resources committed by all Capacity Market Sellers, FRR Entities, Locational UCAP Sellers;*

*All Actual Generation Performance and Storage Resource Performance = the total amount of Actual Performance for all generation resources and storage resources during the interval;*

*Net Energy Imports = the sum of interchange transactions importing energy into PJM not including those associated with external Capacity Resources and therefore included in All Actual Generation Performance minus the sum of interchange transactions exporting energy out of PJM, but not less than zero;*

*Demand Response Bonus Performance = the sum of Bonus performance provided by Demand Response resources as calculated in (g) below;*

*and for Demand Resources, Energy Efficiency Resources, and Qualifying Transmission Upgrades: Resource Committed Capacity;*

*where*

*Resource Committed Capacity = the total megawatts of capacity committed from such Capacity Resource committed capacity without making any adjustment for the Forecast Pool Requirement*

*and*

*Actual Performance =*

*for each generation resource, the metered output of energy delivered by such resource plus the resource's real-time reserve or regulation assignment, if any, during the Performance Assessment Hour;*

*for each storage resource, the metered output of energy delivered by such resource plus the resource's real-time reserve or regulation assignment, if any, during the Performance Assessment Hour;*

*for each Demand Resource, the demand response provided by such resource, plus such resource's real-time reserve or regulation assignment, if any, during the Performance Assessment Hour, as established through the PJM demand response settlement procedure consistent with the standards specified in Schedule 6 of the RAA;*

*for each Energy Efficiency Resource, the load reduction quantity approved by PJM subsequent to the pre-delivery year submittal of a post-installation measurement and verification report; and*

*for each Qualified Transmission Upgrade, the megawatt quantity cleared by such Qualified Transmission Upgrade if it is in service during the Performance Assessment Hour, and zero if it is not in service during such Performance Assessment Hour.*

*Such calculation shall encompass all resources located in the area defined by the Emergency Action. For such purpose, Qualifying Transmission Upgrades shall be deemed to be located in*

*the Locational Deliverability Area into which such upgrade increased the Capacity Emergency Transfer Limit, and a Qualifying Transmission Upgrade shall be included in calculations of Expected Performance and Actual Performance only if, and to the extent that, the declared Emergency Action encompasses the Locational Deliverability Area into which such upgrade increased the Capacity Emergency Transfer Limit. The Performance Shortfall shall be calculated for each Performance Assessment Hour, and any committed Capacity Resource for which the above calculation produces a negative number for a Performance Assessment Hour shall not have a Performance Shortfall for such Performance Assessment Hour.*

*(d) Notwithstanding subsection (c) above, a Capacity Resource or Locational UCAP of a Capacity Market Seller or Locational UCAP Seller shall not be considered in the calculation of a Performance Shortfall for a Performance Assessment Hour to the extent such Capacity Resource or Locational UCAP was unavailable during such Performance Assessment Hour solely because the resource on which such Capacity Resource or Locational UCAP is based was on a Generator Planned Outage or Generator Maintenance Outage approved by the Office of the Interconnection, or was not scheduled to operate by the Office of the Interconnection, or was online but was scheduled down, by the Office of the Interconnection, for reasons other than (i) limitations specified by such seller in the resource operating parameters, or (ii) the submission by such seller of a market-based offer higher than its cost-based offer.*

*(e) Subject to the Non-Performance Charge Limit specified in subsection (f) hereof, each Capacity Market Seller and Locational UCAP Seller shall be assessed a Non-Performance Charge for each of its Capacity Resources or Locational UCAP that has a Performance Shortfall for a Performance Assessment Hour based on the following formula, applied to each such resource:*

$$\text{Non-Performance Charge} = \text{Performance Shortfall} * \text{Non-Performance Charge Rate}$$

*Where*

*For Capacity Performance Resources the Non-Performance Charge Rate = (Net Cost of New Entry (stated in terms of installed capacity) for the LDA and Delivery Year for which such calculation is performed \* (365 / 30)*

*and for Base Capacity Resources the Non-Performance Charge Rate = (Weighted Average Resource Clearing Price applicable to the resource \* (365 / 30)*

*(f) The Non-Performance Charge for each Capacity Performance Resource or (including Locational UCAP from such a resource) shall not exceed a Non-Performance Charge Limit equal to, for any calendar month of a Delivery Year, 0.5 times the Net Cost of New Entry times the megawatts of Unforced Capacity committed by such resource times 365; and for a Delivery Year, an amount equal to 1.5 times the Net Cost of New Entry times the megawatts of Unforced Capacity committed by such resource times 365. All references to Net Cost of New Entry in this section 10A shall be to the Net Cost of New Entry for the LDA and Delivery Year for which the calculation is performed. The Non-Performance Charge for each Base Capacity Resource (including Locational UCAP from such a resource) shall not exceed a Non-*

*Performance Charge Limit equal to, for a Delivery Year, an amount equal to the total payments due such Capacity Resource or Locational UCAP under section 5.14 of this Attachment DD for such Delivery Year.*

*(g) Revenues collected from assessment of (1) Non-Performance Charges under this section 10A, and (2) WLR Non-Performance Charges under Schedule 6.2 of the Reliability Assurance Agreement, for a Performance Assessment Hour shall be distributed to each Market Participant, whether or not such Market Participant committed a Capacity Resource, Locational UCAP, WEEL, or WLR Load for a Performance Assessment Hour, that provided energy or load reductions above the levels expected for such resource or load during such hour. For purposes of this provision, the performance expected of a resource or load, and the revenue distribution payment, if any, for a resource or load, shall be determined in accordance with the following formulae:*

*Formula 1: Market Participant Bonus Performance = Actual Performance – Expected Performance*

*And*

*Formula 2: Performance Payment = (Market Participant Bonus Performance / All Market Participants Bonus Performance) \* Non-Performance Charge Revenues.*

*Where the result of Formula 1 is a positive number and where:*

*Actual Performance is as defined in subsection (c), provided, however, that Actual Performance for purposes of this calculation shall not exceed the megawatt level at which such resource was scheduled by the Office of the Interconnection during the Performance Assessment Hours;*

*Expected Performance is as defined in subsection (c), provided, however, that for purposes of this calculation, Expected Performance shall be zero for any resource that is not a Capacity Resource or Locational UCAP, or that is a Capacity Resource or Locational UCAP, but for which the Performance Assessment Hour occurs outside the resource's obligation period, including, without limitation, a Base Capacity Demand Resource or Base Capacity WLR Load providing load reduction during non-summer months; and*

*All Market Participants Bonus Performance is the sum of the results of calculating Formula 1 of this subsection (g) for all Market Participants that have Bonus Performance during such Performance Assessment Hour.*

*(h) The provisions of this section 10A shall apply during the 2016/2017 Delivery Year, provided that:*

- (i) *Non-Performance Charges shall be determined solely for and assessed solely on, Capacity Performance Resources committed for such Delivery Year;*
- (ii) *The Non-Performance Charge shall be 0.5 times the Non-Performance Charge calculated under subsection (e) hereof; and*
- (iii) *The Non-Performance Charge Limit for any calendar month shall be 0.25 times Net Cost of New Entry times the megawatts of Unforced Capacity committed by such resource times 365; and for a Delivery Year shall be 0.75 times Net Cost of New Entry times the megawatts of Unforced Capacity committed by such resource times 365.*

(i) *The provisions of this section 10A shall apply during the 2017-2018 Delivery Year, provided that:*

- (i) *Non-Performance Charges shall be determined solely for, and assessed solely on, Capacity Performance Resources committed for such Delivery Year;*
- (ii) *The Non-Performance Charge shall be 0.6 times the Non-Performance Charge calculated under subsection (e) hereof; and*
- (iii) *The Non-Performance Charge Limit for any calendar month shall be 0.3 times the Net Cost of New Entry times the megawatts of Unforced Capacity committed by such resource times 365; and for a Delivery Year shall be 0.9 times Net Cost of New Entry times the megawatts of Unforced Capacity committed by such resource times 365.*

(j) *The Office of the Interconnection shall bill charges and credits for performance during Performance Assessment Hours within three calendar months after the calendar month that included such Performance Assessment Hours, provided, for any Non-Performance Charge, the amount shall be divided by the number of months remaining in the Delivery Year for which no invoice has been issued, and the resulting amount shall be invoiced each such remaining month in the Delivery Year.*

## **ATTACHMENT DD-1**

Preface: The provisions of this Attachment incorporate into the Tariff for ease of reference the provisions of Schedule 6 of the Reliability Assurance Agreement among Load Serving Entities in the PJM Region. As a result, this Attachment will be modified, subject to FERC approval, so that the terms and conditions set forth herein remain consistent with the corresponding terms and conditions of Schedule 6 of the RAA. Capitalized terms used herein that are not otherwise defined in Attachment DD or elsewhere in this Tariff have the meaning set forth in the RAA.

### **PROCEDURES FOR DEMAND RESOURCES AND ENERGY EFFICIENCY**

Notwithstanding any other provision of this Attachment DD-1, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

A. Parties can partially or wholly offset the amounts payable for the Locational Reliability Charge with Demand Resources that are operated under the direction of the Office of the Interconnection. FRR Entities may reduce their capacity obligations with Demand Resources that are operated under the direction of the Office of the Interconnection and detailed in such entity's FRR Capacity Plan. Demand Resources qualifying under the criteria set forth below may be offered for sale or designated as Self-Supply in the Base Residual Auction, included in an FRR Capacity Plan, or offered for sale in any Incremental Auction, for any Delivery Year for which such resource qualifies. Qualified Demand Resources generally fall in one of three categories, i.e., Guaranteed Load Drop, Firm Service Level, or Direct Load Control, as further specified in section G and the PJM Manuals. Qualified Demand Resources may be provided by a Curtailment Service Provider, notwithstanding that such Curtailment Service Provider is not a Party to this Agreement. Such Curtailment Service Providers must satisfy the requirements hereof and the PJM Manuals.

1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and section F hereof, as applicable, the Office of the Interconnection of the Demand Resource that it is placing under the direction of the Office of the Interconnection. A Party must further notify the Office of the Interconnection whether the resource is a Limited Demand Resource, an Extended Summer Demand Resource, a *Base Capacity Demand Resource*, or an Annual Demand Resource.

2. A Demand Resource must achieve its full load reduction within the following time period:

(a) For the 2014/2015 Delivery Year, Curtailment Service Providers may elect a notification time period from the Office of the Interconnection of 30, 60 or 120 minutes prior to their Demand Resources being required to fully respond to a Load Management Event.

(b) For the 2015/2016 Delivery Year and subsequent Delivery Years, a Demand Resource must be able to fully respond to a Load Management Event within 30 minutes of notification from the Office of the Interconnection. This default 30 minute prior notification shall apply unless a Curtailment Service Provider obtains an exception from the Office of the Interconnection due to physical operational limitations that prevent the Demand Resource from reducing load within that timeframe. In such case, the Curtailment Service Provider shall submit a request for an exception to the 30 minute prior notification requirement to the Office of the Interconnection, at the time the Registration Form for that resource is submitted in accordance with Attachment K-Appendix of this Tariff. The only alternative notification times that the Office of Interconnection will permit, upon approval of an exception request, are 60 minutes and 120 minutes prior to a Load Management Event. The Curtailment Service Provider shall indicate in writing, in the appropriate application, that it seeks an exception to permit a prior notification time of 60 minutes or 120 minutes, and the reason(s) for the requested exception. A Curtailment Service Provider shall not submit a request for an exception to the default 30 minute notification period unless it has done its due diligence to confirm that the Demand Resource is physically incapable of responding within that timeframe based on one or more of the reasons set forth below and as may be further defined in the PJM Manuals and has obtained detailed data and documentation to support this determination.

In order to establish that a Demand Resource is reasonably expected to be physically unable to reduce load in that timeframe, the Curtailment Service Provider that registered the resource must demonstrate that:

- 1) The manufacturing processes for the Demand Resource require gradual reduction to avoid damaging major industrial equipment used in the manufacturing process, or damage to the product generated or feedstock used in the manufacturing process;
- 2) Transfer of load to back-up generation requires time-intensive manual process taking more than 30 minutes;
- 3) On-site safety concerns prevent location from implementing reduction plan in less than 30 minutes; or,
- 4) The Demand Resource is comprised of mass market residential customers or Small Commercial Customers which collectively cannot be notified of a Load Management Event within a 30-minute timeframe due to unavoidable communications latency, in which case the requested notification time shall be no longer than 120 minutes.

The Office of the Interconnection may request data and documentation from the Curtailment Service Provider and such Curtailment Service Provider shall provide to the Office of the Interconnection within three (3) business days of a request therefor, a copy of all of the data and documentation supporting the exception request. Failure to provide a timely response to such request shall cause the exception to terminate the following Operating Day.

At its sole option and discretion, the Office of the Interconnection may review the data and documentation provided by the Curtailment Service Provider to determine if the Demand Resource has met one or more of the criteria above. The Office of the Interconnection will notify



the Curtailment Service Provider in writing of its determination by no later than ten (10) business days after receipt of the data and documentation.

The Curtailment Service Provider shall provide written notification to the Office of the Interconnection of a material change to the facts that supported its exception request within three (3) business days of becoming aware of such material change in facts, and, if the Office of Interconnection determines that the physical limitation criteria above are no longer being met, the Demand Resource shall be subject to the default notification period of 30 minutes immediately upon such determination.

3. The initiation of load reduction, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.

4. The initiation of load reduction upon the request of the Office of the Interconnection is considered a pre-emergency or emergency action and must be implementable prior to a voltage reduction.

5. A Curtailment Service Provider intending to offer for sale or designate for self-supply, a Demand Resource in any RPM Auction, or intending to include a Demand Resource in any FRR Capacity Plan must demonstrate, to PJM's satisfaction, that such resource shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such resource is committed. As part of such demonstration, each such Curtailment Service Provider shall submit a Demand Resource Sell Offer Plan in accordance with the standards and procedures set forth in section A-1 of Schedule 6, Schedule 8.1 (as to FRR Capacity Plans) and the PJM Manuals, no later than 15 business days prior to, as applicable, the RPM Auction in which such resource is to be offered, or the deadline for submission of the FRR Capacity Plan in which such resource is to be included. PJM may verify the Curtailment Service Provider's adherence to the Demand Resource Sell Offer Plan at any time. A Curtailment Service Provider with a PJM-approved Demand Resource Sell Offer Plan will be permitted to offer up to the approved Demand Resource quantity into the subject RPM Auction or include such resource in its FRR Capacity Plan.

6. Selection of a Demand Resource in an RPM Auction results in commitment of capacity to the PJM Region. Demand Resources that are so committed must be registered to participate in the Full Program Option or as a Capacity Only resource of the Emergency Load Response and Pre-Emergency Load Response Program and thus available for dispatch during PJM-declared pre-emergency events and emergency events.

A-1. A Demand Resource Sell Offer Plan shall consist of a completed template document in the form posted on the PJM website, requiring the information set forth below and in the PJM Manuals, and a Demand Resource Officer Certification Form signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification. The Demand Resource Sell Offer Plan must provide information that supports the Demand Resource Provider's intended Demand Resource Sell Offers and demonstrates that the Demand Resources are being offered with the intention that the MW quantity that clears the auction is reasonably

expected to be physically delivered through Demand Resource registrations for the relevant Delivery Year. The Demand Resource Sell Offer Plan shall include all Existing Demand Resources and all Planned Demand Resources that the Demand Resource Provider intends to offer into an RPM Auction or include in an FRR Capacity Plan.

1. Demand Resource Sell Offer Plan Template. The Demand Resource Sell Offer Plan template, in the form provided on the PJM website, shall require the Demand Resource Provider to provide the following information and such other information as specified in the PJM Manuals:

(a) Summary Information. The completed template shall include the Demand Resource Provider's company name, contact information, and the Nominated DR Value in ICAP MWs by Zone/sub-Zone that the Demand Resource Provider intends to offer, stated separately for Existing Demand Resources and Planned Demand Resources. The total Nominated DR Value in MWs for each Zone/sub-Zone shall be the sum of the Nominated DR Value of Existing Demand Resources and the Nominated DR Value of Planned Demand Resources, and shall be the maximum MW amount the Provider intends to offer in the RPM Auction for the indicated Zone/sub-Zone, provided that nothing herein shall preclude the Demand Resource Provider from offering in the auction a lesser amount than the total Nominated DR Value shown in its Demand Resource Sell Offer Plan.

(b) Existing Demand Resources. The Demand Resource Provider shall identify all Existing Demand Resources by identifying end-use customer sites that are currently registered with PJM (even if not registered by such Demand Resource Provider) and that the Demand Resource Provider reasonably expects to have under a contract to reduce load based on PJM dispatch instructions by the start of the auction Delivery Year.

(c) Planned Demand Resources. The Demand Resource Provider shall provide the details of, and key assumptions underlying, the Planned Demand Resource quantities (i.e., all Demand Resource quantities in excess of Existing Demand Resource quantities) contained in the Demand Resource Sell Offer Plan, including:

- (i) key program attributes and assumptions used to develop the Planned Demand Resource quantities, including, but not limited to, discussion of:
- method(s) of achieving load reduction at customer site(s);
  - equipment to be controlled or installed at customer site(s), if any;
  - plan and ability to acquire customers;
  - types of customer targeted;
  - support of market potential and market share for the target customer base, with adjustments for Existing Demand Resource customers within this market and the potential for other Demand Resource Providers targeting the same customers;
  - assumptions regarding regulatory approval of program(s), if applicable; and

- if applicable, Direct Load Control (DLC) program details such as: a description of the cycling control strategy, any assumptions regarding switch operability rate, and a list (and copy) of all load research studies used to develop the estimated nominated ICAP value per customer (i.e., the per-participant impact).

(ii) Zone/sub-Zone information by end-use customer segment for all Nominated DR Values for which an end-use customer site is not identified, to include the number in each segment of end-use customers expected to be registered for the subject Delivery Year, the average Peak Load Contribution per end-use customer for such segment, and the average Nominated DR Value per customer for such segment. End-use customer segments may include residential, commercial, small industrial, medium industrial, and large industrial, as identified and defined in the PJM Manuals, provided that nothing herein or in the Manuals shall preclude the Provider from identifying more specific customer segments within the commercial and industrial categories, if known.

(iii) Information by end-use customer site to the extent required by subsection A-1(1)(c)(iv) or, if not required by such subsection, to the extent known at the time of the submittal of the Demand Resource Sell Offer Plan, to include: customer EDC account number (if known), customer name, customer premise address, Zone/sub-Zone in which the customer is located, end-use customer segment, current Peak Load Contribution value (or an estimate if actual value not known) and an estimate of expected Peak Load Contribution for the subject Delivery Year, and an estimated Nominated DR Value.

(iv) End-use customer site-specific information shall be required for any Zones or sub-Zones identified by PJM pursuant to this subsection for the portion, if any, of a Demand Resource Provider's intended offer in such Zones or sub-Zones that exceeds a Sell Offer threshold determined pursuant to this subsection, as any such excess quantity under such conditions should reflect Planned Demand Resources from end-use customer sites that the Provider has a high degree of certainty it will physically deliver for the subject Delivery Year. In accordance with the procedures in subsection A-1(3) below, PJM shall identify, as requiring site-specific information, all Zones and sub-Zones that comprise any LDA group (from a list of LDA groups stated in the PJM Manuals) in which [the quantity of cleared Demand Resources from the most recent Base Residual Auction] plus [the quantity of Demand Resources included in FRR Capacity Plans for the Delivery Year addressed by the most recent Base Residual Auction] in any Zone or sub-Zone of such LDA group exceeds the greater of:

- the maximum Demand Resources quantity registered with PJM for such Zone for any Delivery Year from the current (at time of plan submission) Delivery Year and the two preceding Delivery Years; and
- the potential Demand Resource quantity for such Zone estimated by PJM based on an independent published assessment of demand response potential that is reasonably applicable to such Zone, as identified in the PJM Manuals.

For each such Zone and sub-Zone, the Sell Offer threshold for each Demand Resource Provider shall be the higher of:

- the Demand Resource Provider's maximum Demand Resource quantity registered with PJM for such Zone/sub-Zone over the current Delivery Year (at the time of plan submission) and two preceding Delivery Years;
- the Demand Resource Provider's maximum for any single Delivery Year of [such provider's cleared Demand Resource quantity] plus [such provider's quantity of Demand Resources included in FRR Capacity Plans] from the three forward Delivery Years addressed by the three most recent Base Residual Auctions for such Zone/sub-Zone; and
- 10 MW.

(d) Schedule. The Demand Resource Provider shall provide an approximate timeline for procuring end-use customer sites as needed to physically deliver the total Nominated DR Value (for both Existing Demand Resources and Planned Demand Resources) by Zone/sub-Zone in the Demand Resource Sell Offer Plan. The Demand Resource Provider must specify the cumulative number of customers and the cumulative Nominated DR Value associated with each end-use customer segment within each Zone/sub-Zone that the Demand Resource Provider expects (at the time of plan submission) to have under contract as of June 1 each year between the time of the auction and the subject Delivery Year.

2. Demand Resource Officer Certification Form. Each Demand Resource Sell Offer Plan must include a Demand Resource Officer Certification, signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification, in the form shown in the PJM Manuals, which form shall include the following certifications:

(a) that the signing officer has reviewed the Demand Resource Sell Offer Plan and the information supplied to PJM in support of the Plan is true and correct as of the date of the certification; and

(b) that the Demand Resource Provider is submitting the Plan with the reasonable expectation, based upon its analyses as of the date of the certification, to physically deliver all megawatts that clear the RPM Auction through Demand Resource registrations by the specified Delivery Year.

As set forth in the form provided in the PJM manuals, the certification shall specify that it does not in any way abridge, expand, or otherwise modify the current provisions of the PJM Tariff, Operating Agreement and/or RAA, or the Demand Resource Provider's rights and obligations thereunder, including the Demand Resource Provider's ability to adjust capacity obligations through participation in PJM incremental auctions and bilateral transactions.

3. Procedures. No later than December 1 prior to the Base Residual Auction for a Delivery Year, PJM shall post to the PJM website a list of Zones and sub-Zones, if any, for which end-use customer site-specific information shall be required under the conditions specified in subsection A-1(1)(c)(iv) above for all RPM Auctions conducted for such Delivery Year. Once so identified, a Zone or sub-Zone shall remain on the list for future Delivery Years until the threshold determined under subsection A-1(1)(c)(iv) above is not exceeded for three consecutive Delivery Years. No later than 15 business days prior to the RPM Auction in which a Demand Resource Provider intends to offer a Demand Resource, the Demand Resource Provider shall submit to PJM a completed Demand Resource Sell Offer Plan template and a Demand Resource Officer Certification Form signed by a duly authorized officer of the Provider. PJM will review all submitted DR Sell Offer Plans. No later than 10 business days prior to the subject RPM Auction, PJM shall notify any Demand Resource Providers that have identified the same end-use customer site(s) in their respective DR Sell Offer Plans for the same Delivery Year. In such event, the MWs associated with such site(s) will not be approved for inclusion in a Sell Offer in an RPM Auction by any of the Demand Resource Providers, unless a Demand Resource Provider provides a letter of support from the end-use customer indicating that it is likely to execute a contract with that Demand Resource Provider for the relevant Delivery Year, or provides other comparable evidence of likely commitment. Such letter of support or other supporting evidence must be provided to PJM no later than 7 business days prior to the subject RPM Auction. If an end-use customer provides letters of support for the same site for the same Delivery Year to multiple Demand Resource Providers, the MWs associated with such end-use customer site shall not be approved as a Demand Resource for any of the Demand Resource Providers. No later than 5 business days prior to the subject RPM Auction, PJM will notify each Demand Resource Provider of the approved Demand Resource quantity, by Zone/sub-Zone, that such Demand Resource Provider is permitted to offer into such RPM Auction.

B. The Unforced Capacity value of a Demand Resource will be determined as:

*for the Delivery Years through May 31, 2018, the product of the Nominated Value of the Demand Resource times the DR Factor, times the Forecast Pool Requirement, and for the 2018/2019 Delivery Year and subsequent Delivery Years, the product of the Nominated Value of the Demand Resource times the Forecast Pool Requirement.* Nominated Values shall be determined and reviewed in accordance with sections I and J, respectively, and the PJM Manuals. The DR Factor is a factor established by the PJM Board with the advice of the Members Committee to reflect the increase in the peak load carrying capability in the PJM

Region due to Demand Resources. Peak load carrying capability is defined to be the peak load that the PJM Region is able to serve at the loss of load expectation defined in the Reliability Principles and Standards. The DR Factor is the increase in the peak load carrying capability in the PJM Region due to Demand Resources, divided by the total Nominated Value of Demand Resources in the PJM Region. The DR Factor will be determined using an analytical program that uses a probabilistic approach to determine reliability. The determination of the DR Factor will consider the reliability of Demand Resources, the number of interruptions, and the total amount of load reduction.

C. Demand Resources offered and cleared in a Base Residual or Incremental Auction shall receive the corresponding Capacity Resource Clearing Price as determined in such auction, in accordance with Attachment DD of the PJM Tariff. For Delivery Years beginning with the Delivery Year that commences on June 1, 2013, any Demand Resources located in a Zone with multiple LDAs shall receive the Capacity Resource Clearing Price applicable to the location of such resource within such Zone, as identified in such resource's offer. Further, the Curtailment Service Provider shall register its resource in the same location within the Zone as specified in its cleared sell offer, and shall be subject to deficiency charges under Attachment DD of this Tariff to the extent it fails to provide the resource in such location consistent with its cleared offer. For either of the Delivery Year commencing on June 1, 2010 or commencing on June 1, 2012, if the location of a Demand Resource is not specified by a Seller in the Sell Offer on an individual LDA basis in a Zone with multiple LDAs, then Demand Resources cleared by such Seller will be paid a DR Weighted Zonal Resource Clearing Price, determined as follows: (i) for a Zone that includes non-overlapping LDAs, calculated as the weighted average of the Resource Clearing Prices for such LDAs, weighted by the cleared Demand Resources registered by such Seller in each such LDA; or (ii) for a Zone that contains a smaller LDA within a larger LDA, calculated treating the smaller LDA and the remaining portion of the larger LDA as if they were separate LDAs, and weight-averaging in the same manner as (i) above.

D. The Party, Electric Distributor, or Curtailment Service Provider that establishes a contractual relationship (by contract or tariff rate) with a customer for load reductions is entitled to receive the compensation specified in section C for a committed Demand Resource, notwithstanding that such provider is not the customer's energy supplier.

E. Any Party hereto shall demonstrate that its Demand Resources performed during periods when load management procedures were invoked by the Office of the Interconnection. The Office of the Interconnection shall adopt and maintain rules and procedures for verifying the performance of such resources, as set forth in section K hereof and the PJM Manuals. In addition, committed Demand Resources that do not comply with the directions of the Office of the Interconnection to reduce load during an emergency shall be subject to the penalty charge set forth in Attachment DD to the PJM Tariff.

F. Parties may elect to place Demand Resources associated with Behind The Meter Generation under the direction of the Office of the Interconnection for a Delivery Year by submitting a Sell Offer for such resource (as Self Supply, or with an offer price) in the Base Residual Auction for such Delivery Year. This election shall remain in effect for the entirety of such Delivery Year. In the event such an election is made, such Behind The Meter Generation

will not be netted from load for the purposes of calculating the Daily Unforced Capacity Obligations under this Agreement.

G. PJM measures Demand Resources in the following *four* ways:

Direct Load Control (DLC) – Load management that is initiated directly by the Curtailment Service Provider’s market operations center or its agent, employing a communication signal to cycle equipment (typically water heaters or central air conditioners). DLC programs are qualified based on load research and customer subscription data. Curtailment Service Providers may rely on the results of load research studies identified in the PJM Manuals to set the per-participant load reduction for DLC programs. Each Curtailment Service Provider relying on DLC load management must periodically update its DLC switch operability rates, in accordance with the PJM Manuals.

Firm Service Level (FSL) – Load management achieved by an end-use customer reducing its load to a pre-determined level (the Firm Service Level), upon notification from the Curtailment Service Provider’s market operations center or its agent.

Guaranteed Load Drop (GLD) – Load management achieved by an end-use customer reducing its load by a pre-determined amount (the Guaranteed Load Drop), upon notification from the Curtailment Service Provider’s market operations center or its agent. Typically, the load reduction is achieved through running customer-owned backup generators, or by shutting down process equipment.

*Customer Baseline Load (CBL) - Load management achieved by an end-use customer as measured by comparing actual metered load to an end-use customer’s Customer Baseline Load or alternative CBL determined in accordance with the provisions of Section 3.3A.2 or 3.3A.2.01 of the Operating Agreement.*

H. Each Curtailment Service Provider must satisfy (or contract with another LSE, Curtailment Service Provider, or electric distribution company to provide) the following requirements:

- A point of contact with appropriate backup to ensure single call notification from PJM and timely execution of the notification process;
- Supplemental status reports, detailing Demand Resources available, as requested by PJM;
- Entry of customer-specific Demand Resource credit information, for planning and verification purposes, into the designated PJM electronic system.
- Customer-specific compliance and verification information for each PJM-initiated Demand Resource event, as well as aggregated Provider load drop data for Provider-initiated events, in accordance with established reporting guidelines.

- Load drop estimates for all Demand Resource events, prepared in accordance with the PJM Manuals.

I. The Nominated Value of each Demand Resource shall be determined consistent with the process for determination of the capacity obligation for the customer.

The Nominated Value for a Firm Service Level customer will be based on the peak load contribution for the customer, as determined by the 5CP methodology utilized to determine other ICAP obligation values. The maximum Demand Resource load reduction value for a Firm Service Level customer will be equal to Peak Load Contribution – Firm Contract Level adjusted for system losses.

The Nominated Value for a Guaranteed Load Drop customer will be the guaranteed load drop amount, adjusted for system losses, as established by the customer's contract with the Curtailment Service Provider. The maximum credit nominated shall not exceed the customer's Peak Load Contribution.

The Nominated Value for a Direct Load Control program will be based on load research and customer subscription. The maximum value of the program is equal to the approved per-participant load reduction multiplied by the number of active participants, adjusted for system losses. The per-participant impact is to be estimated at long-term average local weather conditions at the time of the summer peak.

Customer-specific Demand Resource information (EDC account number, peak load, notification period, etc.) will be entered into the designated PJM electronic system to establish credit values. Additional data may be required, as defined in sections J and K.

J. Nominated Values shall be reviewed based on documentation of customer-specific data and Demand Resource information, to verify the amount of load management available and to set a maximum allowable Nominated Value. Data is provided by both the zone EDC and the Curtailment Service Provider on templates supplied by PJM, and must include the EDC meter number or other unique customer identifier, Peak Load Contribution (5CP), contract firm service level or guaranteed load drop values, applicable loss factor, zone/area location of the load drop, LSE contact information, number of active participants, etc. Such data must be uploaded and approved prior to the first day of the Delivery Year for such resource as a Demand Resource. Curtailment Service Providers must provide this information concurrently to host EDCs.

For Firm Service Level and Guaranteed Load Drop customers, the 5CP values, for the zone and affected customers, will be adjusted to reflect an "unrestricted" peak for a zone, based on information provided by the Curtailment Service Provider. Load drop levels shall be estimated in accordance with guidelines in the PJM Manuals.



For Direct Load Control programs, the Curtailment Service Provider must provide information detailing the number of active participants in each program. Other information on approved DLC programs will be provided by PJM.

K. Compliance is the process utilized to review Provider performance during PJM-initiated Demand Resource events. Compliance will be established for each Provider on an event specific basis for the Curtailment Service Provider's Demand Resources dispatched by the Office of the Interconnection during such event. PJM will establish and communicate reasonable deadlines for the timely submittal of event data to expedite compliance reviews. Compliance reviews will be completed as soon after the event as possible, with the expectation that reviews of a single event will be completed within two months of the end of the month in which the event took place. Curtailment Service Providers are responsible for the submittal of compliance information to PJM for each PJM-initiated event during the compliance period.

*For Load Management Events occurring through the May 31, 2018 and for Load Management Events occurring during the months of June through September of the 2018/2019 Delivery Year and subsequent Delivery Years:*

Compliance for Direct Load Control programs will consider only the transmission of the control signal. Curtailment Service Providers are required to report the time period (during the Demand Resource event) that the control signal was actually sent.

Compliance is checked on an individual customer basis for FSL, by comparing actual load during the event to the firm service level. Curtailment Service Providers must submit actual customer load levels (for the event period) for the compliance report. Compliance for FSL will be based on:

End use customer's current Delivery Year peak load contribution ("PLC") minus the metered load ("Load") multiplied by the loss factor ("LF"). The calculation is represented by:

$$(PLC) - (Load * LF)$$

Compliance is checked on an individual customer basis for GLD, and will be based on:

- (i) the lesser of (a) comparison load used to best represent what the load would have been if PJM did not declare a Load Management Event or the CSP did not initiate a test as outlined in the PJM Manuals, minus the Load and then multiplied by the LF, or (b) the PLC minus the Load multiplied by the LF. A load reduction will only be recognized for capacity compliance if the Load multiplied by the LF is less than the PLC.
- (iii) Curtailment Service Providers must submit actual loads and comparison loads for all hours during the day of the Load Management Event or the Load Management performance test, and for all hours during any other days as required by the Office of the Interconnection to calculate the load reduction. Comparison loads must be

developed from the guidelines in the PJM Manuals, and note which method was employed.

Compliance is averaged over the Load Management Event for non-interval metered DLC programs. Compliance is averaged over the Load Management Event, for each FSL and GLD customer dispatched by the Office of the Interconnection, for at least 30 minutes of the clock hour (i.e., “partial dispatch compliance hour”). The registered capacity commitment for the partial dispatch compliance hour will be prorated based on the number of minutes dispatched during the clock hour and as defined in the Manuals. Curtailment Service Provider may submit 1 minute load data for use in capacity compliance calculations for partial dispatch compliance hours subject to PJM approval and in accordance with the PJM Manuals where: (a) metering meets all Tariff and Manual requirements, (b) 1 minute load data shall be submitted to PJM for all locations on the registration, and (c) 1 minute load data measures energy consumption over the minute.

*For Load Management Events occurring during the months of October through May of the 2018/2019 Delivery Year and subsequent Delivery Years:*

*Compliance is determined on an individual customer basis by comparing actual metered load to an end-use customer’s Customer Baseline Load or alternative CBL determined in accordance with the provisions of Section 3.3A.2 or 3.3A.2.01 of the Operating Agreement.*

*For all Delivery Years:*

Demand Resources may not reduce their load below zero (i.e., export energy into the system). No compliance credit will be given for an incremental load drop below zero. Compliance will be totaled over all FSL and GLD customers and DLC programs to determine a net compliance position for the event for each Provider by Zone, for all Demand Resources committed by such Provider and dispatched by the Office of the Interconnection in the zone. Deficiencies shall be as further determined in accordance with section 11 of Schedule DD to the PJM Tariff.

## L. Energy Efficiency Resources

1. An Energy Efficiency Resource is a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak *summer and winter* periods as described herein) reduction in electric energy consumption at the End-Use Customer's retail site that is not reflected in the peak load forecast prepared for the Delivery Year for which the Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.

2. An Energy Efficiency Resource may be offered as a Capacity Resource in the Base Residual or Incremental Auctions for any Delivery Year beginning on or after June 1, 2012. No later than 30 days prior to the auction in which the resource is to be offered, the

Capacity Market Seller shall submit to the Office of the Interconnection a notice of intent to offer the resource into such auction and a measurement and verification plan. The notice of intent shall include all pertinent project design data, including but not limited to the peak-load contribution of affected customers, a full description of the equipment, device, system or process intended to achieve the load reduction, the load reduction pattern, the project location, the project development timeline, and any other relevant data. Such notice also shall state the seller's proposed Nominated Energy Efficiency Value.

- *For Delivery Years through May 31, 2018, the seller's proposed Nominated Energy Efficiency Value shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday;*
- *For the 2018/2019 and 2019/2020 Delivery Years, the seller's proposed Nominated Energy Efficiency Value for any Base Capacity Energy Efficiency Resource shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday; and*

The measurement and verification plan shall describe the methods and procedures, consistent with the PJM Manuals, for determining the amount of the load reduction and confirming that such reduction is achieved. The Office of the Interconnection shall determine, upon review of such notice, the Nominated Energy Efficiency Value that may be offered in the Reliability Pricing Model Auction.

- *For the 2018/2019 Delivery Year and subsequent Delivery Years, the seller's proposed Nominated Energy Efficiency Value for any Annual Energy Efficiency Resources, shall be the expected average load reduction, for all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday, between the hour ending 15:00 EPT and the hour ending 18:00 EPT. In addition, the expected average load reduction for all days from January 1 through February 28, inclusive, of such Delivery Year that is not a weekend or federal holiday, between the hour ending 8:00 EPT and the hour ending 9:00 EPT and between the hour ending 19:00 EPT and the hour ending 20:00 EPT shall not be less than the Nominated Energy Efficiency Value.*

3. An Energy Efficiency Resource may be offered with a price offer or as Self-Supply. If an Energy Efficiency Resource clears the auction, it shall receive the applicable Capacity Resource Clearing Price, subject to section 5 below. A Capacity Market Seller offering an Energy Efficiency Resource must comply with all applicable credit requirements as set forth in Attachment Q to the PJM Tariff. *For Delivery Years through May 31, 2018, the Unforced Capacity value of an Energy Efficiency Resource offered into an RPM Auction shall be the Nominated Energy Efficiency value times the DR Factor and the Forecast Pool Requirement. For the 2018/2019 Delivery Year and subsequent Delivery Years, the Unforced Capacity value of an Energy Efficiency Resource offered into an RPM Auction shall be the Nominated Energy Efficiency Value times the Forecast Pool Requirement.*

4. An Energy Efficiency Resource that clears an auction for a Delivery Year may be offered in auctions for up to three additional consecutive Delivery Years, but shall not be assured of clearing in any such auction; provided, however, an Energy Efficiency Resource may not be offered for any Delivery Year in which any part of the peak season is beyond the expected life of the equipment, device, system, or process providing the expected load reduction; and provided further that a Capacity Market Seller that offers and clears an Energy Efficiency Resource in a BRA may elect a New Entry Price Adjustment on the same terms as set forth in section 5.14(c) of this Attachment DD.

5. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than 30 days prior to each Auction an updated project status and measurement and verification plan subject to the criteria set forth in the PJM Manuals.

6. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than the start of such Delivery Year, an updated project status and detailed measurement and verification data meeting the standards for precision and accuracy set forth in the PJM Manuals. The final value of the Energy Efficiency Resource during such Delivery Year shall be as determined by the Office of the Interconnection based on the submitted data.

7. The Office of the Interconnection may audit, at the Capacity Market Seller's expense, any Energy Efficiency Resource committed to the PJM Region. The audit may be conducted any time including the Performance Hours of the Delivery Year.

Sections of the  
Reliability Assurance Agreement  
Option A  
(Clean Format)

## **ARTICLE 1 – DEFINITIONS**

Unless the context otherwise specifies or requires, capitalized terms used herein shall have the respective meanings assigned herein or in the Schedules hereto for all purposes of this Agreement (such definitions to be equally applicable to both the singular and the plural forms of the terms defined). Unless otherwise specified, all references herein to Articles, Sections or Schedules, are to Articles, Sections or Schedules of this Agreement. As used in this Agreement:

### **1.1 Agreement**

Agreement shall mean this Reliability Assurance Agreement, together with all Schedules hereto, as amended from time to time.

### **1.1A Annual Demand Resource**

Annual Demand Resource shall mean a resource that is placed under the direction of the Office of the Interconnection during the Delivery Year, and will be available for an unlimited number of interruptions during such Delivery Year by the Office of the Interconnection, and will be capable of maintaining each such interruption between the hours of 10:00AM to 10:00PM Eastern Prevailing Time for the months of June through October and the following May, and 6:00AM through 9:00PM Eastern Prevailing Time for the months of November through April unless there is an Office of the Interconnection approved maintenance outage during October through April. The Annual Demand Resource must be available in the corresponding Delivery year to be offered for sale or Self-Supplied in an RPM Auction, or included as an Annual Demand Resource in an FRR Capacity Plan for the corresponding Delivery Year. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### **1.1B Annual Energy Efficiency Resource**

*Annual Energy Efficiency Resource shall mean a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during the summer and winter periods described in Schedule 6 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.* Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff

records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **1.2 Applicable Regional Entity**

Applicable Regional Entity shall have the same meaning as in the PJM Tariff.

### **1.2A Base Capacity Demand Resource**

*Base Capacity Demand Resource shall mean, for the 2018/2019 and 2019/2020 Delivery Years, a resource that is placed under the direction of the Office of the Interconnection and that will be available June through September of a Delivery Year, and will be available to the Office of the Interconnection for an unlimited number of interruptions during such months, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time. The Base Capacity Demand Resource must be available June through September in the corresponding Delivery Year to be offered for sale or self-supplied in an RPM Auction, or included as an Base Capacity Demand Resource in an FRR Capacity Plan for the corresponding Delivery Year. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.*

### **1.2B Base Capacity Energy Efficiency Resource**

*Base Capacity Energy Efficiency Resource shall mean, for the 2018/2019 and 2019/2020 Delivery Years, a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during the summer peak periods as described in Schedule 6 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the Base Capacity Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.*

### **1.2C Base Capacity Resource**

*Base Capacity Resource shall have the same meaning as in Attachment DD to the PJM*

*Tariff.*

### **1.2D Base Capacity WEEL**

Base Capacity WEEL shall mean, for the 2018/2019 and 2019/2020 Delivery Years, a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6.2 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during the summer peak periods as described in Schedule 6.2 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the Base Capacity WEEL is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.

### **1.2E Base Capacity WLR Load**

Base Capacity WLR Load shall mean, for the 2018/2019 and 2019/2020 Delivery Years, load that is placed by the WLR Provider under the direction of the Office of the Interconnection and that will be available June through September of a Delivery Year, and will be available to the Office of the Interconnection for an unlimited number of interruptions during such months, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time. The Base Capacity WLR Load must be available June through September in the corresponding Delivery Year to be bid in an RPM Auction.

### **1.2F Base Capacity WLR Load Constraint**

Base Capacity WLR Load Constraint shall have the same meaning as in Attachment DD to the PJM Tariff.

### **1.3 Base Residual Auction**

Base Residual Auction shall have the same meaning as in Attachment DD to the PJM Tariff.

### **1.4 Behind The Meter Generation**

Behind The Meter Generation shall mean a generating unit that delivers energy to load without using the Transmission System or any distribution facilities (unless the entity that owns or leases the distribution facilities consented to such use of the distribution facilities and such consent has been demonstrated to the satisfaction of the Office of the Interconnection; provided, however, that Behind The Meter Generation does not include (i) at any time, any portion of such generating unit's capacity that is designated as a Capacity Resource or (ii) in any hour, any portion of the output of such generating unit that is sold to another entity for consumption at another electrical location or into the PJM Interchange Energy Market.



## **1.5 Black Start Capability**

Black Start Capability shall mean the ability of a generating unit or station to go from a shutdown condition to an operating condition and start delivering power without assistance from the power system.

## **1.6 Capacity Emergency Transfer Objective (“CETO”)**

Capacity Emergency Transfer Objective (“CETO”) shall mean the amount of electric energy that a given area must be able to import in order to remain within a loss of load expectation of one event in 25 years when the area is experiencing a localized capacity emergency, as determined in accordance with the PJM Manuals. Without limiting the foregoing, CETO shall be calculated based in part on EFORD determined in accordance with Paragraph C of Schedule 5.

## **1.7 Capacity Emergency Transmission Limit (“CETL”)**

Capacity Emergency Transmission Limit (“CETL”) shall mean the capability of the transmission system to support deliveries of electric energy to a given area experiencing a localized capacity emergency as determined in accordance with the PJM Manuals.

### **1.7A Capacity Import Limit**

Capacity Import Limit shall mean, (a) for the PJM Region, (1) the maximum megawatt quantity of external Generation Capacity Resources that PJM determines for each Delivery Year, through appropriate modeling and the application of engineering judgment, the transmission system can receive, in aggregate at the interface of the PJM Region with all external balancing authority areas and deliver to load in the PJM Region under capacity emergency conditions without violating applicable reliability criteria on any bulk electric system facility of 100kV or greater, internal or external to the PJM Region, that has an electrically significant response to transfers on such interface, minus (2) the then-applicable Capacity Benefit Margin; and (b) for certain source zones identified in the PJM manuals as groupings of one or more balancing authority areas, (1) the maximum megawatt quantity of external Generation Capacity Resources that PJM determines the transmission system can receive at the interface of the PJM Region with each such source zone and deliver to load in the PJM Region under capacity emergency conditions without violating applicable reliability criteria on any bulk electric system facility of 100kV or greater, internal or external to the PJM Region, that has an electrically significant response to transfers on such interface, minus the then-applicable Capacity Benefit Margin times (2) the ratio of the maximum import quantity from each such source zone divided by the PJM total maximum import quantity. As more fully set forth in the PJM Manuals, PJM shall make such determination based on the latest peak load forecast for the studied period, the same computer simulation model of loads, generation and transmission topography employed in the determination of Capacity Emergency Transmission Limit for such Delivery Year, including external facilities from an industry standard model of the loads, generation, and transmission topography of the Eastern Interconnection under peak conditions. PJM shall specify in the PJM Manuals the areas and minimum distribution factors for identifying monitored bulk electric

system facilities that have an electrically significant response to such transfers on the PJM interface. Employing such tools, PJM shall model increased power transfers from external areas into PJM to determine the transfer level at which one or more reliability criteria is violated on any monitored bulk electric system facilities that have an electrically significant response to such transfers. For the PJM Region Capacity Import Limit, PJM shall optimize transfers from other source areas not experiencing any reliability criteria violations as appropriate to increase the Capacity Import Limit. The aggregate megawatt quantity of transfers into PJM at the point where any increase in transfers on the interface would violate reliability criteria will establish the Capacity Import Limit. Notwithstanding the foregoing, a Capacity Resource located outside the PJM Region shall not be subject to the Capacity Import Limit if the Capacity Market Seller seeks an exception thereto by demonstrating to PJM, by no later than five (5) business days prior to the commencement of the offer period for the relevant RPM Auction, that such resource meets all of the following requirements:

(i) it has, at the time such exception is requested, met all applicable requirements to be treated as equivalent to PJM Region internal generation that is not subject to NERC tagging as an interchange transaction, or the Capacity Market Seller has committed in writing that it will meet such requirements, unless prevented from doing so by circumstances beyond the control of the Capacity Market Seller, prior to the relevant Delivery Year;

(ii) at the time such exception is requested, it has long-term firm transmission service confirmed on the complete transmission path from such resource into PJM; and

(iii) it is, by written commitment of the Capacity Market Seller, subject to the same obligations imposed on Generation Capacity Resources located in the PJM Region by section 6.6 of Attachment DD of the PJM Tariff to offer their capacity into RPM Auctions;

provided, however, that (a) the total megawatt quantity of all exceptions granted hereunder for a Delivery Year, plus the Capacity Import Limit for the applicable interface determined for such Delivery Year, may not exceed the total megawatt quantity of Network External Designated Transmission Service on such interface that PJM has confirmed for such Delivery Year; and (b) if granting a qualified exception would result in a violation of the rule in clause (a), PJM shall grant the requested exception but reduce the Capacity Import Limit by the quantity necessary to ensure that the total quantity of Network External Designated Transmission Service is not exceeded.

### ***1.7B Capacity Performance Resource***

*Capacity Performance Resource shall have the same meaning as in Attachment DD to the PJM Tariff.*

### **1.7C Capacity Performance WEEL**

Capacity Performance WEEL shall mean a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6.2 of this Agreement and exceeding then-current building

codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak summer and winter periods described in Schedule 6.2 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the Capacity Performance WEEL is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.

### **1.7D Capacity Performance WLR Load**

Capacity Performance WLR Load shall mean a load that is placed by the WLR Provider under the direction of the Office of the Interconnection during the Delivery Year, and will be available for an unlimited number of interruptions during such Delivery Year by the Office of the Interconnection, and will be capable of maintaining each such interruption between the hours of 10:00AM to 10:00PM Eastern Prevailing Time for the months of June through October and the following May, and 6:00AM through 9:00PM Eastern Prevailing Time for the months of November through April unless there is an Office of the Interconnection approved maintenance outage during October through April. The Capacity Performance WLR Load must be available in the corresponding Delivery year to be bid in an RPM Auction.

### **1.8 Capacity Resources**

Capacity Resources shall mean megawatts of (i) net capacity from *Existing Generation Capacity Resources* or Planned Generation Capacity Resources meeting the requirements of Schedules 9 and 10 that are or will be owned by or contracted to a Party and that are or will be committed to satisfy that Party's obligations under this Agreement, or to satisfy the reliability requirements of the PJM Region, for a Delivery Year; (ii) net capacity from *Existing Generation Capacity Resources* or Planned Generation Capacity Resources not owned or contracted for by a Party which are accredited to the PJM Region pursuant to the procedures set forth in Schedules 9 and 10; and (iii) load reduction capability provided by Demand Resources or Energy Efficiency Resources that are accredited to the PJM Region pursuant to the procedures set forth in Schedule 6. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### **1.9 Capacity Transfer Right**

Capacity Transfer Right shall have the meaning specified in Attachment DD to the PJM Tariff.

#### **1.9.1 Compliance Aggregation Area (CAA)**

“Compliance Aggregation Area” or “CAA” shall have the same meaning as in the PJM Tariff.

### **1.10 Control Area**

Control Area shall mean an electric power system or combination of electric power systems bounded by interconnection metering and telemetry to which a common generation control scheme is applied in order to:

- (a) match the power output of the generators within the electric power system(s) and energy purchased from entities outside the electric power system(s), with the load within the electric power system(s);
- (b) maintain scheduled interchange with other Control Areas, within the limits of Good Utility Practice;
- (c) maintain the frequency of the electric power system(s) within reasonable limits in accordance with Good Utility Practice and the criteria of NERC and each Applicable Regional Entity;
- (d) maintain power flows on transmission facilities within appropriate limits to preserve reliability; and
- (e) provide sufficient generating capacity to maintain operating reserves in accordance with Good Utility Practice.

### **1.11 Daily Unforced Capacity Obligation**

Daily Unforced Capacity Obligation shall have the meaning set forth in Schedule 8 or, as to an FRR Entity, in Schedule 8.1.

### **1.12 Delivery Year**

Delivery Year shall mean a Planning Period for which a Capacity Resource is committed pursuant to the auction procedures specified in Attachment DD to the Tariff or pursuant to an FRR Capacity Plan.

### **1.13 Demand Resource**

Demand Resource or “DR” shall mean a Limited Demand Resource, Extended Summer Demand Resource, Annual Demand Resource, *or Base Capacity Demand Resource* with a demonstrated capability to provide a reduction in demand or otherwise control load in accordance with the requirements of Schedule 6 that offers and that clears load reduction capability in a Base Residual Auction or Incremental Auction or that is committed through an FRR Capacity Plan. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and

until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **1.13A Demand Resource Officer Certification Form**

Demand Resource Officer Certification Form shall mean a certification as to an intended Demand Resource Sell Offer, in accordance with Schedules 6 and 8.1 of this Agreement and the PJM Manuals.

#### **1.14 [Reserved for Future Use]**

#### **1.14A Demand Resource Sell Offer Plan**

Demand Resource Sell Offer Plan shall mean the plan required by Schedules 6 and 8.1 of this Agreement in support of an intended offer of Demand Resources in an RPM Auction, or an intended inclusion of Demand Resources in an FRR Capacity Plan.

#### **1.15 DR Factor**

DR Factor shall mean, *for Delivery Years through May 31, 2018*, that factor approved from time to time by the PJM Board used to determine the unforced capacity value of a Demand Resource in accordance with Schedule 6.

#### **1.16 [Reserved for Future Use]**

#### **1.17 Electric Cooperative**

Electric Cooperative shall mean an entity owned in cooperative form by its customers that is engaged in the generation, transmission, and/or distribution of electric energy.

#### **1.18 Electric Distributor**

Electric Distributor shall mean an entity that owns or leases with rights equivalent to ownership electric distribution facilities that are providing electric distribution service to electric load within the PJM Region.

#### **1.19 Emergency**

Emergency shall mean (i) an abnormal system condition requiring manual or automatic action to maintain system frequency, or to prevent loss of firm load, equipment damage, or tripping of system elements that could adversely affect the reliability of an electric system or the safety of persons or property; or (ii) a fuel shortage requiring departure from normal operating procedures in order to minimize the use of such scarce fuel; or (iii) a condition that requires implementation of emergency procedures as defined in the PJM Manuals.

#### **1.20 End-Use Customer**

End-Use Customer shall mean a Member that is a retail end-user of electricity within the PJM Region.

### **1.20A Energy Efficiency Resource**

Energy Efficiency Resource shall mean a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during *the* periods described in Schedule 6 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention. *Annual Energy Efficiency Resources and Base Capacity Energy Efficiency Resources are types of Energy Efficiency Resources.* Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **1.20A.1 Existing Demand Resource**

Existing Demand Resource shall mean a Demand Resource for which the Demand Resource Provider has identified existing end-use customer sites that are registered for the current Delivery Year with PJM (even if not registered by such Demand Resource Provider) and that the Demand Resource Provider reasonably expects to have under a contract to reduce load based on PJM dispatch instructions by the start of the Delivery Year for which such resource is offered.

### **1.20B Existing Generation Capacity Resource**

Existing Generation Capacity Resource shall mean, for purposes of the must-offer requirement and mitigation of offers for any RPM Auction for a Delivery Year, a Generation Capacity Resource that, as of the date on which bidding commences for such auction: (a) is in *full commercial operation and for which Interconnection Service* has ever commenced for resources located in the PJM Region), or if it is physically and electrically interconnected to an external Control Area and is in full commercial operation (for resources not located in the PJM Region. The additional megawatts of a Generation Capacity Resource that is being, or has been, modified to increase the number of megawatts of available installed capacity thereof shall not be deemed to be an Existing Generation Capacity Resource until such time as those megawatts *are in full commercial operation and Interconnection Service has commenced.*

#### **1.20B.01 Existing WLR Load**

Existing WLR Load shall mean WLR Load for which the WLR Provider has identified existing end-use customer sites that are registered for the current Delivery Year with PJM (even if not registered by such WLR Provider) and that the WLR Provider reasonably expects to serve as the Load Serving Entity and have under a contract to reduce load based on PJM dispatch instructions by the Delivery Year for which such load is bid.

#### **1.20C Extended Summer Demand Resource**

Extended Summer Demand Resource shall mean, *for Delivery Years through May 31, 2018*, a resource that is placed under the direction of the Office of the Interconnection and that will be available June through October and the following May, and will be available for an unlimited number of interruptions during such months by the Office of the Interconnection, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time. The Extended Summer Demand Resource must be available June through October and the following May in the corresponding Delivery Year to be offered for sale or Self-Supplied in an RPM Auction, or included as an Extended Summer Demand Resource in an FRR Capacity Plan for the corresponding Delivery Year. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **1.21 Facilities Study Agreement**

Facilities Study Agreement shall have the same meaning as in the PJM Tariff

#### **1.22 FERC**

FERC shall mean the Federal Energy Regulatory Commission or any successor federal agency, commission or department.

#### **1.23 Firm Point-To-Point Transmission Service**

Firm Point-To-Point Transmission Service shall mean Firm Transmission Service provided pursuant to the rates, terms and conditions set forth in Part II of the PJM Tariff.

#### **1.24 Firm Transmission Service**

Firm Transmission Service shall mean transmission service that is intended to be available at all times to the maximum extent practicable, subject to an Emergency, an unanticipated failure of a facility, or other event beyond the control of the owner or operator of the facility or the Office of the Interconnection.

#### **1.25 Fixed Resource Requirement Alternative or FRR Alternative**

Fixed Resource Requirement Alternative or FRR Alternative shall mean an alternative method for a Party to satisfy its obligation to provide Unforced Capacity hereunder, as set forth in Schedule 8.1 to this Agreement.

#### **1.26 Forecast Pool Requirement**

Forecast Pool Requirement or FPR shall mean the amount equal to one plus the unforced reserve margin (stated as a decimal number) for the PJM Region required pursuant to this Agreement, as approved by the PJM Board pursuant to Schedule 4.1.

#### **1.27 [Reserved]**

#### **1.28 [Reserved]**

#### **1.29 FRR Capacity Plan or FRR Plan**

FRR Capacity Plan or FRR Plan shall mean a long-term plan for the commitment of Capacity Resources to satisfy the capacity obligations of a Party that has elected the FRR Alternative, as more fully set forth in Schedule 8.1 to this Agreement.

#### **1.30 FRR Entity**

FRR Entity shall mean, for the duration of such election, a Party that has elected the FRR Alternative hereunder.

#### **1.31 FRR Service Area**

FRR Service Area shall mean (a) the service territory of an IOU as recognized by state law, rule or order; (b) the service area of a Public Power Entity or Electric Cooperative as recognized by franchise or other state law, rule, or order; or (c) a separately identifiable geographic area that is: (i) bounded by wholesale metering, or similar appropriate multi-site aggregate metering, that is visible to, and regularly reported to, the Office of the Interconnection, or that is visible to, and regularly reported to an Electric Distributor and such Electric Distributor agrees to aggregate the load data from such meters for such FRR Service Area and regularly report such aggregated information, by FRR Service Area, to the Office of the Interconnection; and (ii) for which the FRR Entity has or assumes the obligation to provide capacity for all load (including load growth) within such area. In the event that the service obligations of an Electric Cooperative or Public Power Entity are not defined by geographic boundaries but by physical connections to a defined set of customers, the FRR Service Area in such circumstances shall be defined as all customers physically connected to transmission or distribution facilities of such Electric Cooperative or Public Power Entity within an area bounded by appropriate wholesale aggregate metering as described above.

#### **1.32 Full Requirements Service**



Full Requirements Service shall mean wholesale service to supply all of the power needs of a Load Serving Entity to serve end-users within the PJM Region that are not satisfied by its own generating facilities.

### **1.33 Generation Capacity Resource**

Generation Capacity Resource shall mean a generation unit, or the *contractual* right to capacity from a specified generation unit, that meets the requirements of Schedules 9 and 10 of this Agreement, *and, for generation units that are committed to an FRR Capacity Plan, that meets the requirements of Schedule 8.1 of this Agreement*. A Generation Capacity Resource may be an Existing Generation Capacity Resource or a Planned Generation Capacity Resource.

### **1.34 Generation Owner**

Generation Owner shall mean a Member that owns or leases with rights equivalent to ownership, facilities for the generation of electric energy that are located within the PJM Region. Purchasing all or a portion of the output of a generation facility shall not be sufficient to qualify a Member as a Generation Owner.

### **1.35 Generator Forced Outage**

Generator Forced Outage shall mean an immediate reduction in output or capacity or removal from service, in whole or in part, of a generating unit by reason of an Emergency or threatened Emergency, unanticipated failure, or other cause beyond the control of the owner or operator of the facility, as specified in the relevant portions of the PJM Manuals. A reduction in output or removal from service of a generating unit in response to changes in market conditions shall not constitute a Generator Forced Outage.

### **1.36 Generator Maintenance Outage**

Generator Maintenance Outage shall mean the scheduled removal from service, in whole or in part, of a generating unit in order to perform repairs on specific components of the facility, if removal of the facility qualifies as a maintenance outage pursuant to the PJM Manuals.

### **1.37 Generator Planned Outage**

Generator Planned Outage shall mean the scheduled removal from service, in whole or in part, of a generating unit for inspection, maintenance or repair with the approval of the Office of the Interconnection in accordance with the PJM Manuals.

### **1.38 Good Utility Practice**

Good Utility Practice shall mean any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish

the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather is intended to include acceptable practices, methods, or acts generally accepted in the region.

**1.39 [Reserved]**

**1.40 Incremental Auction**

Incremental Auction shall mean the First Incremental Auction, the Second Incremental Auction, the Third Incremental Auction, or the Conditional Incremental Auction, each as defined in Attachment DD to the PJM Tariff.

**1.41 Interconnection Agreement**

Interconnection Agreement shall have the same meaning as in the PJM Tariff.

**1.42 [Reserved]**

**1.43 IOU**

IOU shall mean an investor-owned utility with substantial business interest in owning and/or operating electric facilities in any two or more of the following three asset categories: generation, transmission, distribution.

**1.43A Limited Demand Resource**

Limited Demand Resource shall mean, *for Delivery Years through May 31, 2018*, a resource that is placed under the direction of the Office of the Interconnection and that will, at a minimum, be available for interruption for at least 10 Load Management Events during the summer period of June through September in the Delivery Year, and will be capable of maintaining each such interruption for at least a 6-hour duration. At a minimum, the Limited Demand Resource shall be available for such interruptions on weekdays, other than NERC holidays, from 12:00PM (noon) to 8:00PM Eastern Prevailing Time. The Limited Demand Resource must be available during the summer period of June through September in the corresponding Delivery Year to be offered for sale or Self-Supplied in an RPM Auction, or included as a Limited Demand Resource in an FRR Capacity Plan for the corresponding Delivery Year. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

**1.44 Load Serving Entity or LSE**

Load Serving Entity or LSE shall mean any entity (or the duly designated agent of such an entity), including a load aggregator or power marketer, (i) serving end-users within the PJM Region, and (ii) that has been granted the authority or has an obligation pursuant to state or local law, regulation or franchise to sell electric energy to end-users located within the PJM Region. Load Serving Entity shall include any end-use customer that qualifies under state rules or a utility retail tariff to manage directly its own supply of electric power and energy and use of transmission and ancillary services.

#### **1.45 Locational Reliability Charge**

Locational Reliability Charge shall mean the charge determined pursuant to Schedule 8.

#### **1.46 Markets and Reliability Committee**

Markets and Reliability Committee shall mean the committee established pursuant to the Operating Agreement as a Standing Committee of the Members Committee.

#### **1.46A Maximum Emergency Service Level**

Maximum Emergency Service Level or MESL of Price Responsive Demand shall mean the level, determined at a PRD Substation level, to which Price Responsive Demand shall be reduced during the Delivery Year when a Maximum Generation Emergency is declared and the Locational Marginal Price exceeds the price associated with such Price Responsive Demand identified by the PRD Provider in its PRD Plan.

#### **1.47 Member**

Member shall mean an entity that satisfies the requirements of Sections 1.24 and 11.6 of the PJM Operating Agreement. In accordance with Article 4 of this Agreement, each Party to this Agreement also is a Member.

#### **1.48 Members Committee**

Members Committee shall mean the committee specified in Section 8 of the PJM Operating Agreement composed of the representatives of all the Members.

#### **1.49 NERC**

NERC shall mean the North American Electric Reliability Council or any successor thereto.

#### **1.49A Network External Designated Transmission Service**

Network External Designated Transmission Service shall mean the quantity of network transmission service confirmed by PJM for use by a market participant to import power and energy from an identified Generation Capacity Resource located outside the PJM Region, upon

demonstration by such market participant that it owns such Generation Capacity Resource, has an executed contract to purchase power and energy from such Generation Capacity Resource, or has a contract to purchase power and energy from such Generation Capacity Resource contingent upon securing firm transmission service from such resource.

#### **1.50 Network Resources**

Network Resources shall have the meaning set forth in the PJM Tariff.

#### **1.51 Network Transmission Service**

Network Transmission Service shall mean transmission service provided pursuant to the rates, terms and conditions set forth in Part III of the PJM Tariff or transmission service comparable to such service that is provided to a Load Serving Entity that is also a Transmission Owner (as that term is defined in the PJM Tariff).

#### **1.51A Nominal PRD Value**

Nominal PRD Value shall mean, as to any PRD Provider, an adjustment, determined in accordance with Schedule 6.1 of this Agreement, to the peak-load forecast used to determine the quantity of capacity sought through an RPM Auction, reflecting the aggregate effect of Price Responsive Demand on peak load resulting from the Price Responsive Demand to be provided by such PRD Provider.

#### **1.52 Nominated Demand Resource Value**

Nominated Demand Resource Value shall have the meaning specified in Attachment DD to the PJM Tariff.

#### **1.52A Nominated WEEL Quantity**

Nominated WEEL Quantity shall mean the MW quantity of load reduction committed by a WEEL Provider in a WLR Bid.

#### **1.53 Nominated WLR Quantity**

Nominated WLR Quantity shall mean the MW quantity of load reduction committed by a WLR Provider in a WLR Bid.

#### **1.54 Non-Retail Behind the Meter Generation**

Non-Retail Behind the Meter Generation shall mean Behind the Meter Generation that is used by municipal electric systems, electric cooperatives, and electric distribution companies to serve load.

#### **1.55 Obligation Peak Load**

Obligation Peak Load shall have the meaning specified in Schedule 8 of this Agreement.

#### **1.56 Office of the Interconnection**

Office of the Interconnection shall mean the employees and agents of PJM Interconnection, L.L.C., subject to the supervision and oversight of the PJM Board, acting pursuant to the Operating Agreement.

#### **1.57 Operating Agreement of PJM Interconnection, L.L.C. or Operating Agreement**

Operating Agreement of PJM Interconnection, L.L.C. or Operating Agreement shall mean that certain agreement, dated April 1, 1997 and as amended and restated June 2, 1997 and as amended from time to time thereafter, among the members of the PJM Interconnection, L.L.C.

#### **1.57A Operating Day**

Operating Day shall have the same meaning as provided in the Operating Agreement.

#### **1.58 Operating Reserve**

Operating Reserve shall mean the amount of generating capacity scheduled to be available for a specified period of an Operating Day to ensure the reliable operation of the PJM Region, as specified in the PJM Manuals.

#### **1.59 Other Supplier**

Other Supplier shall mean a Member that is (i) a seller, buyer or transmitter of electric capacity or energy in, from or through the PJM Region, and (ii) is not a Generation Owner, Electric Distributor, Transmission Owner or End-Use Customer.

#### **1.60 Partial Requirements Service**

Partial Requirements Service shall mean wholesale service to supply a specified portion, but not all, of the power needs of a Load Serving Entity to serve end-users within the PJM Region that are not satisfied by its own generating facilities.

#### ***1.60A Performance Assessment Hour***

*Performance Assessment Hour shall have the meaning specified in Attachment DD of the PJM Tariff.*

#### **1.61 Percentage Internal Resources Required**

Percentage Internal Resources Required shall mean, for purposes of an FRR Capacity Plan, the percentage of the LDA Reliability Requirement for an LDA that must be satisfied with Capacity Resources located in such LDA.

#### **1.62 Party**

Party shall mean an entity bound by the terms of this Agreement.

#### **1.63 PJM**

PJM shall mean the PJM Board and the Office of the Interconnection.

#### **1.64 PJM Board**

PJM Board shall mean the Board of Managers of the PJM Interconnection, L.L.C., acting pursuant to the Operating Agreement.

#### **1.65 PJM Manuals**

PJM Manuals shall mean the instructions, rules, procedures and guidelines established by the Office of the Interconnection for the operation, planning and accounting requirements of the PJM Region.

#### **1.66 PJM Open Access Transmission Tariff or PJM Tariff**

PJM Open Access Transmission Tariff or PJM Tariff shall mean the tariff for transmission service within the PJM Region, as in effect from time to time, including any schedules, appendices, or exhibits attached thereto.

#### **1.67 PJM Region**

PJM Region shall have the same meaning as provided in the Operating Agreement.

#### **1.68 PJM Region Installed Reserve Margin**

PJM Region Installed Reserve Margin shall mean the percent installed reserve margin for the PJM Region required pursuant to this Agreement, as approved by the PJM Board pursuant to Schedule 4.1.

#### **1.69 Planned Demand Resource**

Planned Demand Resource shall mean any Demand Resource that does not currently have the capability to provide a reduction in demand or to otherwise control load, but that is scheduled to be capable of providing such reduction or control on or before the start of the Delivery Year for which such resource is to be committed, as determined in accordance with the requirements of Schedule 6. As set forth in Schedules 6 and 8.1 of this Agreement, a Demand

Resource Provider submitting a DR Sell Offer Plan shall identify as Planned Demand Resources in such plan all Demand Resources in excess of those that qualify as Existing Demand Resources.

### **1.69A Planned External Generation Capacity Resource**

Planned External Generation Capacity Resource shall mean a proposed Generation Capacity Resource, or a proposed increase in the capability of a Generation Capacity Resource, that (a) is to be located outside the PJM Region, (b) participates in the generation interconnection process of a Control Area external to PJM, (c) is scheduled to be physically and electrically interconnected to the transmission facilities of such Control Area on or before the first day of the Delivery Year for which such resource is to be committed to satisfy the reliability requirements of the PJM Region, and (d) is in full commercial operation prior to the first day of such Delivery Year, such that it is sufficient to provide the Installed Capacity set forth in the Sell Offer forming the basis of such resource's commitment to the PJM Region. Prior to participation in any *Base Residual* Auction for such Delivery Year, the Capacity Market Seller must demonstrate that it has *a fully executed system impact study agreement or other documentation which is* (functionally equivalent to a System Impact Study Agreement under the PJM Tariff *or, for resources which are greater than 20MWs participating in a Base Residual Auction for the 2019/2020 Delivery Year and subsequent Delivery Years, an agreement or other documentation which is functionally equivalent to a Facilities Study Agreement under the PJM Tariff*), *with the transmission owner to whose transmission facilities or distribution facilities the resource is being directly connected, and, as applicable, the transmission provider. Prior to participating in any Incremental Auction for such Delivery Year, the Capacity Market Seller must demonstrate it has entered into an interconnection agreement, or such other documentation that is functionally equivalent to an Interconnection Service Agreement under the PJM Tariff, with the transmission owner to whose transmission facilities or distribution facilities the resource is being directly connected, and, as applicable, the transmission provider.* A Planned External Generation Capacity Resource must provide evidence to PJM that it has been studied as a Network Resource, or such other similar interconnection product in such external Control Area, must provide contractual evidence that it has applied for or purchased transmission service to be deliverable to the PJM border, and must provide contractual evidence that it has applied for transmission service to be deliverable to the bus at which energy is to be delivered, the agreements for which must have been executed prior to participation in any Reliability Pricing Model Auction for such Delivery Year. Any *such* resource shall cease to be considered a Planned External Generation Capacity Resource as of the date that interconnection service commences as to such resource in which case it shall become an Existing Generation Capacity Resource for purposes of the mitigation of offers for any RPM Auction for all subsequent Delivery Years.

### **1.70 Planned Generation Capacity Resource**

Planned Generation Capacity Resource shall mean a Generation Capacity Resource, *or additional megawatts to increase the size of a Generation Capacity Resource that is being or has been modified to increase the number of megawatts of available installed capacity thereof,* participating in the generation interconnection process under Part IV, Subpart A of the PJM Tariff, *as applicable,* for which: (i) Interconnection Service is scheduled to commence on or

before the first day of the Delivery Year for which such resource is to be committed to RPM or to an FRR *Capacity Plan*; (ii) *for any such resource seeking to offer into a Base Residual Auction, or for any such resource of 20 MWs or less seeking to offer into a Base Residual Auction*, a System Impact Study Agreement (or, for resources for which a System Impact Study Agreement is not required, has such other agreement or documentation that is functionally equivalent to a System Impact Study Agreement) has been executed prior to the Base Residual Auction for such Delivery Year; (iii) *for any such resource of more than 20 MWs seeking to offer into a Base Residual Auction for the 2019/2020 Delivery Year and subsequent Delivery Years, a Facilities Study Agreement (or, for resources for which a Facilities Study Agreement is not required, has such other agreement or documentation that is functionally equivalent to a Facility Studies Agreement) has been executed prior to the Base Residual Auction for such Delivery Year*; and (iv) an Interconnection Service Agreement has been executed prior to any Incremental Auction for such Delivery Year in which such resource plans to participate. For purposes of the must-offer requirement and mitigation of offers for any RPM Auction for a Delivery Year, a Generation Capacity Resource shall cease to be considered a Planned Generation Capacity Resource as of the date that *the resource is in full commercial operation and* Interconnection Service commences as to such resource, in which case it shall become an Existing Generation Capacity Resource.

#### **1.70A Planned WLR Load**

Planned WLR Load shall mean any WLR Load that does not currently have the capability to provide a reduction in load or to otherwise control load, but that is scheduled to be capable of providing such reduction or control on or before the start of the Delivery Year for which such load is to be committed, as determined in accordance with the requirements of Schedule 6.2 of this Agreement. As set forth in Schedule 6.2, a WLR Provider shall identify in its WLR Plan as Planned WLR Loads all WLR Loads in excess of those that qualify as Existing WLR Loads.

#### **1.71 Planning Period**

Planning Period shall mean the 12 months beginning June 1 and extending through May 31 of the following year, or such other period approved by the Members Committee.

#### **1.71A PRD Curve**

PRD Curve shall mean a price-consumption curve at a PRD Substation level, if available, and otherwise at a Zonal (or sub-Zonal LDA, if applicable) level, that details the base consumption level of Price Responsive Demand and the decreasing consumption levels at increasing prices.

#### **1.71B PRD Provider**

PRD Provider shall mean (i) a Load Serving Entity that provides PRD; or (ii) an entity without direct load serving responsibilities that has entered contractual arrangements with end-



use customers served by a Load Serving Entity that satisfy the eligibility criteria for Price Responsive Demand.

#### **1.71C PRD Provider's Zonal Expected Peak Load Value of PRD**

PRD Provider's Zonal Expected Peak Load Value of PRD shall mean the expected contribution to Delivery Year peak load of a PRD Provider's Price Responsive Demand, were such demand not to be reduced in response to price, based on the contribution of the end-use customers comprising such Price Responsive Demand to the most recent prior Delivery Year's peak demand, escalated to the Delivery Year in question, as determined in a manner consistent with the Office of the Interconnection's load forecasts used for purposes of the RPM Auctions.

#### **1.71D PRD Reservation Price**

PRD Reservation Price shall mean an RPM Auction clearing price identified in a PRD Plan for Price Responsive Demand load below which the PRD Provider desires not to commit the identified load as Price Responsive Demand.

#### **1.71E PRD Substation**

PRD Substation shall mean an electrical substation that is located in the same Zone or in the same sub-Zonal LDA as the end-use customers identified in a PRD Plan or PRD registration and that, in terms of the electrical topography of the Transmission Facilities comprising the PJM Region, is as close as practicable to such loads.

#### **1.71F Price Responsive Demand**

Price Responsive Demand or PRD shall mean end-use customer load registered by a PRD Provider pursuant to Schedule 6.1 of the PJM Reliability Assurance Agreement that have, as set forth in more detail in the PJM Manuals, the metering capability to record electricity consumption at an interval of one hour or less, Supervisory Control capable of curtailing such load (consistent with applicable RERRA requirements) at each PRD Substation identified in the relevant PRD Plan or PRD registration in response to a Maximum Generation Emergency declared by the Office of the Interconnection, and a retail rate structure, or equivalent contractual arrangement, capable of changing retail rates as frequently as an hourly basis, that is linked to or based upon changes in real-time Locational Marginal Prices at a PRD Substation level and that results in a predictable automated response to varying wholesale electricity prices.

#### **1.71G Price Responsive Demand Credit**

Price Responsive Demand Credit shall mean a credit, based on committed Price Responsive Demand, as determined under Schedule 6.1 of this Agreement.

#### **1.71H Price Responsive Demand Plan or PRD Plan**

Price Responsive Demand Plan or PRD Plan shall mean a plan, submitted by a PRD Provider and received by the Office of the Interconnection in accordance with Schedule 6.1 of this Agreement and procedures specified in the PJM Manuals, claiming a peak demand limitation due to Price Responsive Demand to support the determination of such PRD Provider's Nominal PRD Value.

#### **1.72 Public Power Entity**

Public Power Entity shall mean any agency, authority, or instrumentality of a state or of a political subdivision of a state, or any corporation wholly owned by any one or more of the foregoing, that is engaged in the generation, transmission, and/or distribution of electric energy.

#### **1.73 Qualifying Transmission Upgrades**

Qualifying Transmission Upgrades shall have the meaning specified in Attachment DD to the PJM Tariff.

#### **1.74 [Reserved for Future Use]**

#### **1.74A Relevant Electric Retail Regulatory Authority**

Relevant Electric Retail Regulatory Authority or RERRA shall have the meaning specified in the PJM Operating Agreement.

#### **1.75 Reliability Principles and Standards**

Reliability Principles and Standards shall mean the principles and standards established by NERC or an Applicable Regional Entity to define, among other things, an acceptable probability of loss of load due to inadequate generation or transmission capability, as amended from time to time.

#### **1.76 Required Approvals**

Required Approvals shall mean all of the approvals required for this Agreement to be modified or to be terminated, in whole or in part, including the acceptance for filing by FERC and every other regulatory authority with jurisdiction over all or any part of this Agreement.

#### **1.77 Self-Supply**

Self-Supply shall have the meaning provided in Attachment DD to the PJM Tariff.

#### **1.77A Small Commercial Customer**

"Small Commercial Customer" shall have the same meaning as in the PJM Tariff.

#### **1.78 [Reserved for Future Use]**

### **1.79 [Reserved for Future Use]**

### **1.80 State Consumer Advocate**

State Consumer Advocate shall mean a legislatively created office from any State, all or any part of the territory of which is within the PJM Region, and the District of Columbia established, inter alia, for the purpose of representing the interests of energy consumers before the utility regulatory commissions of such states and the District of Columbia and the FERC.

### **1.81 State Regulatory Structural Change**

State Regulatory Structural Change shall mean as to any Party, a state law, rule, or order that, after September 30, 2006, initiates a program that allows retail electric consumers served by such Party to choose from among alternative suppliers on a competitive basis, terminates such a program, expands such a program to include classes of customers or localities served by such Party that were not previously permitted to participate in such a program, or that modifies retail electric market structure or market design rules in a manner that materially increases the likelihood that a substantial proportion of the customers of such Party that are eligible for retail choice under such a program (a) that have not exercised such choice will exercise such choice; or (b) that have exercised such choice will no longer exercise such choice, including for example, without limitation, mandating divestiture of utility-owned generation or structural changes to such Party's default service rules that materially affect whether retail choice is economically viable.

#### **1.81A Supervisory Control**

Supervisory Control shall mean the capability to curtail, in accordance with applicable RERRA requirements, load registered as Price Responsive Demand at each PRD Substation identified in the relevant PRD Plan or PRD registration in response to a Maximum Generation Emergency declared by the Office of the Interconnection. Except to the extent automation is not required by the provisions of this Agreement, the curtailment shall be automated, meaning that load shall be reduced automatically in response to control signals sent by the PRD Provider or its designated agent directly to the control equipment where the load is located without the requirement for any action by the end-use customer.

### **1.82 Threshold Quantity**

Threshold Quantity shall mean, as to any FRR Entity for any Delivery Year, the sum of (a) the Unforced Capacity equivalent (determined using the Pool-Wide Average EFORD) of the Installed Reserve Margin for such Delivery Year multiplied by the Preliminary Forecast Peak Load for which such FRR Entity is responsible under its FRR Capacity Plan for such Delivery Year, plus (b) the lesser of (i) 3% of the Unforced Capacity amount determined in (a) above or (ii) 450 MW. If the FRR Entity is not responsible for all load within a Zone, the Preliminary Forecast Peak Load for such entity shall be the FRR Entity's Obligation Peak Load last

determined prior to the Base Residual Auction for such Delivery Year, times the Base FRR Scaling Factor (as determined in accordance with Schedule 8.1).

### **1.83 Transmission Facilities**

Transmission Facilities shall mean facilities that: (i) are within the PJM Region; (ii) meet the definition of transmission facilities pursuant to FERC's Uniform System of Accounts or have been classified as transmission facilities in a ruling by FERC addressing such facilities; and (iii) have been demonstrated to the satisfaction of the Office of the Interconnection to be integrated with the PJM Region transmission system and integrated into the planning and operation of the PJM Region to serve all of the power and transmission customers within the PJM Region.

### **1.84 Transmission Owner**

Transmission Owner shall mean a Member that owns or leases with rights equivalent to ownership Transmission Facilities. Taking transmission service shall not be sufficient to qualify a Member as a Transmission Owner.

### **1.85 Transmission Owners Agreement**

Transmission Owners Agreement shall mean that certain Consolidated Transmission Owners Agreement, dated as of December 15, 2005 and as amended from time to time, among transmission owners within the PJM Region.

### **1.86 Unforced Capacity**

Unforced Capacity shall mean installed capacity rated at summer conditions that is not on average experiencing a forced outage or forced derating, calculated for each Capacity Resource on the 12-month period from October to September without regard to the ownership of or the contractual rights to the capacity of the unit.

### **1.87 WEEL Provider**

WEEL Provider shall mean a Wholesale Entity that commits to provide, or provides, a Wholesale Energy Efficiency Load for a Delivery Year.

### **1.87A Wholesale Energy Efficiency Load or WEEL**

Wholesale Energy Efficiency Load or WEEL shall mean a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6.2 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during the periods as described in Schedule 6.2 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the WEEL is proposed, and that is fully implemented at all times during such Delivery

Year, without any requirement of notice, dispatch, or operator intervention. Capacity Performance WEEL and Base Capacity WEEL are types of Wholesale Energy Efficiency Loads.

#### **1.87B Wholesale Entity**

Wholesale Entity shall mean: (i) a Party; or, (ii) an entity that shall become a Party before or during the Delivery Year for which WLR is identified.

#### **1.87C Wholesale Load Reduction or WLR**

Wholesale Load Reduction or WLR shall mean a commitment by a Load Serving Entity to reduce the load served or to be served by such Load Serving Entity during a pre-emergency or emergency action at the request of the Office of the Interconnection.

#### **1.87D WLR Bid**

WLR Bid shall mean a bid submitted in a Base Residual Auction to provide a Wholesale Load Reduction or a Wholesale Energy Efficiency Load.

#### **1.87E WLR Bid Price**

WLR Bid Price shall mean a specified minimum clearing price in an RPM Auction at which a WLR Provider or WEEL Provider is willing to commit a Wholesale Load Reduction or a Wholesale Energy Efficiency Load.

#### **1.87F WLR Load**

WLR Load shall mean identified load served or to be served by a Load Serving Entity that provides the basis for a Wholesale Load Reduction reflected in a WLR Bid by such Load Serving Entity.

#### **1.87G WLR Provider**

WLR Provider shall mean a Wholesale Entity that commits to provide, or provides, a Wholesale Load Reduction by any WLR Load.

#### **1.87H WLR Value**

WLR Value shall mean the value assigned to a Wholesale Load Reduction or to a Wholesale Energy Efficiency Load in the auction in which it is committed, as determined in accordance with Schedule 6.2 of this Agreement.

#### **1.88 Zonal Capacity Price**

Zonal Capacity Price shall mean the price of Unforced Capacity in a Zone that an LSE that has not elected the FRR Alternative is obligated to pay for a Delivery Year as determined pursuant to Attachment DD to the PJM Tariff.

#### **1.89 Zone or Zonal**

Zone or Zonal shall refer to an area within the PJM Region, as set forth in Schedule 15, or as such areas may be (i) combined as a result of mergers or acquisitions or (ii) added as a result of the expansion of the boundaries of the PJM Region. A Zone shall include any Non-Zone Network Load (as defined in the PJM Tariff) located outside the PJM Region that is served from such Zone under Schedule H-A of the PJM Tariff.

## SCHEDULE 6

### **PROCEDURES FOR DEMAND RESOURCES AND ENERGY EFFICIENCY**

Notwithstanding any other provision of this Schedule 6, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

A. Parties can partially or wholly offset the amounts payable for the Locational Reliability Charge with Demand Resources that are operated under the direction of the Office of the Interconnection. FRR Entities may reduce their capacity obligations with Demand Resources that are operated under the direction of the Office of the Interconnection and detailed in such entity's FRR Capacity Plan. Demand Resources qualifying under the criteria set forth below may be offered for sale or designated as Self-Supply in the Base Residual Auction, included in an FRR Capacity Plan, or offered for sale in any Incremental Auction, for any Delivery Year for which such resource qualifies. Qualified Demand Resources generally fall in one of three categories, i.e., Guaranteed Load Drop, Firm Service Level, or Direct Load Control, as further specified in section G and the PJM Manuals. Qualified Demand Resources may be provided by a Curtailment Service Provider, notwithstanding that such Curtailment Service Provider is not a Party to this Agreement. Such Curtailment Service Providers must satisfy the requirements hereof and the PJM Manuals.

1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and section F hereof, as applicable, the Office of the Interconnection of the Demand Resource that it is placing under the direction of the Office of the Interconnection. A Party must further notify the Office of the Interconnection whether the resource is a Limited Demand Resource, an Extended Summer Demand Resource, a *Base Capacity Demand Resource* or an Annual Demand Resource.

2. A Demand Resource must achieve its full load reduction within the following time period:

(a) For the 2014/2015 Delivery Year, Curtailment Service Providers may elect a notification time period from the Office of the Interconnection of 30, 60 or 120 minutes prior to their Demand Resources being required to fully respond to a Load Management Event.

(b) For the 2015/2016 Delivery Year and subsequent Delivery Years, a Demand Resource must be able to fully respond to a Load Management Event within 30 minutes of notification from the Office of the Interconnection. This default 30 minute prior notification shall apply unless a Curtailment Service Provider obtains an exception from the Office of the Interconnection due to physical operational limitations that prevent the Demand Resource from reducing load within that timeframe. In such case, the Curtailment Service Provider shall submit a request for an exception to the 30 minute prior notification requirement to the Office of the Interconnection, at the time the Registration Form for that resource is submitted in accordance with

Attachment K-Appendix of this Tariff. The only alternative notification times that the Office of Interconnection will permit, upon approval of an exception request, are 60 minutes and 120 minutes prior to a Load Management Event. The Curtailment Service Provider shall indicate in writing, in the appropriate application, that it seeks an exception to permit a prior notification time of 60 minutes or 120 minutes, and the reason(s) for the requested exception. A Curtailment Service Provider shall not submit a request for an exception to the default 30 minute notification period unless it has done its due diligence to confirm that the Demand Resource is physically incapable of responding within that timeframe based on one or more of the reasons set forth below and as may be further defined in the PJM Manuals and has obtained detailed data and documentation to support this determination.

In order to establish that a Demand Resource is reasonably expected to be physically unable to reduce load in that timeframe, the Curtailment Service Provider that registered the resource must demonstrate that:

- 1) The manufacturing processes for the Demand Resource require gradual reduction to avoid damaging major industrial equipment used in the manufacturing process, or damage to the product generated or feedstock used in the manufacturing process;
- 2) Transfer of load to back-up generation requires time-intensive manual process taking more than 30 minutes;
- 3) On-site safety concerns prevent location from implementing reduction plan in less than 30 minutes; or,
- 4) The Demand Resource is comprised of mass market residential customers or Small Commercial Customers which collectively cannot be notified of a Load Management Event within a 30-minute timeframe due to unavoidable communications latency, in which case the requested notification time shall be no longer than 120 minutes.

The Office of the Interconnection may request data and documentation from the Curtailment Service Provider and such Curtailment Service Provider shall provide to the Office of the Interconnection within three (3) business days of a request therefor, a copy of all of the data and documentation supporting the exception request. Failure to provide a timely response to such request shall cause the exception to terminate the following Operating Day.

At its sole option and discretion, the Office of the Interconnection may review the data and documentation provided by the Curtailment Service Provider to determine if the Demand Resource has met one or more of the criteria above. The Office of the Interconnection will notify the Curtailment Service Provider in writing of its determination by no later than ten (10) business days after receipt of the data and documentation.

The Curtailment Service Provider shall provide written notification to the Office of the Interconnection of a material change to the facts that supported its exception request within three (3) business days of becoming aware of such material change in facts, and, if the Office of Interconnection determines that the physical limitation criteria above are no longer



being met, the Demand Resource shall be subject to the default notification period of 30 minutes immediately upon such determination.

3. The initiation of load reduction, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.

4. The initiation of load reduction upon the request of the Office of the Interconnection is considered a pre-emergency or emergency action and must be implementable prior to a voltage reduction.

5. A Curtailment Service Provider intending to offer for sale or designate for self-supply, a Demand Resource in any RPM Auction, or intending to include a Demand Resource in any FRR Capacity Plan must demonstrate, to PJM's satisfaction, that such resource shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such resource is committed. As part of such demonstration, each such Curtailment Service Provider shall submit a Demand Resource Sell Offer Plan in accordance with the standards and procedures set forth in section A-1 of Schedule 6, Schedule 8.1 (as to FRR Capacity Plans) and the PJM Manuals, no later than 15 business days prior to, as applicable, the RPM Auction in which such resource is to be offered, or the deadline for submission of the FRR Capacity Plan in which such resource is to be included. PJM may verify the Curtailment Service Provider's adherence to the Demand Resource Sell Offer Plan at any time. A Curtailment Service Provider with a PJM-approved Demand Resource Sell Offer Plan will be permitted to offer up to the approved Demand Resource quantity into the subject RPM Auction or include such resource in its FRR Capacity Plan.

6. Selection of a Demand Resource in an RPM Auction results in commitment of capacity to the PJM Region. Demand Resources that are so committed must be registered to participate in the Full Program Option or as a Capacity Only resource of the Emergency Load Response and Pre-Emergency Load Response Program and thus available for dispatch during PJM-declared pre-emergency events and emergency events.

A-1. A Demand Resource Sell Offer Plan shall consist of a completed template document in the form posted on the PJM website, requiring the information set forth below and in the PJM Manuals, and a Demand Resource Officer Certification Form signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification. The Demand Resource Sell Offer Plan must provide information that supports the Demand Resource Provider's intended Demand Resource Sell Offers and demonstrates that the Demand Resources are being offered with the intention that the MW quantity that clears the auction is reasonably expected to be physically delivered through Demand Resource registrations for the relevant Delivery Year. The Demand Resource Sell Offer Plan shall include all Existing Demand Resources and all Planned Demand Resources that the Demand Resource Provider intends to offer into an RPM Auction or include in an FRR Capacity Plan.

1. Demand Resource Sell Offer Plan Template. The Demand Resource Sell Offer Plan template, in the form provided on the PJM website, shall require the Demand

Resource Provider to provide the following information and such other information as specified in the PJM Manuals:

(a) Summary Information. The completed template shall include the Demand Resource Provider's company name, contact information, and the Nominated DR Value in ICAP MWs by Zone/sub-Zone that the Demand Resource Provider intends to offer, stated separately for Existing Demand Resources and Planned Demand Resources. The total Nominated DR Value in MWs for each Zone/sub-Zone shall be the sum of the Nominated DR Value of Existing Demand Resources and the Nominated DR Value of Planned Demand Resources, and shall be the maximum MW amount the Provider intends to offer in the RPM Auction for the indicated Zone/sub-Zone, provided that nothing herein shall preclude the Demand Resource Provider from offering in the auction a lesser amount than the total Nominated DR Value shown in its Demand Resource Sell Offer Plan.

(b) Existing Demand Resources. The Demand Resource Provider shall identify all Existing Demand Resources by identifying end-use customer sites that are currently registered with PJM (even if not registered by such Demand Resource Provider) and that the Demand Resource Provider reasonably expects to have under a contract to reduce load based on PJM dispatch instructions by the start of the auction Delivery Year.

(c) Planned Demand Resources. The Demand Resource Provider shall provide the details of, and key assumptions underlying, the Planned Demand Resource quantities (i.e., all Demand Resource quantities in excess of Existing Demand Resource quantities) contained in the Demand Resource Sell Offer Plan, including:

(i) key program attributes and assumptions used to develop the Planned Demand Resource quantities, including, but not limited to, discussion of:

- method(s) of achieving load reduction at customer site(s);
- equipment to be controlled or installed at customer site(s), if any;
- plan and ability to acquire customers;
- types of customer targeted;
- support of market potential and market share for the target customer base, with adjustments for Existing Demand Resource customers within this market and the potential for other Demand Resource Providers targeting the same customers;
- assumptions regarding regulatory approval of program(s), if applicable; and
- if applicable, Direct Load Control (DLC) program details such as: a description of the cycling control strategy, any assumptions regarding switch operability rate, and a list (and copy) of all load research studies used to develop the estimated nominated ICAP value per customer (i.e., the per-participant impact).

(ii) Zone/sub-Zone information by end-use customer segment for all Nominated DR Values for which an end-use customer site is not

identified, to include the number in each segment of end-use customers expected to be registered for the subject Delivery Year, the average Peak Load Contribution per end-use customer for such segment, and the average Nominated DR Value per customer for such segment. End-use customer segments may include residential, commercial, small industrial, medium industrial, and large industrial, as identified and defined in the PJM Manuals, provided that nothing herein or in the Manuals shall preclude the Provider from identifying more specific customer segments within the commercial and industrial categories, if known.

(iii) Information by end-use customer site to the extent required by subsection A-1(1)(c)(iv) or, if not required by such subsection, to the extent known at the time of the submittal of the Demand Resource Sell Offer Plan, to include: customer EDC account number (if known), customer name, customer premise address, Zone/sub-Zone in which the customer is located, end-use customer segment, current Peak Load Contribution value (or an estimate if actual value not known) and an estimate of expected Peak Load Contribution for the subject Delivery Year, and an estimated Nominated DR Value.

(iv) End-use customer site-specific information shall be required for any Zones or sub-Zones identified by PJM pursuant to this subsection for the portion, if any, of a Demand Resource Provider's intended offer in such Zones or sub-Zones that exceeds a Sell Offer threshold determined pursuant to this subsection, as any such excess quantity under such conditions should reflect Planned Demand Resources from end-use customer sites that the Provider has a high degree of certainty it will physically deliver for the subject Delivery Year. In accordance with the procedures in subsection A-1(3) below, PJM shall identify, as requiring site-specific information, all Zones and sub-Zones that comprise any LDA group (from a list of LDA groups stated in the PJM Manuals) in which [the quantity of cleared Demand Resources from the most recent Base Residual Auction] plus [the quantity of Demand Resources included in FRR Capacity Plans for the Delivery Year addressed by the most recent Base Residual Auction] in any Zone or sub-Zone of such LDA group exceeds the greater of:

- the maximum Demand Resources quantity registered with PJM for such Zone for any Delivery Year from the current (at time of plan submission) Delivery Year and the two preceding Delivery Years; and
- the potential Demand Resource quantity for such Zone estimated by PJM based on an independent published assessment of demand response potential that is reasonably applicable to such Zone, as identified in the PJM Manuals.

For each such Zone and sub-Zone, the Sell Offer threshold for each Demand Resource Provider shall be the higher of:

- the Demand Resource Provider's maximum Demand Resource quantity registered with PJM for such Zone/sub-Zone over the current Delivery Year (at the time of plan submission) and two preceding Delivery Years;
- the Demand Resource Provider's maximum for any single Delivery Year of [such provider's cleared Demand Resource quantity] plus [such provider's quantity of Demand Resources included in FRR Capacity Plans] from the three forward Delivery Years addressed by the three most recent Base Residual Auctions for such Zone/sub-Zone; and
- 10 MW.

(d) Schedule. The Demand Resource Provider shall provide an approximate timeline for procuring end-use customer sites as needed to physically deliver the total Nominated DR Value (for both Existing Demand Resources and Planned Demand Resources) by Zone/sub-Zone in the Demand Resource Sell Offer Plan. The Demand Resource Provider must specify the cumulative number of customers and the cumulative Nominated DR Value associated with each end-use customer segment within each Zone/sub-Zone that the Demand Resource Provider expects (at the time of plan submission) to have under contract as of June 1 each year between the time of the auction and the subject Delivery Year.

2. Demand Resource Officer Certification Form. Each Demand Resource Sell Offer Plan must include a Demand Resource Officer Certification, signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification, in the form shown in the PJM Manuals, which form shall include the following certifications:

(a) that the signing officer has reviewed the Demand Resource Sell Offer Plan and the information supplied to PJM in support of the Plan is true and correct as of the date of the certification; and

(b) that the Demand Resource Provider is submitting the Plan with the reasonable expectation, based upon its analyses as of the date of the certification, to physically deliver all megawatts that clear the RPM Auction through Demand Resource registrations by the specified Delivery Year.

As set forth in the form provided in the PJM manuals, the certification shall specify that it does not in any way abridge, expand, or otherwise modify the current provisions of the PJM Tariff, Operating Agreement and/or RAA, or the Demand Resource Provider's rights and obligations thereunder, including the Demand Resource Provider's ability to adjust capacity obligations through participation in PJM incremental auctions and bilateral transactions.

3. Procedures. No later than December 1 prior to the Base Residual Auction for a Delivery Year, PJM shall post to the PJM website a list of Zones and sub-Zones, if any, for which end-use customer site-specific information shall be required under the conditions specified in subsection A-1(1)(c)(iv) above for all RPM Auctions conducted for such Delivery Year. Once so identified, a Zone or sub-Zone shall remain on the list for future Delivery Years until the threshold determined under subsection A-1(1)(c)(iv) above is not exceeded for three consecutive Delivery Years. No later than 15 business days prior to the RPM Auction in which a Demand Resource Provider intends to offer a Demand Resource, the Demand Resource Provider shall submit to PJM a completed Demand Resource Sell Offer Plan template and a Demand Resource Officer Certification Form signed by a duly authorized officer of the Provider. PJM will review all submitted DR Sell Offer Plans. No later than 10 business days prior to the subject RPM Auction, PJM shall notify any Demand Resource Providers that have identified the same end-use customer site(s) in their respective DR Sell Offer Plans for the same Delivery Year. In such event, the MWs associated with such site(s) will not be approved for inclusion in a Sell Offer in an RPM Auction by any of the Demand Resource Providers, unless a Demand Resource Provider provides a letter of support from the end-use customer indicating that it is likely to execute a contract with that Demand Resource Provider for the relevant Delivery Year, or provides other comparable evidence of likely commitment. Such letter of support or other supporting evidence must be provided to PJM no later than 7 business days prior to the subject RPM Auction. If an end-use customer provides letters of support for the same site for the same Delivery Year to multiple Demand Resource Providers, the MWs associated with such end-use customer site shall not be approved as a Demand Resource for any of the Demand Resource Providers. No later than 5 business days prior to the subject RPM Auction, PJM will notify each Demand Resource Provider of the approved Demand Resource quantity, by Zone/sub-Zone, that such Demand Resource Provider is permitted to offer into such RPM Auction.

B. The Unforced Capacity value of a Demand Resource will be determined as:

*for the Delivery Years through May 31, 2018, the product of the Nominated Value of the Demand Resource, times the DR Factor, times the Forecast Pool Requirement, and for the 2018/2019 Delivery Year and subsequent Delivery Years, the product of the Nominated Value of the Demand Resource times the Forecast Pool Requirement.*

Nominated Values shall be determined and reviewed in accordance with sections I and J, respectively, and the PJM Manuals. The DR Factor is a factor established by the PJM Board with the advice of the Members Committee to reflect the increase in the peak load carrying capability in the PJM Region due to Demand Resources. Peak load carrying capability is defined to be the peak load that the PJM Region is able to serve at the loss of load expectation defined in the Reliability Principles and Standards. The DR Factor is the increase in the peak load carrying capability in the PJM Region due to Demand Resources, divided by the total Nominated Value of Demand Resources in the PJM Region. The DR Factor will be determined using an analytical program that uses a probabilistic approach to determine reliability. The determination of the DR Factor will consider the reliability of Demand Resources, the number of interruptions, and the total amount of load reduction.

- C. Demand Resources offered and cleared in a Base Residual or Incremental Auction shall receive the corresponding Capacity Resource Clearing Price as determined in such auction, in accordance with Attachment DD of the PJM Tariff. For Delivery Years beginning with the Delivery Year that commences on June 1, 2013, any Demand Resources located in a Zone with multiple LDAs shall receive the Capacity Resource Clearing Price applicable to the location of such resource within such Zone, as identified in such resource's offer. Further, the Curtailment Service Provider shall register its resource in the same location within the Zone as specified in its cleared sell offer, and shall be subject to deficiency charges under Attachment DD of this Tariff to the extent it fails to provide the resource in such location consistent with its cleared offer. For either of the Delivery Year commencing on June 1, 2010 or commencing on June 1, 2012, if the location of a Demand Resource is not specified by a Seller in the Sell Offer on an individual LDA basis in a Zone with multiple LDAs, then Demand Resources cleared by such Seller will be paid a DR Weighted Zonal Resource Clearing Price, determined as follows: (i) for a Zone that includes non-overlapping LDAs, calculated as the weighted average of the Resource Clearing Prices for such LDAs, weighted by the cleared Demand Resources registered by such Seller in each such LDA; or (ii) for a Zone that contains a smaller LDA within a larger LDA, calculated treating the smaller LDA and the remaining portion of the larger LDA as if they were separate LDAs, and weight-averaging in the same manner as (i) above.
- D. The Party, Electric Distributor, or Curtailment Service Provider that establishes a contractual relationship (by contract or tariff rate) with a customer for load reductions is entitled to receive the compensation specified in section C for a committed Demand Resource, notwithstanding that such provider is not the customer's energy supplier.
- E. Any Party hereto shall demonstrate that its Demand Resources performed during periods when load management procedures were invoked by the Office of the Interconnection. The Office of the Interconnection shall adopt and maintain rules and procedures for verifying the performance of such resources, as set forth in section K hereof and the PJM Manuals. In addition, committed Demand Resources that do not comply with the directions of the Office of the Interconnection to reduce load during an emergency shall be subject to the penalty charge set forth in Attachment DD to the PJM Tariff.
- F. Parties may elect to place Demand Resources associated with Behind The Meter Generation under the direction of the Office of the Interconnection for a Delivery Year by submitting a Sell Offer for such resource (as Self Supply, or with an offer price) in the Base Residual Auction for such Delivery Year. This election shall remain in effect for the entirety of such Delivery Year. In the event such an election is made, such Behind The Meter Generation will not be netted from load for the purposes of calculating the Daily Unforced Capacity Obligations under this Agreement.
- G. PJM measures Demand Resources in the following *four* ways:
- Direct Load Control (DLC) – Load management that is initiated directly by the Curtailment Service Provider's market operations center or its agent, employing a

communication signal to cycle equipment (typically water heaters or central air conditioners). DLC programs are qualified based on load research and customer subscription data. Curtailment Service Providers may rely on the results of load research studies identified in the PJM Manuals to set the per-participant load reduction for DLC programs. Each Curtailment Service Provider relying on DLC load management must periodically update its DLC switch operability rates, in accordance with the PJM Manuals.

**Firm Service Level (FSL)** – Load management achieved by an end-use customer reducing its load to a pre-determined level (the Firm Service Level), upon notification from the Curtailment Service Provider’s market operations center or its agent.

**Guaranteed Load Drop (GLD)** – Load management achieved by an end-use customer reducing its load by a pre-determined amount (the Guaranteed Load Drop), upon notification from the Curtailment Service Provider’s market operations center or its agent. Typically, the load reduction is achieved through running customer-owned backup generators, or by shutting down process equipment.

*Customer Baseline Load (CBL) - Load management achieved by an end-use customer as measured by comparing actual metered load to an end-use customer’s Customer Baseline Load or alternative CBL determined in accordance with the provisions of Section 3.3A.2 or 3.3A.2.01 of the Operating Agreement.*

- H. Each Curtailment Service Provider must satisfy (or contract with another LSE, Curtailment Service Provider, or electric distribution company to provide) the following requirements:
- A point of contact with appropriate backup to ensure single call notification from PJM and timely execution of the notification process;
  - Supplemental status reports, detailing Demand Resources available, as requested by PJM;
  - Entry of customer-specific Demand Resource credit information, for planning and verification purposes, into the designated PJM electronic system.
  - Customer-specific compliance and verification information for each PJM-initiated Demand Resource event, as well as aggregated Provider load drop data for Provider-initiated events, in accordance with established reporting guidelines.
  - Load drop estimates for all Demand Resource events, prepared in accordance with the PJM Manuals.
- I. The Nominated Value of each Demand Resource shall be determined consistent with the process for determination of the capacity obligation for the customer.

The Nominated Value for a Firm Service Level customer will be based on the peak load contribution for the customer, as determined by the 5CP methodology utilized to determine other ICAP obligation values. The maximum Demand Resource load reduction value for a Firm Service Level customer will be equal to Peak Load Contribution – Firm Contract Level adjusted for system losses.

The Nominated Value for a Guaranteed Load Drop customer will be the guaranteed load drop amount, adjusted for system losses, as established by the customer's contract with the Curtailment Service Provider. The maximum credit nominated shall not exceed the customer's Peak Load Contribution.

The Nominated Value for a Direct Load Control program will be based on load research and customer subscription. The maximum value of the program is equal to the approved per-participant load reduction multiplied by the number of active participants, adjusted for system losses. The per-participant impact is to be estimated at long-term average local weather conditions at the time of the summer peak.

Customer-specific Demand Resource information (EDC account number, peak load, notification period, etc.) will be entered into the designated PJM electronic system to establish credit values. Additional data may be required, as defined in sections J and K.

- J. Nominated Values shall be reviewed based on documentation of customer-specific data and Demand Resource information, to verify the amount of load management available and to set a maximum allowable Nominated Value. Data is provided by both the zone EDC and the Curtailment Service Provider on templates supplied by PJM, and must include the EDC meter number or other unique customer identifier, Peak Load Contribution (5CP), contract firm service level or guaranteed load drop values, applicable loss factor, zone/area location of the load drop, LSE contact information, number of active participants, etc. Such data must be uploaded and approved prior to the first day of the Delivery Year for such resource as a Demand Resource. Curtailment Service Providers must provide this information concurrently to host EDCs.

For Firm Service Level and Guaranteed Load Drop customers, the 5CP values, for the zone and affected customers, will be adjusted to reflect an "unrestricted" peak for a zone, based on information provided by the Curtailment Service Provider. Load drop levels shall be estimated in accordance with guidelines in the PJM Manuals.

For Direct Load Control programs, the Curtailment Service Provider must provide information detailing the number of active participants in each program. Other information on approved DLC programs will be provided by PJM.

- K. Compliance is the process utilized to review Provider performance during PJM-initiated Demand Resource events. Compliance will be established for each Provider on an event specific basis for the Curtailment Service Provider's Demand Resources dispatched by the Office of the Interconnection during such event. PJM will establish and communicate reasonable deadlines for the timely submittal of event data to expedite compliance



reviews. Compliance reviews will be completed as soon after the event as possible, with the expectation that reviews of a single event will be completed within two months of the end of the month in which the event took place. Curtailment Service Providers are responsible for the submittal of compliance information to PJM for each PJM-initiated event during the compliance period.

*For Load Management Events occurring through the May 31, 2018 and for Load Management Events occurring during the months of June through September of the 2018/2019 Delivery Year and subsequent Delivery Years:*

Compliance for Direct Load Control programs will consider only the transmission of the control signal. Curtailment Service Providers are required to report the time period (during the Demand Resource event) that the control signal was actually sent.

Compliance is checked on an individual customer basis for FSL, by comparing actual load during the event to the firm service level. Curtailment Service Providers must submit actual customer load levels (for the event period) for the compliance report. Compliance for FSL will be based on:

End use customer's current Delivery Year peak load contribution ("PLC") minus the metered load ("Load") multiplied by the loss factor ("LF"). The calculation is represented by:

$$(PLC) - (Load * LF)$$

Compliance is checked on an individual customer basis for GLD, and will be based on:

- (i) the lesser of (a) comparison load used to best represent what the load would have been if PJM did not declare a Load Management Event or the CSP did not initiate a test as outlined in the PJM Manuals, minus the Load and then multiplied by the LF, or (b) the PLC minus the Load multiplied by the LF. A load reduction will only be recognized for capacity compliance if the Load multiplied by the LF is less than the PLC.
- (iii) Curtailment Service Providers must submit actual loads and comparison loads for all hours during the day of the Load Management Event or the Load Management performance test, and for all hours during any other days as required by the Office of the Interconnection to calculate the load reduction. Comparison loads must be developed from the guidelines in the PJM Manuals, and note which method was employed.

Compliance is averaged over the Load Management Event for non-interval metered DLC programs. Compliance is averaged over the Load Management Event, for each FSL and GLD customer dispatched by the Office of the Interconnection for at least 30 minutes of the clock hour (i.e., "partial dispatch compliance hour". The registered capacity commitment for the partial dispatch compliance hour will be prorated based on the number of minutes dispatched during the clock hour and as defined in the Manual. Curtailment Service Provider may submit 1 minute load data for use in capacity

compliance calculations for partial dispatch compliance hours subject to PJM approval and in accordance with the PJM Manuals where: (a) metering meets all Tariff and Manual requirements, (b) 1 minute load data shall be submitted to PJM for all locations on the registration, and (c) 1 minute load data measures energy consumption over the minute.

*For Load Management Events occurring during the months of October through May of the 2018/2019 Delivery Year and subsequent Delivery Years:*

*Compliance is determined on an individual customer basis by comparing actual metered load to an end-use customer's Customer Baseline Load or alternative CBL determined in accordance with the provisions of Section 3.3A.2 or 3.3A.2.01 of the Operating Agreement.*

*For all Delivery Years:*

Demand Resources may not reduce their load below zero (i.e., export energy into the system). No compliance credit will be given for an incremental load drop below zero. Compliance will be totaled over all FSL and GLD customers and DLC programs to determine a net compliance position for the event for each Provider by Zone, for all Demand Resources committed by such Provider and dispatched by the Office of the Interconnection in the zone. Deficiencies shall be as further determined in accordance with section 11 of Schedule DD to the PJM Tariff.

#### L. Energy Efficiency Resources

1. An Energy Efficiency Resource is a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak *summer and winter* periods as described herein) reduction in electric energy consumption at the End-Use Customer's retail site that is not reflected in the peak load forecast prepared for the Delivery Year for which the Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.
2. An Energy Efficiency Resource may be offered as a Capacity Resource in the Base Residual or Incremental Auctions for any Delivery Year beginning on or after June 1, 2011. No later than 30 days prior to the auction in which the resource is to be offered, the Capacity Market Seller shall submit to the Office of the Interconnection a notice of intent to offer the resource into such auction and a measurement and verification plan. The notice of intent shall include all pertinent project design data, including but not limited to the peak-load contribution of affected customers, a full description of the equipment, device, system or process intended to achieve the load reduction, the load reduction pattern, the project

location, the project development timeline, and any other relevant data. Such notice also shall state the seller's proposed Nominated Energy Efficiency Value,

- *For Delivery Years through May 31, 2018, the seller's proposed Nominated Energy Efficiency Value shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday;*
- *For the 2018/2019 and 2019/2020 Delivery Years, the seller's proposed Nominated Energy Efficiency Value for any Base Capacity Energy Efficiency Resource shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday; and*
- *For the 2018/2019 Delivery Year and subsequent Delivery Years, the seller's proposed Nominated Energy Efficiency Value for any Annual Energy Efficiency Resources, shall be the expected average load reduction, for all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday, between the hour ending 15:00 EPT and the hour ending 18:00 EPT. In addition, the expected average load reduction for all days from January 1 through February 28, inclusive, of such Delivery Year that is not a weekend or federal holiday, between the hour ending 8:00 EPT and the hour ending 9:00 EPT and between the hour ending 19:00 EPT and the hour ending 20:00 EPT shall not be less than the Nominated Energy Efficiency Value.*

The measurement and verification plan shall describe the methods and procedures, consistent with the PJM Manuals, for determining the amount of the load reduction and confirming that such reduction is achieved. The Office of the Interconnection shall determine, upon review of such notice, the Nominated Energy Efficiency Value that may be offered in the Reliability Pricing Model Auction.

3. An Energy Efficiency Resource may be offered with a price offer or as Self-Supply. If an Energy Efficiency Resource clears the auction, it shall receive the applicable Capacity Resource Clearing Price, subject to section 5 below. A Capacity Market Seller offering an Energy Efficiency Resource must comply with all applicable credit requirements as set forth in Attachment Q to the PJM Tariff. *For Delivery Years through May 31, 2018, the Unforced Capacity value of an Energy Efficiency Resource offered into an RPM Auction shall be the Nominated Energy Efficiency value times the DR Factor and the Forecast Pool Requirement. For the 2018/2019 Delivery Year and subsequent Delivery Years, the Unforced Capacity value of an Energy Efficiency Resource offered into an RPM Auction shall be the Nominated Energy Efficiency Value times the Forecast Pool Requirement.*
4. An Energy Efficiency Resource that clears an auction for a Delivery Year may be offered in auctions for up to three additional consecutive Delivery Years, but shall

not be assured of clearing in any such auction; provided, however, an Energy Efficiency Resource may not be offered for any Delivery Year in which any part of the peak season is beyond the expected life of the equipment, device, system, or process providing the expected load reduction; and provided further that a Capacity Market Seller that offers and clears an Energy Efficiency Resource in a BRA may elect a New Entry Price Adjustment on the same terms as set forth in section 5.14(c) of this Attachment DD.

5. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than 30 days prior to each Auction an updated project status and measurement and verification plan subject to the criteria set forth in the PJM Manuals.
6. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than the start of such Delivery Year, an updated project status and detailed measurement and verification data meeting the standards for precision and accuracy set forth in the PJM Manuals. The final value of the Energy Efficiency Resource during such Delivery Year shall be as determined by the Office of the Interconnection based on the submitted data.
7. The Office of the Interconnection may audit, at the Capacity Market Seller's expense, any Energy Efficiency Resource committed to the PJM Region. The audit may be conducted any time including the Performance Hours of the Delivery Year.

## **SCHEDULE 6.2**

### **WHOLESALE LOAD REDUCTION COMMITMENT**

A. Overview. As more fully set forth in this Schedule 6.2 and the PJM Manuals, for the 2018/2019 Delivery Year and subsequent Delivery Years, any Wholesale Entity may submit one or more WLR Bids in a Base Residual Auction to reduce WLR Load by a specified quantity during pre-emergency or emergency actions or to provide a specific quantity of continuous reduction in electric energy consumption during peak periods through a Wholesale Energy Efficiency Load. A Wholesale Entity intending to submit a WLR Bid into an RPM Auction shall provide a WLR Plan to calculate and support the Nominated WLR Quantity, by Zone or sub-Zonal LDA, it proposes to specify in its WLR Bid. WLR Load may only be bid into a Base Residual Auction. In any such Base Residual Auction, the Office of the Interconnection shall shift to the left the Variable Resource Requirement Curve for the PJM Region or a Locational Deliverability Area, as applicable, to reflect the Nominated WLR Quantity, Nominated WEEL Quantity, and WLR Bid Price of any WLR Bids for the PJM Region or such LDA, as applicable, in such RPM Auction. Each such leftward shift shall begin at the price point on the VRR Curve corresponding to the WLR Bid Price of the WLR Bid, and shall uniformly shift the VRR Curve to the left in the amount of the combined sum of the Nominated WLR Quantity and Nominated WEEL Quantity times FPR at that price point and all higher price points. All WLR Bids with WLR Bid Prices at or below the Capacity Resource Clearing Price will clear in a Base Residual Auction, subject to applicable WLR Load Constraints. WLR commitments of qualified WLR Load shall be measured by Firm Service Level or Direct Load Control, as further specified below and the PJM Manuals. Any WLR Provider that commits such WLR Load in an RPM Auction, but fails fully to honor its WLR commitments for a Delivery Year shall be assessed compliance charges as more fully set forth in sections Q, R, and S below.

B. WLR Obligations. WLR Load qualifying under the criteria set forth in this Schedule 6.2 may be bid into the Base Residual Auction, for any Delivery Year for which such WLR Load qualifies.

1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and section G hereof, as applicable, the Office of the Interconnection of the WLR Load that it is placing under the direction of the Office of the Interconnection. A Party must further notify the Office of the Interconnection whether the WLR Load is a Base Capacity WLR Load or a Capacity Performance WLR Load.

2. WLR Load must be able to fully respond to a pre-emergency or emergency action within 30 minutes of notification from the Office of the Interconnection. This default 30 minute prior notification shall apply unless a WLR Provider obtains an exception from the Office of the Interconnection due to physical operational limitations that prevent any identified portion of the WLR Load from reducing load within that timeframe. In such case, the WLR Provider shall submit a request for an exception to the 30 minute prior notification requirement to the Office of the Interconnection, in accordance with deadlines specified in the PJM Manuals. The only alternative notification times that the Office of Interconnection will permit, upon approval of an exception request, are 60 minutes and 120 minutes prior to a pre-emergency or emergency action. The WLR Provider shall indicate in writing, in the appropriate

application, that it seeks an exception to permit a prior notification time of 60 minutes or 120 minutes, and the reason(s) for the requested exception. A WLR Provider shall not submit a request for an exception to the default 30 minute notification period unless it has done its due diligence to confirm that the identified portion of the WLR Load is physically incapable of responding within that timeframe based on one or more of the reasons set forth below and as may be further defined in the PJM Manuals and has obtained detailed data and documentation to support this determination.

In order to establish that any identified portion of a WLR Load is reasonably expected to be physically unable to reduce load in that timeframe, the WLR Provider that registered the load must demonstrate that:

- 1) The manufacturing processes for such load require gradual reduction to avoid damaging major industrial equipment used in the manufacturing process, or damage to the product generated or feedstock used in the manufacturing process;
- 2) Transfer of load to back-up generation requires time-intensive manual process taking more than 30 minutes;
- 3) On-site safety concerns prevent location from implementing reduction plan in less than 30 minutes; or,
- 4) The load is comprised of mass market residential customers or Small Commercial Customers which collectively cannot be notified of a pre-emergency or emergency action within a 30-minute timeframe due to unavoidable communications latency, in which case the requested notification time shall be no longer than 120 minutes.

The Office of the Interconnection may request data and documentation from the WLR Provider and such WLR Provider shall provide to the Office of the Interconnection within three (3) business days of a request therefor, a copy of all of the data and documentation supporting the exception request. Failure to provide a timely response to such request shall cause the exception to terminate the following Operating Day.

At its sole option and discretion, the Office of the Interconnection may review the data and documentation provided by the WLR Provider to determine if the identified portion of the WLR Load has met one or more of the criteria above. The Office of the Interconnection will notify the WLR Provider in writing of its determination by no later than ten (10) business days after receipt of the data and documentation.

The WLR Provider shall provide written notification to the Office of the Interconnection of a material change to the facts that supported its exception request within three (3) business days of becoming aware of such material change in facts, and, if the Office of Interconnection determines that the physical limitation criteria above are no longer being met, the identified portion of the WLR Load shall be subject to the default notification period of 30 minutes immediately upon such determination.

3. The initiation of load reduction, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.

4. The initiation of load reduction upon the request of the Office of the Interconnection is considered a pre-emergency or emergency action and must be implementable prior to a voltage reduction.

5. A WLR Provider intending to bid a WLR Load in a Base Residual Auction must demonstrate, to PJM's satisfaction, that such load shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such load is committed. As part of such demonstration, each such WLR Provider shall submit a WLR Plan in accordance with the standards and procedures set forth in section D of this Schedule 6.2 and the PJM Manuals, no later than 30 calendar days prior to the RPM Auction in which such load is to be bid. PJM may verify the WLR Provider's adherence to the WLR Plan at any time. A WLR Provider with a PJM-approved WLR Plan will be permitted to bid up to the approved WLR quantity into the subject RPM Auction.

6. Clearing a WLR Bid in an RPM Auction shall establish a firm commitment by the WLR Provider to the Nominated WLR Quantity specified in such WLR Bid at each Zone or sub-Zonal LDA during the relevant Delivery Year, but may be transferred or replaced in accordance with section J below. WLR Loads that are so committed must be available at PJM's request during PJM-declared pre-emergency events and emergency events.

C. Agents. A Wholesale Entity may authorize one or more agents to perform any act authorized or required of the Wholesale Entity under this Schedule 6.2, provided that (1) the Wholesale Entity must provide written notification to the Office of the Interconnection, prior to any act of the agent on behalf of the Wholesale Entity, identifying each such agent and the scope of the agent's authority; and (2) as between the Wholesale Entity and the Office of the Interconnection, the Wholesale Entity shall remain solely responsible for all of the duties and obligations of a Wholesale Entity under this Schedule 6.2. Any written instrument establishing the authority of such agent shall provide that any such agent shall comply with the requirements of this Attachment, the Reliability Assurance Agreement, and the Operating Agreement, as applicable.

D. WLR Plan. Any Wholesale Entity seeking to submit a WLR Bid in any Base Residual Auction for a Delivery Year must submit to the Office of the Interconnection a WLR Plan identifying and supporting the Nominated WLR Quantity (calculated in the manner described in section L below) for each Zone or sub-Zonal LDA for which such WLR is committed. Although the WLR Plan may include reasonably supported forecasts and expectations, fulfillment of the WLR Provider's commitment to a Nominated WLR Quantity shall not depend upon, or be conditioned upon, realization of such forecasts or expectations.

A WLR Plan shall consist of a completed template document in the form posted on the PJM website, requiring the information set forth below and in the PJM Manuals. The WLR Plan must provide information that supports the WLR Provider's intended WLR Bids and demonstrates that the WLR Loads are being bid with the intention that the MW quantity that is cleared in the

auction is reasonably expected to be physically delivered through WLR Load registrations for the relevant Delivery Year. The WLR Plan shall include all Existing WLR Loads and all Planned WLR Loads that the WLR Provider intends to bid into an RPM Auction.

1. WLR Plan Template. The WLR Plan template, in the form provided on the PJM website, shall require the WLR Provider to provide the following information and such other information as specified in the PJM Manuals:

(a) Summary Information. The completed template shall include the WLR Provider's company name, contact information, and the Nominated WLR Quantity in ICAP MWs by Zone/sub-Zone that the WLR Provider intends to bid, stated separately for Existing WLR Loads and Planned WLR Loads. The total Nominated WLR Quantity in MWs for each Zone/sub-Zone shall be the sum of the Nominated WLR Quantity of Existing WLR Loads and the Nominated WLR Quantity of Planned WLR Loads, and shall be the maximum MW amount the Provider intends to bid in the RPM Auction for the indicated Zone/sub-Zone, provided that nothing herein shall preclude the WLR Provider from bidding in the auction a lesser amount than the total Nominated WLR Quantity shown in its WLR Plan.

(b) Existing WLR Loads. The WLR Provider shall identify all Existing WLR Loads by identifying end-use customer sites that are currently registered with PJM (even if not registered by such WLR Provider) and that the WLR Provider reasonably expects to have under a contract to reduce load based on PJM instructions by the start of the auction Delivery Year.

(c) Planned WLR Loads. The WLR Provider shall provide the details of, and key assumptions underlying, the Planned WLR Load quantities (i.e., all WLR Load quantities in excess of Existing WLR Load quantities) contained in the WLR Plan, including:

- (i) key program attributes and assumptions used to develop the Planned WLR Load quantities, including, but not limited to, discussion of:
- method(s) of achieving load reduction at customer site(s);
  - equipment to be controlled or installed at customer site(s), if any;
  - plan and ability to acquire customers;
  - types of customer targeted;
  - support of market potential and market share for the target customer base, with adjustments for Existing WLR Load customers within this market and the potential for other WLR Providers targeting the same customers;
  - assumptions regarding regulatory approval of program(s), if applicable; and
  - if applicable, Direct Load Control (DLC) program details such as: a description of the cycling control strategy, any assumptions regarding switch operability rate, and a list (and copy) of all load research studies used to develop the estimated nominated ICAP value per customer (i.e., the per-participant impact).



(ii) Zone/sub-Zone information by end-use customer segment for all Nominated WLR Quantities for which an end-use customer site is not identified, to include the number in each segment of end-use customers expected to be registered for the subject Delivery Year, the average Peak Load Contribution per end-use customer for such segment, and the average Nominated WLR Quantity per customer for such segment. End-use customer segments may include residential, commercial, small industrial, medium industrial, and large industrial, as identified and defined in the PJM Manuals, provided that nothing herein or in the Manuals shall preclude the Provider from identifying more specific customer segments within the commercial and industrial categories, if known.

(iii) Information by end-use customer site to the extent required by subsection D(1)(d)(iv) or, if not required by such subsection, to the extent known at the time of the submittal of the WLR Plan, to include: customer EDC account number (if known), customer name, customer premise address, Zone/sub-Zone in which the customer is located, end-use customer segment, current Peak Load Contribution value (or an estimate if actual value not known) and an estimate of expected Peak Load Contribution for the subject Delivery Year, and an estimated Nominated WLR Quantity.

(iv) Commencing with the Base Residual Auction for the 2022/2023 Delivery Year, end-use customer site-specific information shall be required for any Zones or sub-Zones identified by PJM pursuant to this subsection for the portion, if any, of a WLR Provider's intended bid in such Zones or sub-Zones that exceeds a WLR Bid threshold determined pursuant to this subsection, as any such excess quantity under such conditions should reflect Planned WLR Loads from end-use customer sites that the Provider has a high degree of certainty it will physically deliver for the subject Delivery Year. In accordance with the procedures in subsection D(2) below, PJM shall identify, as requiring site-specific information, all Zones and sub-Zones that comprise any LDA group (from a list of LDA groups stated in the PJM Manuals) in which [the quantity of cleared WLR Loads from the most recent Base Residual Auction] plus [the quantity of WLR Loads included in FRR Capacity Plans for the Delivery Year addressed by the most recent Base Residual Auction] in any Zone or sub-Zone of such LDA group exceeds the greater of:

- the maximum WLR Load quantity registered with PJM for such Zone for any Delivery Year from the current (at time of plan submission) Delivery Year and the two preceding Delivery Years; and
- the potential WLR Load quantity for such Zone estimated by PJM based on an independent published assessment of demand response

potential that is reasonably applicable to such Zone, as identified in the PJM Manuals.

For each such Zone and sub-Zone, the WLR Bid threshold for each WLR Provider shall be the higher of:

- the WLR Provider's maximum WLR Load quantity registered with PJM for such Zone/sub-Zone over the current Delivery Year (at the time of plan submission) and two preceding Delivery Years;
- the WLR Provider's maximum for any single Delivery Year of [such provider's cleared WLR Load quantity] plus [such provider's quantity of WLR Load included in FRR Capacity Plans] from the three forward Delivery Years addressed by the three most recent Base Residual Auctions for such Zone/sub-Zone; and
- 10 MW.

(d) Schedule. The WLR Provider shall provide an approximate timeline for completing its separate arrangements with retail customers in the aggregate amount needed to physically deliver the total Nominated WLR Quantity (for both Existing WLR Loads and Planned WLR Loads) by Zone/sub-Zone in the WLR Plan, including expected progress in completing such separate arrangements, by end-use customer segment within each Zone/sub-Zone, that the WLR Provider expects (at the time of plan submission) as of June 1 each year between the time of the auction and the subject Delivery Year.

2. Procedures. No later than December 1 prior to the Base Residual Auction for a Delivery Year, PJM shall post to the PJM website a list of Zones and sub-Zones, if any, for which end-use customer site-specific information shall be required under the conditions specified in subsection D(1)(c)(iv) above. Once so identified, a Zone or sub-Zone shall remain on the list for future Delivery Years until the threshold determined under subsection D(1)(c)(iv) above is not exceeded for three consecutive Delivery Years. No later than 30 calendar days prior to the RPM Auction in which a WLR Provider intends to bid a WLR Load, the WLR Provider shall submit to PJM a completed WLR Plan template. PJM will review all submitted WLR Plans. No later than 10 business days prior to the subject RPM Auction, PJM shall notify any WLR Providers that have identified the same end-use customer site(s) in their respective WLR Plans for the same Delivery Year. In such event, the MWs associated with such site(s) will not be approved for inclusion in a WLR Bid in an RPM Auction by any of the WLR Providers, unless a WLR Provider provides a letter of support from the end-use customer indicating that it is likely to execute a contract with that WLR Provider for the relevant Delivery Year, or provides other comparable evidence of likely commitment. Such letter of support or other supporting evidence must be provided to PJM no later than 7 business days prior to the subject RPM Auction. If an end-use customer provides letters of support for the same site for the same Delivery Year to multiple WLR Providers, the MWs associated with such end-use customer site shall not be approved as a WLR Load for any of the WLR Providers. No later than 5 business days prior to the subject RPM Auction, PJM will notify each WLR Provider of the approved WLR quantity, by Zone/sub-Zone, that such WLR Provider is permitted to bid into such RPM Auction.

E. No Duplicative Load Reduction Bids. WLR Load reflected in a WLR Bid, identified in a WLR Plan, or included in a WLR Load registration for a Delivery Year in support of a Wholesale Load Reduction commitment may not, for such Delivery Year be identified in a PRD Plan or PRD registration of a PRD Provider.

F. Valuation of WLR Load and WEEL. For purposes of determining obligation reductions, credit requirements, compliance charges, and certain other matters hereunder, all WLR Load and WEEL that bid into and clear in a Base Residual Auction shall be assigned a WLR Value. For Capacity Performance WLR Loads and Capacity Performance WEELs, the WLR Value shall be equal to the Capacity Resource Clearing Price for Capacity Performance Resources, as determined in such auction in accordance with Attachment DD of the PJM Tariff. For Base Capacity WLR Loads and Base Capacity WEELs, the WLR Value shall be equal to the price determined by the auction-clearing algorithm as the optimum price at which to recognize the binding of the Base Capacity WLR Load Constraint or, if such constraint does not bind, such WLR Value shall be equal to the capacity resource clearing price for Base Capacity generation resources. Any WLR Loads or WEELs located in a Zone with multiple LDAs shall be assigned the WLR Value for its category of WLR or WEEL applicable to the location of such load within such Zone, as identified in such load's WLR Bid. In such cases, the WLR Provider shall register its load in the same location within the Zone as specified in its cleared bid, and shall be subject to deficiency charges under section Q of this Schedule 6.2 to the extent it fails to provide the load in such location consistent with its cleared bid.

G. Registration. Each WLR Provider that commits Wholesale Load Reductions through a cleared WLR Bid must, no later than one day before the tenth business day prior to the start of the Delivery Year for which such WLR is committed, register with PJM, in the form and manner specified in the PJM Manuals and consistent with its WLR Plan, sufficient WLR Load to satisfy its Nominated WLR Quantity commitment. PJM shall provide notification of such WLR registrations to the applicable electric distribution company(ies). The WLR Provider must maintain its registration of WLR-eligible load at the level of its Zonal or sub-zonal LDA Nominated WLR Quantity commitment during each day of the Delivery Year for which such commitment was made. The WLR Provider may change the end-use customers registered to meet the WLR Provider's commitment during the Delivery Year, but such WLR Provider must always in the aggregate register sufficient WLR Load to meet or exceed the Zonal or sub-Zonal LDA committed Nominated WLR Quantity level. A WLR Provider must timely notify the Office of the Interconnection, in accordance with the PJM Manuals, of all changes in WLR registrations. Such notification must remove from the WLR Provider's registration(s) any end-use customer load that no longer meets the eligibility criteria for WLR, effective as of the first day that such end-use customer load is no longer WLR-eligible.

H. WLR Bids. Each WLR Bid supported by WLR Loads submitted in an RPM Auction must be consistent with the WLR Plan submitted by the WLR Provider for such WLR Bid. A WLR Bid may also be supported by one or more WEELs. Each WLR Bid must specify: the relevant Zone or sub-Zonal LDA, if applicable; a Nominated WLR Quantity or Nominated WEEL Quantity; a WLR Bid Price, which may be comprised of a range of up to ten pairs of WLR commitment levels and associated Bid Prices; provided however that the Office of the

Interconnection may interpolate WLR commitment levels based on clearing prices between prices specified by the WLR Provider.

For the 2018/2019 and 2019/2020 Delivery Years, each WLR Provider owning or controlling a WLR Load that qualifies as both a Base Capacity WLR Load and a Capacity Performance WLR Load may submit separate but coupled WLR Bids for such WLR Load as a Base Capacity WLR Load and as a Capacity Performance WLR Load, at different prices, and the auction clearing algorithm will select the WLR Bid that yields the least-cost solution. For such coupled WLR Bids, the bid price of a Capacity Performance WLR Load bid must be at least \$.01 per MW-day greater than the bid price of a coupled Base Capacity WLR Load bid.

Each WLR Provider submitting a WLR Bid shall comply with any applicable RPM Credit requirements as specified in Attachment Q of this Tariff.

I. LSE Capacity Obligation Reduction. The Obligation Peak Load of a Load Serving Entity that serves WLR Load or Wholesale Energy Efficiency Load in any Zone or sub-Zonal LDA shall be as determined in Schedule 8 to this Agreement; provided, however, that such Load Serving Entity shall receive, for each day during a Delivery Year that a Wholesale Load Reduction and/or a Wholesale Energy Efficiency Load commitment is effective as to registered WLR Loads and Wholesale Energy Efficiency Loads approved by PJM consistent with a post-installation report provided in accordance with section U.7 below served by such Load Serving Entity a specified quantity of reduction in the Obligation Peak Load of such Load Serving Entity, determined for each such Zone in accordance with the procedures hereunder and as further detailed in the PJM Manuals.

The reduction to a Load Serving Entity's Obligation Peak Load associated with each WLR Load and WEEL committed for that day that has a WLR Value equal to the Capacity Resource Clearing Price for Capacity Performance Resources shall be based on the Nominated WLR Quantity or Nominated WEEL Quantity, respectively, determined based on the ratio of the WLR Value for such WLR Load and WEEL to the Final Zonal Capacity Price as further detailed in the PJM Manuals. The reduction to a Load Serving Entity's Obligation Peak Load associated with each WLR Load and WEEL committed for that day that has a WLR Value lower than the Capacity Resource Clearing Price for Capacity Performance Resources shall be based on a proportion of the Nominated WLR Quantity or Nominated WEEL Quantity, respectively, determined based on the ratio of the WLR Value for such WLR Load and WEEL to the Final Zonal Capacity Price, as further detailed in the PJM Manuals. In no event shall the Obligation Peak Load of any Load Serving Entity be reduced to less than zero.

J. Transfers and Replacements of WLR Commitments.

(1) WLR Transfers Between Wholesale Entities. A WLR Provider may transfer all or part of its WLR commitment for a Delivery Year as to WLR Load in a Zone or sub-Zonal LDA to another Wholesale Entity acting as a WLR Provider in the same Zone or sub-Zonal LDA, provided that the transferee WLR Provider is the Load Serving Entity that shall serve such WLR Load, through notice of such transfer provided by both the transferor and transferee WLR Providers to the Office of the Interconnection in the form and manner specified in the PJM Manuals. From and after the effective date of such transfer, and to the extent of such transfer, the transferor WLR Provider shall be relieved of its WLR commitment and credit requirements, shall not be liable for WLR compliance charges, and shall not be entitled to the capacity obligation reduction otherwise provided by section I hereof; and the transferee WLR Provider, to

the extent of such transfer, shall assume such WLR commitment, credit requirements, and obligation for compliance charges and shall be entitled to the capacity obligation reduction provided by section I as to such WLR Load.

(2) Replacement of WLR or WEEL Commitment by Capacity Resource. A WLR Provider may replace all or part of its WLR commitment for a Delivery Year as to WLR Load in a Zone or sub-Zonal LDA by clearing a Buy Bid for replacement capacity in an Incremental Auction under the terms and conditions of Attachment DD to the Tariff, by entering a Locational UCAP transaction in accordance with the terms of Attachment DD to the Tariff, or through a bilateral transaction under section 4.6 of Attachment DD to the Tariff. A WEEL Provider may replace all or part of its WEEL commitment for a Delivery Year as to WEEL in a Zone or sub-Zonal LDA by clearing a Buy Bid for replacement capacity in an Incremental Auction under the terms and conditions of Attachment DD to the Tariff, by entering a Locational UCAP transaction in accordance with the terms of Attachment DD to the Tariff, or through a bilateral transaction under section 4.6 of Attachment DD to the Tariff. The Unforced Capacity required in such case shall equal the Nominated WLR Quantity, or Nominated WEEL Quantity, sought to be replaced, times the Forecast Pool Requirement. The rights and responsibilities, following such replacement, of the WLR Provider, or WEEL Provider, and the Capacity Market Seller providing replacement capacity shall be as specified in any required notice to the Office of the Interconnection or as otherwise prescribed by the Tariff for such replacements.

K. WLR Load Compliance Measurement. Based on information provided by the WLR Provider, in accordance with the requirements of this Schedule 6.2 and the PJM Manuals, with respect to the separate arrangements with end-use customers on which the WLR Provider intends to rely to fulfill its WLR commitment, PJM shall measure WLR Loads in the following ways:

Direct Load Control (“DLC”) – Load management that is initiated directly by the WLR Provider’s market operations center or its agent, employing a communication signal to cycle equipment (typically water heaters or central air conditioners). DLC programs are qualified based on load research and customer subscription data. WLR Providers may rely on the results of load research studies identified in the PJM Manuals to set the per-participant load reduction for DLC programs; provided, however, that load research studies supporting Capacity Performance WLR Loads must demonstrate such load reduction capability for non-summer months. Each WLR Provider relying on DLC load management must periodically update its DLC switch operability rates, in accordance with the PJM Manuals.

Firm Service Level (“FSL”) – Load management achieved by an end-use customer reducing its load to a pre-determined level (the Firm Service Level), upon notification from the WLR Provider’s market operations center or its agent.

Customer Baseline Load (“CBL”) – Load management achieved by an end-use customer as measured by comparing actual metered load to an end-use customer’s Customer Baseline Load or alternative CBL determined in accordance with the provisions of section O below.

Notwithstanding any such measurement of load management by any end-use customer identified by the WLR Provider, the WLR Provider shall remain solely and exclusively responsible for providing any Wholesale Load Reduction committed hereunder by such WLR Provider.

L. Nominated WLR Quantities.

(a) Any Nominated WLR Quantity committed by a WLR Provider hereunder shall comprise a commitment by such WLR Provider to an aggregate reduction of a specified quantity of the wholesale load to be served by the Load Serving Entity that is responsible for serving such loads.

The Nominated WLR Quantity that may be claimed from, or provided by, a Firm Service Level customer will be based on the peak load contribution for the customer, as determined by the methodology utilized to determine other ICAP obligation values. The maximum contribution to a WLR Load reduction value that may be claimed from, or provided by, a Firm Service Level customer will be equal to the Peak Load Contribution minus the Firm Contract Level, adjusted for system losses.

The Nominated WLR Quantity that may be claimed from, or provided by, a Direct Load Control program must be demonstrated based on load research and customer subscription. The maximum value of such a program shall be equal to the approved per-participant load reduction multiplied by the number of active participants, adjusted for system losses. The per-participant impact is to be estimated at long-term average local weather conditions at the time of the summer peak.

Information specific to any end-user identified by the WLR Provider hereunder (EDC account number, peak load, notification period, etc.) shall be entered by such WLR Provider into the designated PJM electronic system to establish the portion of the Nominated WLR Quantity associated with such customer. Additional data may be required, as defined in the PJM Manuals.

(b) The maximum portion of any Nominated WLR Quantities that may be claimed from any given end-use customer shall be verified and established prior to the start of the Delivery Year through information provided by the WLR Provider and the EDC for the Zone in which such customer is located. As set forth in the PJM Manuals, WLR Providers shall provide, on templates supplied by PJM, the LSE serving the load at the site being registered, the EDC meter number, or other unique customer identifier, Peak Load Contribution (“PLC”), contract firm service level values, applicable loss factor, zone/area location of the load, contact information, number of active participants, etc. Such data must be uploaded and approved prior to the first day of the Delivery Year. For Direct Load Control programs, the WLR Provider must provide information detailing the number of active participants in each program. WLR Providers must provide such information concurrently to host EDCs.

M. WLR Performance Verification and Support. WLR Providers shall be responsible for verifying the performance of their WLR Loads during each pre-emergency or emergency action declared by the Office of the Interconnection. Performance will be established for each WLR

Provider on an event specific basis for the WLR Provider's WLR Loads, including any identified portion thereof, requested to reduce demand by PJM during such event. WLR Providers shall demonstrate that the identified WLR Loads reduced demand by the committed megawatt amount below the PLC assigned to such WLR Loads. Such compliance will be determined based on a comparison of the PLC assigned to the identified WLR Loads and the actual energy consumed of the identified WLR Loads. PJM will set forth in the PJM Manuals reasonable deadlines for the timely submittal of event data to expedite performance reviews. Performance reviews will be completed as soon after the event as possible, with the expectation that reviews of a single event will be completed within two months of the end of the month in which the event occurred. WLR Providers are responsible for the submittal of the actual energy usage for their registered WLR Loads to PJM for each PJM-initiated event during the compliance period. A WLR Provider must also provide load drop estimates for all pre-emergency or emergency actions, prepared in accordance with the PJM Manuals.

N. Compliance Measurement. A WLR Load may not in the aggregate reduce its load below zero (i.e., export energy into the system). No contribution toward satisfaction of a Nominated WLR Quantity shall be given for an incremental load drop below zero. Compliance will be totaled over all customers and programs identified by the WLR Provider to determine a net Wholesale Load Reduction for the event for each WLR Provider by Zone, for all WLR Loads committed by such WLR Provider and that were addressed in a request to reduce demand by the Office of the Interconnection in the zone. Performance shortfalls shall be as further determined in accordance with section S of this Schedule 6.2.

For pre-emergency or emergency actions occurring during the months of June through September of the 2018/2019 Delivery Year and subsequent Delivery Years:

The contribution to the Wholesale Load Reduction of any Direct Load Control programs identified by the WLR Provider shall consider only the transmission of the control signal. WLR Providers are required to report the time period (during the pre-emergency or emergency action) that the control signal was actually sent.

The contribution to the Wholesale Load Reduction of any individual FSL customer identified by the WLR Provider shall be determined by comparing such customer's actual load during the event to the customer's firm service level. WLR Providers must submit actual customer load levels (for the entire day on which the event occurred) for the compliance report. The contribution to the Wholesale Load Reduction for any identified FSL customer shall be based on such customer's current Delivery Year peak load contribution ("PLC") minus such customer's metered load ("Load") multiplied by the loss factor ("LF").

The contribution to the Wholesale Load Reduction from any identified non-interval metered DLC programs shall be averaged over the pre-emergency or emergency action. The contribution to the Wholesale Load Reduction from any identified FSL customers shall be averaged over the pre-emergency or emergency action by the Office of the Interconnection for at least 30 minutes of the clock hour (i.e., "partial dispatch compliance hour"). The registered load reduction commitment for the partial dispatch compliance hour will be prorated based on the number of minutes for which load reduction was requested during the clock hour and as defined in the

Manual. The WLR Provider may submit one-minute load data for use in capacity compliance calculations for partial dispatch compliance hours subject to PJM approval and in accordance with the PJM Manuals where: (a) metering meets all Tariff, RAA, and Manual requirements, (b) one-minute load data shall be submitted to PJM for all locations on the registration, and (c) one-minute load data measures energy consumption over the minute.

For pre-emergency or emergency action occurring during the months of October through May of the 2018/2019 Delivery Year and subsequent Delivery Years:

The contribution to the Wholesale Load Reduction of any Direct Load Control programs will consider only the transmission of the control signal. WLR Providers are required to report the time period (during the pre-emergency or emergency action) that the control signal was actually sent.

The contribution to the Wholesale Load Reduction of any individual FSL customer identified by the WLR Provider shall be determined by comparing such customer's actual metered load to such customer's Customer Baseline Load ("CBL") determined in accordance with subsection O(1) below or an alternative Customer Baseline methodology determined in accordance with subsection O(2) below. WLR Providers must submit actual customer load levels (for the entire day on which the pre-emergency or emergency action occurred and for all days needed to calculate the customer baseline) for the compliance report.

O. Customer Baseline Load.

(1) The CBL of any end-use customer identified by the WLR Provider shall be determined using the following formula for such customer's Non-Variable Loads:

- (a) The CBL for weekdays shall be the average of the highest 4 out of the 5 most recent load weekdays in the 45 calendar day period preceding the relevant load reduction event.
  - i. For the purposes of calculating the CBL for weekdays, weekdays shall not include:
    - 1. NERC holidays;
    - 2. Weekend days;
    - 3. Event days. For the purposes of this section an event day shall be any day in which a pre-emergency or emergency action is declared and PJM requests WLR Providers to reduce their wholesale loads.
    - 4. Any weekday where the average daily event period usage is less than 25% of the average event period usage for the five days.



- ii. If a 45-day period does not include 5 weekdays that meet the conditions in subsection (a)(i) of this section, provided there are 4 weekdays that meet the conditions in subsection (a)(i) of this section, the CBL shall be based on the average of those 4 weekdays. If there are not 4 eligible weekdays, the CBL shall be determined in accordance with subsection (iii) of this section.
- iii. subsection (a)(i)(3) above notwithstanding, if a 45-day period does not include 4 weekdays that meet the conditions in subsection (a)(i) of this section, event days will be used as necessary to meet the 4 day requirement to calculate the CBL, provided that any such event days shall be the highest load event days within the relevant 45-day period.

(b) The CBL for weekend days and NERC holidays shall be determined in accordance with the following provisions:

- i. The CBL for Saturdays and Sundays/NERC holidays shall be the average of the highest 2 load days out of the 3 most recent Saturdays or Sundays/NERC holidays, respectively, in the 45 calendar day period preceding the relevant load reduction event, provided that the following days shall not be used to calculate a Saturday or Sunday/NERC holiday CBL:
  - 1. Event days. For the purposes of this section an event day shall be any day in which a pre-emergency or emergency action is declared and PJM requests WLR Providers to reduce their wholesale loads.
  - 2. Any Saturday or Sunday/NERC holiday where the average daily event period usage is less than 25% of the average event period usage level for the three days;
  - 3. Any Saturday or Sunday/NERC holiday that corresponds to the beginning or end of daylight savings.
- ii. If a 45-day period does not include 3 Saturdays or 3 Sundays/NERC holidays, respectively, that meet the conditions in subsection (b)(i) of this section, provided there are 2 Saturdays or Sundays/NERC holidays that meet the conditions in subsection (b)(i) of this section, the CBL will be based on the average of those 2 Saturdays or Sundays/NERC holidays. If there are not 2 eligible Saturdays or Sundays/NERC holidays, the CBL shall be determined in accordance with subsection (iii) of this section.
- iii. Subsection (b)(i)(1) above notwithstanding, if a 45-day period does not include 2 Saturdays or Sundays/NERC holidays, respectively, that meet the conditions in subsection (b)(i) of this section, event days will be used as necessary to meet the 2 day requirement to calculate the CBL, provided that any such event days shall be the highest load event days within the relevant 45-day period.

(c) CBLs established pursuant to this section for any end-use customer identified by a WLR Provider shall represent such customers' actual load patterns. If the Office of the Interconnection determines that a CBL or alternative CBL does not accurately represent a customer's actual load patterns, the CBL shall be revised accordingly pursuant to subsection (2) below. Consistent with this requirement, if a WLR Provider chooses to derive any part of its Wholesale Load Reduction from an end-use customer that is measured using a Customer Baseline Load, the WLR Provider shall inform the Office of the Interconnection of any change in the operations of such end-use customer that would result in the adjustment of more than half the hours in such customer's Customer Baseline Load by twenty percent or more for more than twenty days.

(2) Alternative CBL Methodologies.

(a) During the WLR registration process pursuant to section G of this Schedule, the relevant WLR Provider or PJM ("Interested Parties") may propose an alternative CBL calculation that more accurately reflects the relevant end-use customer's consumption pattern relative to the CBL determined pursuant to subsection (a) above. In support of such proposal, the Interested Party shall demonstrate that the alternative CBL method shall result in an hourly relative root mean square error of twenty percent or less compared to actual hourly values, as calculated in accordance with the technique specified in the PJM Manuals. Any proposal made pursuant to this section shall be provided to the other Interested Party.

(b) The Interested Parties shall have 30 days to agree on a proposal issued pursuant to subsection (a) of this section. The 30-day period shall start the day the proposal is provided to the other Interested Party. If both Interested Parties agree on a proposal issued pursuant to this section, that alternative CBL calculation methodology shall be effective consistent with the date of the relevant WLR registration.

(c) If agreement is not reached pursuant to subsection (2)(b) above, the Office of the Interconnection shall determine a CBL methodology that shall result, as nearly as practicable, in an hourly relative root mean square error of twenty percent or less compared to actual hourly values within 20 days from the expiration of the 30-day period established by subsection (b). A CBL established by the Office of the Interconnection pursuant to this subsection (c) shall be binding upon both Interested Parties unless the Interested Parties reach agreement on an alternative CBL methodology prior to the expiration of the 20-day period established by this subsection (c).

(d) The Office of the Interconnection shall periodically publish alternative CBL methodologies established pursuant to this section in the PJM Manuals.

(e) Customer Baseline Levels established pursuant to this subsection O.2 shall be adjusted by the Symmetric Additive Adjustment. Unless an alternative formula is approved by the Office of the Interconnection, the Symmetric Additive Adjustment shall be calculated using the following formula:

Step 1: Calculate the average usage over the 3 hour period ending 1 hour prior to the start of event.

Step 2: Calculate the average usage over the 3 hour period in the CBL that corresponds to the 3 hour period described in Step 1.

Step 3: Subtract the results of Step 2 from the results of Step 1 to determine the symmetric additive adjustment (this may be positive or negative).

Step 4: Add the symmetric additive adjustment (i.e. the results of Step 3) to each hour in the CBL that corresponds to each event hour.

Following a pre-emergency or emergency action, the Office of the Interconnection shall make available the metered data to the appropriate electric distribution company for optional review and will have ten business days to provide the Office of the Interconnection with notification of any issues related to the metered data or calculations.

P. Non-Hourly Metered Customer Pilot. Non-hourly metered customers may participate in the Wholesale Load Reduction program on a pilot basis under the following circumstances. The customer's WLR Provider must propose an alternate method for measuring hourly demand reductions. The Office of the Interconnection shall approve alternate measurement mechanisms on a case-by-case basis for a time period specified by the Office of the Interconnection ("Pilot Period"). Load reductions by non-hourly metered customers using alternate measurement mechanisms on a pilot basis shall be limited to a combined total of 500 MW of reductions in the Wholesale Load Reduction program. With the sole exception of the requirement for hourly metering, non-hourly metered customers shall be subject to the rules and procedures for participation in the Wholesale Load Reduction program. Following completion of a Pilot Period, the alternate method shall be evaluated by the Office of the Interconnection to determine whether such alternate method should be included in the PJM Manuals as an accepted measurement mechanism for load reductions in the Wholesale Load Reduction program.

Q. WLR Deficiency Charge. Any WLR Provider that does not register and maintain the sufficient WLR Load in a Zone or sub-Zonal LDA to satisfy in full its Nominated WLR Quantity commitment in such Zone or sub-Zonal LDA on each day of the Delivery Year for which such commitment is made shall be assessed a WLR Deficiency Charge for each day that the registered WLR Load is less than the committed Nominated WLR Quantity. Any WEEL Provider with a WEEL for which the post-installation measurement and verification report, submitted to PJM in accordance with section U.7 below, demonstrates a continuous reduction in electric energy consumption less than the committed Nominated WEEL Quantity for such WEEL shall be assessed a WLR Deficiency Charge for each day of the Delivery Year that the WEEL is less than the committed Nominated WEEL Quantity. Such daily WLR Deficiency Charge shall equal:

$$[\text{MW Shortfall}] * [\text{Forecast Pool Requirement}] * [(\text{applicable WLR Value in } \$/\text{MW-day}) \\ + \text{higher of } (0.2 * \text{applicable WLR Value}) \text{ or } (\$20/\text{MW-day})]$$

Where: MW Shortfall = for WLR Loads, Daily Nominated WLR Quantity committed in the Base Residual Auction, as adjusted for any replacement and/or transfers of WLR Load, for the

relevant Zone or sub-Zonal LDA – the Daily Nominated WLR Quantity supported by WLR Load registrations for such Zone or sub-Zonal LDA; for WEEL, Daily Nominated WEEL Quantity committed in the Base Residual Action, as adjusted for any replacement and/or transfers of WEEL, for the relevant Zone or sub-Zonal LDA – the Daily Nominated WEEL Quantity supported by the post-installation measurement and verification report; and

The applicable WLR Value is the WLR Value assigned to the committed Nominated WLR Quantity or Nominated WEEL Quantity pursuant to section F hereof. The MW Shortfall may be reduced through replacement of the WLR or WEEL by any Capacity Resource effected in accordance with the terms of this RAA or the Tariff. The WLR Provider also may register additional WLR Load to satisfy its WLR commitment.

However, WLR Load that is subject to a charge under this section that is also subject to a charge under section S of this Schedule 6.2 for a Performance Shortfall during one or more Performance Assessment Hours occurring during the period of WLR Load deficiency addressed by this section shall be assessed a charge equal to the greater of the WLR Deficiency Charge determined under this section and the WLR Non-Performance charge determined under section S hereof, but shall not be assessed a charge under both this section and section S for such simultaneous occurrence of a WLR Load deficiency and Performance Shortfall.

R. WLR Test Failure Charge. WLR Providers that registered WLR Load shall be subject to test at least once per year to demonstrate the ability of the registered WLR Load to reduce as committed, and such WLR Providers shall be assessed a WLR Test Failure Charge to the extent of failure by the registered WLR Load during such test to reduce, on an aggregate basis equal to the Nominated WLR Quantity, in accordance with the following:

- (i) If the Office of the Interconnection does not declare during the relevant Delivery Year a pre-emergency or emergency action that requires the registered WLR Load to reduce as committed, then the WLR Provider must demonstrate that its registered WLR Load was tested for a one-hour period during any hour when a pre-emergency or emergency action may be called during the months in which it is committed to reduce load upon request. If a pre-emergency or emergency action that requires PJM to request the WLR Load to reduce as committed is called during the relevant Delivery Year, then no WLR Test Failure Charges will be assessed hereunder.
- (ii) All WLR Load registered in a Zone must be tested simultaneously for each type of WLR Load except that, when less than 25 percent (by megawatts) of a WLR Provider's total WLR Load registered in a Zone fails a test, the WLR Provider may conduct a re-test limited to all registered WLR Load that failed the prior test, provided that such re-test must be at the same time of day and under approximately the same weather conditions as the prior test, and provided further that all affiliated registered WLR Load must test simultaneously, where affiliated means registered WLR Load that has any ability to shift load and that is owned or controlled by the same entity. If less than 25 percent of a WLR Provider's total registered WLR Load in a Zone fails the test and the WLR Provider chooses to conduct a re-test, the WLR Provider may elect to maintain the performance compliance result achieved during the test if the WLR Provider: (1) notifies the

Office of the Interconnection 48 hours prior to the re-test under this election; and  
(2) the WLR Provider retests affiliated registered WLR Load under this election as set forth in the PJM Manuals.

- (iii) A WLR Provider that registered WLR Load shall be assessed a WLR Test Failure Charge equal to the net WLR Load's capability testing shortfall in a Zone or sub-Zonal LDA during such test in the aggregate of all of such WLR Provider's registered WLR Load in such Zone times the WLR Test Failure Charge Rate. The net capability testing shortfall in such Zone shall be the following megawatt quantity, converted to an Unforced Capacity basis using the applicable Forecast Pool Requirement: [megawatts of committed load reduction minus the total megawatts of load reduction actually provided by the identified WLR Load in aggregate in such Zone during such test].

The net WLR Load capability testing shortfall in such Zone shall be reduced by the WLR Provider's summer daily average of the MW shortfalls determined for WLR Non-Performance Charge purposes under section S of this Schedule 6.2 in such Zone for such WLR Provider's registered WLR Loads.

The WLR Test Failure Charge Rate shall equal the applicable WLR Value for such WLR Load in such Zone plus the greater of (0.20 times the applicable WLR Value for such WLR Load in such Zone or \$20/MW-day) times the number of days in the Delivery Year.

Such charge shall be assessed daily and charged monthly (or otherwise in accordance with customary PJM billing practices in effect at the time); provided, however, that a lump sum payment may be required to reflect amounts due, as a result of a test failure, from the start of the Delivery Year to the day that charges are reflected in regular billing.

S. WLR Non-Performance Charge. A WLR Provider or a WEEL Provider that fails to provide the committed quantity of load reduction when requested by PJM during a PJM declared pre-emergency or emergency event will be subject to a WLR Non-Performance Charge.

(a) Each WLR Provider that commits WLR Load for a Delivery Year and WEEL Provider that commits one or more WEELs for a Delivery Year shall be charged to the extent the performance of its committed WLR Load or WEEL during all or any part of a clock-hour when an Emergency Action is in effect falls short of the expected performance of such WLR Load or WEEL (as determined herein). The revenue from such charges shall be distributed in accordance with Section 10A of Attachment DD to the Tariff.

(b) Performance shall be measured for purposes of this assessment during each Performance Assessment Hour.

(c) For each Performance Assessment Hour, the Office of the Interconnection shall determine whether, and the extent to which, the actual performance of each of a WLR Provider's identified WLR Loads has fallen short of the performance expected of such WLR Load or a

WEEL Provider's identified WEELs has fallen short of the performance expected of such WEEL, and the magnitude of any such shortfall, based on the following formula:

Performance Shortfall = Expected Performance - Actual Performance

such formula is a positive number and where:

Expected Performance =

Committed load reduction (in megawatts) without making any adjustment for the Forecast Pool Requirement

and

Actual Performance =

for each identified WLR Load, the load reduction provided by such load, plus such WLR Loads' real-time reserve or regulation assignment, if any, during the Performance Assessment Hour, as established through the WLR Load settlement procedure set forth in the PJM Manuals and consistent with the standards specified in this Schedule 6.2 of the RAA; and

for each identified WEEL, the load reduction quantity approved by PJM subsequent to the pre-delivery year submittal of a post-installation measurement and verification report.

Such calculation shall encompass all WLR Loads and WEELs located in the area defined by the Emergency Action. The Performance Shortfall shall be calculated for each Performance Assessment Hour, and any WLR Loads identified by the WLR Provider or any WEELs identified by the WEEL Provider for which the above calculation produces a negative number for a Performance Assessment Hour shall not have a Performance Shortfall for such Performance Assessment Hour.

(d) Notwithstanding subsection (c) above, a WLR Load shall not be considered in the calculation of a Performance Shortfall for a Performance Assessment Hour to the extent such WLR Load was not the subject of a request to reduce load by the Office of the Interconnection.

(e) Subject to the WLR Non-Performance Charge Limit specified in subsection (f) hereof, each WLR Provider and WEEL Provider shall be assessed a Non-Performance Charge for its WLR Load or WEEL that has a Performance Shortfall for a Performance Assessment Hour based on the following formula, applied to each such load:

WLR Non-Performance Charge = Performance Shortfall \* WLR Non-Performance Charge Rate

Where

For Capacity Performance WLR Loads and Capacity Performance WEELs the WLR Non-Performance Charge Rate = (Net Cost of New Entry (stated in terms of installed capacity) for the LDA and Delivery Year for which such calculation is performed \* (365 / 30)

and for Base Capacity WLR Loads and Base Capacity WEELs the WLR Non-Performance Charge Rate = ( WLR Value applicable to the WLR Load \* (365 / 30)

(f) The WLR Non-Performance Charge for each WLR Load or WEEL shall not exceed a Non-Performance Charge Limit equal to, for any calendar month of a Delivery Year, 0.5 times the Net Cost of New Entry times the megawatts of load reduction (in Unforced Capacity terms) committed by such WLR Load or WEEL times 365; and for a Delivery Year, an amount equal to 1.5 times the Net Cost of New Entry times the megawatts of Unforced Capacity committed by such WLR Load times 365. All references to Net Cost of New Entry in this section S shall be to the Net Cost of New Entry for the LDA and Delivery Year for which the calculation is performed. The WLR Non-Performance Charge for each Base Capacity WLR Load and Base Capacity WEEL shall not exceed a WLR Non-Performance Charge Limit equal to, for a Delivery Year, an amount equal to the WLR Value applicable to such WLR Load or WEEL under section F of this Schedule 6.2 for such Delivery Year, times the number of days in the Delivery Year times the portion of the WLR Provider's Nominated WLR Quantity associated with such WLR Load or the WEEL Provider's Nominated WEEL Quantity associated with such WEEL, as applicable.

(g) Revenues collected from assessment of WLR Non-Performance Charges for a Performance Assessment Hour shall be combined with revenues collected from assessment of Non-Performance Charges on Capacity Resources in accordance with Section 10A of Attachment DD to the PJM Tariff. Any WLR Provider whose WLR Load's Actual Performance exceeds its Expected Performance and any WEEL Provider whose WEEL's Actual Performance exceeds its Expected Performance will be eligible to receive a Performance Payment in accordance with the terms of Section 10A of Attachment DD to the PJM Tariff.

(h) The Office of the Interconnection shall bill charges and credits for performance during Performance Assessment Hours within three calendar months after the calendar month that included such Performance Assessment Hours, provided, for any WLR Non-Performance Charge, the amount shall be divided by the number of months remaining in the Delivery Year for which no invoice has been issued, and the resulting amount shall be invoiced each such remaining month in the Delivery Year.

T. Distribution of Revenue Collected From WLR Charges.

The revenue collected from assessment of the charges assessed under sections Q and R of this Schedule 6.2 shall be distributed on a pro-rata basis to all entities that committed Capacity Resources in the RPM Auctions for the Delivery Year for which the compliance charge is assessed, pro rata based on each such entity's revenues from Capacity Market Clearing Prices in such auctions, net of any compliance charges incurred by such entity.

U. Wholesale Energy Efficiency Loads.

1. A Wholesale Energy Efficiency Load, or “WEEL,” is a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak summer and winter periods as described herein) reduction in electric energy consumption at the End-Use Customer’s retail site that is not reflected in the peak load forecast prepared for the Delivery Year for which the Wholesale Energy Efficiency Load is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, request to reduce, or operator intervention. Any Wholesale Entity may submit one or more WLR Bids supported by one or more WEELs in a Base Residual Auction to reduce load by a specified quantity during the specified Delivery Year.
2. A WEEL Provider may bid WEEL into the Base Residual Auction for any Delivery Year beginning on or after June 1, 2018. No later than 30 days prior to the auction in which the load reduction is to be bid, the WEEL Provider shall submit to the Office of the Interconnection a notice of intent to bid the load reduction into such auction and a measurement and verification plan. The notice of intent shall include all pertinent project design data, including but not limited to the peak-load contribution of affected customers, a full description of the equipment, device, system or process intended to achieve the load reduction, the load reduction pattern, the project location, the project development timeline, and any other relevant data. Such notice also shall state:
  - For the 2018/2019 and 2019/2020 Delivery Years, the seller’s proposed Nominated WEEL Quantity for any Base Capacity WEEL shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday; and
  - For the 2018/2019 Delivery Year and subsequent Delivery Years, the seller’s proposed Nominated WEEL Quantity for any Capacity Performance WEEL, shall be the expected average load reduction, for all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday, between the hour ending 15:00 EPT and the hour ending 18:00 EPT. In addition, the expected average load reduction for all days from January 1 through February 28, inclusive, of such Delivery Year that is not a weekend or federal holiday, between the hour ending 8:00 EPT and the hour ending 9:00 EPT and between the hour ending 19:00 EPT and the hour ending 20:00 EPT shall not be less than the Nominated WEEL Quantity.

The measurement and verification plan shall describe the methods and procedures, consistent with the PJM Manuals, for determining the amount of the load reduction and confirming that



such reduction is achieved. The Office of the Interconnection shall determine, upon review of such notice, the Nominated WEEL Quantity that may be bid in the Base Residual Auction.

3. WEEL may only be bid into a Base Residual Auction through a WLR Bid. In any such Base Residual Auction, the Office of the Interconnection shall shift to the left the Variable Resource Requirement Curve for the PJM Region or a Locational Deliverability Area, as applicable, to reflect the Nominated WEEL Quantity and WLR Bid Price of any WEEL bids for the PJM Region or such LDA, as applicable, in such RPM Auction. Each such leftward shift shall begin at the price point on the VRR Curve corresponding to the WLR Bid Price of the bid, and shall uniformly shift the VRR Curve to the left in the amount of the Nominated WEEL Quantity times FPR at that price point and all higher price points.
4. If a Base Capacity WEEL clears in the auction, it shall be assigned the applicable WLR Value as determined in accordance with section F above, subject to section U.7 below, for use in determining the LSE Capacity Obligation Reduction in section I above. If a Capacity Performance WEEL clears in the auction, it shall be assigned the applicable WLR Value as determined in accordance with section F above, subject to section U.7 below, for use in determining the LSE Capacity Obligation Reduction in section I above. A WEEL Provider bidding a WEEL must comply with all applicable credit requirements as set forth in Attachment Q to the PJM Tariff.
5. A WEEL cleared in an auction for a Delivery Year may be bid in Base Residual Auctions for up to three additional consecutive Delivery Years (if the reduction in electric energy consumption is not reflected in the peak load forecast prepared for the Delivery Year for which the WEEL is committed), but shall not be assured of clearing in any such auction; provided, however, a WEEL may not be bid for any Delivery Year in which any part of the peak season is beyond the expected life of the equipment, device, system, or process providing the expected load reduction.
6. For every WEEL Provider clearing one or more WEELs in an RPM Auction for a Delivery Year, the WEEL Provider shall submit to the Office of the Interconnection, by no later than 30 days prior to each Auction an updated project status and measurement and verification plan subject to the criteria set forth in the PJM Manuals.
7. For every WEEL Provider clearing one or more WEELs in an RPM Auction for a Delivery Year, the WEEL Provider shall submit to the Office of the Interconnection, by no later than the start of such Delivery Year, an updated project status and detailed measurement and verification data meeting the standards for precision and accuracy set forth in the PJM Manuals. The final value of the WEEL during such Delivery Year shall be as determined by the Office of the Interconnection based on the data submitted in such post-installation measurement and verification report.

8. The Office of the Interconnection may audit, at the WEEL Provider's expense, any WEEL committed to the PJM Region. The audit may be conducted any time including the Performance Hours of the Delivery Year.

# Attachment C

## Revisions to the PJM Open Access Transmission Tariff and Reliability Assurance Agreement Option B

(Identified by Additional Cover Pages)

(Marked/Redline Format)

Sections of the  
PJM Open Access Transmission Tariff  
Option B  
(Marked/Redline Format)

## **ATTACHMENT Q**

### **PJM CREDIT POLICY**

#### **POLICY STATEMENT:**

It is the policy of PJM Interconnection, LLC (“PJM”) that prior to an entity participating in the PJM Markets, or in order to take Transmission Service, the entity must demonstrate its ability to meet PJMSettlement’s credit requirements.

Prior to becoming a Market Participant, Transmission Customer, and/or Member of PJM, PJMSettlement must accept and approve a Credit Application (including Credit Agreement) from such entity and establish a Working Credit Limit with PJMSettlement. PJMSettlement shall approve or deny an accepted Credit Application on the basis of a complete credit evaluation including, but not be limited to, a review of financial statements, rating agency reports, and other pertinent indicators of credit strength.

#### **POLICY INTENT:**

This credit policy describes requirements for: (1) the establishment and maintenance of credit by Market Participants, Transmission Customers, and entities seeking either such status (collectively “Participants”), pursuant to one or more of the Agreements, and (2) forms of security that will be deemed acceptable (hereinafter the “Financial Security”) in the event that the Participant does not satisfy the financial or other requirements to establish Unsecured Credit.

This policy also sets forth the credit limitations that will be imposed on Participants in order to minimize the possibility of failure of payment for services rendered pursuant to the Agreements, and conditions that will be considered an event of default pursuant to this policy and the Agreements.

These credit rules may establish certain set-asides of credit for designated purposes (such as for FTR or RPM activity). Such set-asides shall be construed to be applicable to calculation of credit requirements only, and shall not restrict PJMSettlement’s ability to apply such designated credit to any obligation(s) in case of a default.

PJMSettlement may post on PJM’s web site, and may reference on OASIS, a supplementary document which contains additional business practices (such as algorithms for credit scoring) that are not included in this document. Changes to the supplementary document will be subject to stakeholder review and comment prior to implementation. PJMSettlement may specify a required compliance date, not less than 15 days from notification, by which time all Participants must comply with provisions that have been revised in the supplementary document.

#### **APPLICABILITY:**

This policy applies to all Participants.

## **IMPLEMENTATION:**

### **I. CREDIT EVALUATION**

Each Participant will be subject to a complete credit evaluation in order for PJMSettlement to determine creditworthiness and to establish an **Unsecured Credit Allowance**, if applicable; provided, however, that a Participant need not provide the information specified in section I.A or I.B if it notifies PJMSettlement in writing that it does not seek any Unsecured Credit Allowance. PJMSettlement will identify any necessary Financial Security requirements and establish a Working Credit Limit for each Participant. In addition, PJMSettlement will perform follow-up credit evaluations on at least an annual basis.

If a **Corporate Guaranty** is being utilized to establish credit for a Participant, the guarantor will be evaluated and the Unsecured Credit Allowance or Financial Security requirement will be based on the financial strength of the Guarantor.

PJMSettlement will provide a Participant, upon request, with a written explanation for any change in credit levels or collateral requirements. PJMSettlement will provide such explanation within ten Business Days.

If a Participant believes that either its level of unsecured credit or its collateral requirement has been incorrectly determined, according to this credit policy, then the Participant may send a request for reconsideration in writing to PJMSettlement. Such a request should include:

- A citation to the applicable section(s) of the PJMSettlement credit policy along with an explanation of how the respective provisions of the credit policy were not carried out in the determination as made
- A calculation of what the Participant believes should be the correct credit level or collateral requirement, according to terms of the credit policy

PJMSettlement will reconsider the determination and will provide a written response as promptly as practical, but no longer than ten Business Days of receipt of the request. If the Participant still feels that the determination is incorrect, then the Participant may contest that determination. Such contest should be in written form, addressed to PJMSettlement, and should contain:

- ◆ A complete copy of the Participant's earlier request for reconsideration, including citations and calculations
- ◆ A copy of PJMSettlement's written response to its request for reconsideration
- ◆ An explanation of why it believes that the determination still does not comply with the credit policy

PJMSettlement will investigate and will respond to the Participant with a final determination on the matter as promptly as practical, but no longer than 20 Business Days.

Neither requesting reconsideration nor contesting the determination following such request shall relieve or delay Participant's responsibility to comply with all provisions of this credit policy.

#### **A. Initial Credit Evaluation**

In completing the initial credit evaluation, PJMSettlement will consider:

##### **1) Rating Agency Reports**

In evaluating credit strength, PJMSettlement will review rating agency reports from Standard & Poor's, Moody's Investors Service, Fitch Ratings, or other nationally known rating agencies. The focus of the review will be on senior unsecured debt ratings; however, PJMSettlement will consider other ratings if senior unsecured debt ratings are not available.

##### **2) Financial Statements and Related Information**

Each Participant must submit with its application audited financial statements for the most recent fiscal quarter, as well as the most recent three fiscal years, or the period of existence of the Participant, if shorter. All financial and related information considered for a Credit Score must be audited by an outside entity, and must be accompanied by an unqualified audit letter acceptable to PJMSettlement.

The information should include, but not be limited to, the following:

- a. If publicly traded:
  - i. Annual and quarterly reports on Form 10-K and Form 10-Q, respectively.
  - ii. Form 8-K reports disclosing Material changes, if any.
- b. If privately held:
  - i. Management's Discussion & Analysis
  - ii. Report of Independent Accountants
  - iii. Financial Statements, including:
    - Balance Sheet
    - Income Statement
    - Statement of Cash Flows
    - Statement of Stockholder's Equity
  - iv. Notes to Financial Statements

If the above information is available on the Internet, the Participant may provide a letter stating where such statements may be located and retrieved by PJMSettlement. For certain Participants, some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJMSettlement.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness.

### **3) References**

PJMSettlement may request Participants to provide with their applications at least one (1) bank and three (3) utility credit references. In the case where a Participant does not have the required utility references, trade payable vendor references may be substituted.

### **4) Litigation, Commitments and Contingencies**

Each Participant is also required to provide with its application information as to any known Material litigation, commitments or contingencies as well as any prior bankruptcy declarations or Material defalcations by the Participant or its predecessors, subsidiaries or Affiliates, if any. These disclosures shall be made upon application, upon initiation or change, and at least annually thereafter, or as requested by PJMSettlement.

### **5) Other Disclosures**

Each Participant is required to disclose any Affiliates that are currently Members of PJMSettlement or are applying for membership with PJMSettlement. Each Participant is also required to disclose the existence of any ongoing investigations by the Securities and Exchange Commission ("SEC"), Federal Energy Regulatory Commission ("FERC"), Commodity Futures Trading Commission ("CFTC"), or any other governing, regulatory, or standards body. These disclosures shall be made upon application, upon initiation or change, and at least annually thereafter, or as requested by PJMSettlement.

## **B. Ongoing Credit Evaluation**

On at least an annual basis, PJMSettlement will perform follow-up credit evaluations on all Participants. In completing the credit evaluation, PJMSettlement will consider:

### **1) Rating Agency Reports**

In evaluating credit strength, PJMSettlement will review rating agency reports from Standard & Poor's, Moody's Investors Service, Fitch Ratings, or other nationally known rating agencies. The focus of the review will be on senior unsecured debt ratings; however, PJMSettlement will consider other ratings if senior unsecured debt ratings are not available.

### **2) Financial Statements and Related Information**

Each Participant must submit audited annual financial statements as soon as they become available and no later than 120 days after fiscal year end. Each Participant is also required to provide PJMSettlement with quarterly financial statements promptly upon their issuance, but no later than 60 days after the end of each quarter. All financial and related information considered



for a Credit Score must be audited by an outside entity, and must be accompanied by an unqualified audit letter acceptable to PJMSettlement. If financial statements are not provided within the timeframe required, the Participant may not be granted an Unsecured Credit Allowance.

The information should include, but not be limited to, the following:

- a. If publicly traded:
  - i. Annual and quarterly reports on Form 10-K and Form 10-Q, respectively.
  - ii. Form 8-K reports disclosing Material changes, if any, immediately upon issuance.
- b. If privately held:
  - i. Management's Discussion & Analysis
  - ii. Report of Independent Accountants
  - iii. Financial Statements, including:
    - Balance Sheet
    - Income Statement
    - Statement of Cash Flows
    - Statement of Stockholder's Equity
  - iv. Notes to Financial Statements

If the above information is available on the Internet, the Participant may provide a letter stating where such statements may be located and retrieved by PJMSettlement. For certain Participants, some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJMSettlement.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness.

### **3) Material Changes**

Each Participant is responsible for informing PJMSettlement immediately, in writing, of any Material change in its financial condition. However, PJMSettlement may also independently establish from available information that a Participant has experienced a Material change in its financial condition without regard to whether such Participant has informed PJMSettlement of the same.

For the purpose of this policy, a Material change in financial condition may include, but not be limited to, any of the following:

- a. a downgrade of any debt rating by any rating agency;
- b. being placed on a credit watch with negative implications by any rating agency;
- c. a bankruptcy filing;
- d. insolvency;

- e. a report of a quarterly or annual loss or a decline in earnings of ten percent or more compared to the prior period;
- f. restatement of prior financial statements;
- g. the resignation of key officer(s);
- h. the filing of a lawsuit that could adversely impact any current or future financial results by ten percent or more;
- i. financial default in another organized wholesale electric market futures exchange or clearing house;
- j. revocation of a license or other authority by any Federal or State regulatory agency; where such license or authority is necessary or important to the Participants continued business for example, FERC market-based rate authority, or State license to serve retail load; or
- k. a significant change in credit default spreads, market capitalization, or other market-based risk measurement criteria, such as a recent increase in Moody's KMV Expected Default Frequency (EDF<sup>tm</sup>) that is noticeably greater than the increase in its peers' EDF<sup>tm</sup> rates, or a collateral default swap (CDS) premium normally associated with an entity rated lower than investment grade.

If PJMSettlement determines that a Material change in the financial condition of the Participant has occurred, it may require the Participant to provide Financial Security within two Business Days, in an amount and form approved by PJMSettlement. If the Participant fails to provide the required Financial Security, the Participant shall be in default under this credit policy.

In the event that PJMSettlement determines that a Material change in the financial condition of a Participant warrants a requirement to provide Financial Security, PJMSettlement shall provide the Participant with a written explanation of why such determination was made. However, under no circumstances shall the requirement that a Participant provide the requisite Financial Security be deferred pending the issuance of such written explanation.

#### **4) Litigation, Commitments, and Contingencies**

Each Participant is also required to provide information as to any known Material litigation, commitments or contingencies as well as any prior bankruptcy declarations or Material defalcations by the Participant or its predecessors, subsidiaries or Affiliates, if any. These disclosures shall be made upon initiation or change or as requested by PJMSettlement.

#### **5) Other Disclosures**

Each Participant is required to disclose any Affiliates that are currently Members of PJM or are applying for membership within PJM. Each Participant is also required to disclose the existence of any ongoing investigations by the SEC, FERC, CFTC or any other governing, regulatory, or standards body. These disclosures shall be made upon initiation or change, or as requested by PJMSettlement.

### **C. Corporate Guaranty**

If a Corporate Guaranty is being utilized to establish credit for a Participant, the Guarantor will be evaluated and the Unsecured Credit Allowance or Financial Security requirement will be based on the financial strength of the Guarantor.

An irrevocable and unconditional Corporate Guaranty may be utilized as part of the credit evaluation process, but will not be considered a form of Financial Security. The Corporate Guaranty will be considered a transfer of credit from the Guarantor to the Participant. The Corporate Guaranty must guarantee the (i) full and prompt payment of all amounts payable by the Participant under the Agreements, and (ii) performance by the Participant under this policy.

The Corporate Guaranty should clearly state the identities of the “Guarantor,” “Beneficiary” (PJMSettlement) and “Obligor” (Participant). The Corporate Guaranty must be signed by an officer of the Guarantor, and must demonstrate that it is duly authorized in a manner acceptable to PJMSettlement. Such demonstration may include either a Corporate Seal on the Guaranty itself, or an accompanying executed and sealed Secretary’s Certificate noting that the Guarantor was duly authorized to provide such Corporate Guaranty and that the person signing the Corporate Guaranty is duly authorized, or other manner acceptable to PJMSettlement.

A Participant supplying a Corporate Guaranty must provide the same information regarding the Guarantor as is required in the “Initial Credit Evaluation” §I.A. and the “Ongoing Evaluation” §I.B. of this policy, including providing the Rating Agency Reports, Financial Statements and Related Information, References, Litigation Commitments and Contingencies, and Other Disclosures. A Participant supplying a Foreign or Canadian Guaranty must also satisfy the requirements of §I.C.1 or §I.C.2, as appropriate.

If there is a Material change in the financial condition of the Guarantor or if the Corporate Guaranty comes within 30 days of expiring without renewal, the Participant will be required to provide Financial Security either in the form of a cash deposit or a letter of credit. Failure to provide the required Financial Security within two Business Days after request by PJMSettlement will constitute an event of default under this credit policy. A Participant may request PJMSettlement to perform a credit evaluation in order to determine creditworthiness and to establish an Unsecured Credit Allowance, if applicable. If PJMSettlement determines that a Participant does qualify for a sufficient Unsecured Credit Allowance, then Financial Security will not be required.

The PJMSettlement Credit Application contains an acceptable form of Corporate Guaranty that should be utilized by a Participant choosing to establish its credit with a Corporate Guaranty. If the Corporate Guaranty varies in any way from the PJMSettlement format, it must first be reviewed and approved by PJMSettlement. All costs associated with obtaining and maintaining a Corporate Guaranty and meeting the policy provisions are the responsibility of the Participant.

## **1) Foreign Guaranties**

A Foreign Guaranty is a Corporate Guaranty that is provided by an Affiliate entity that is domiciled in a country other than the United States or Canada. The entity providing a Foreign Guaranty on behalf of a Participant is a Foreign Guarantor. A Participant may provide a Foreign

Guaranty in satisfaction of part of its credit obligations or voluntary credit provision at PJMSettlement provided that all of the following conditions are met:

PJMSettlement reserves the right to deny, reject, or terminate acceptance of any Foreign Guaranty at any time, including for material adverse circumstances or occurrences.

- a. A Foreign Guaranty:
  - i. Must contain provisions equivalent to those contained in PJMSettlement's standard form of Foreign Guaranty with any modifications subject to review and approval by PJMSettlement counsel.
  - ii. Must be denominated in US currency.
  - iii. Must be written and executed solely in English, including any duplicate originals.
  - iv. Will not be accepted towards a Participant's Unsecured Credit Allowance for more than the following limits, depending on the Foreign Guarantor's credit rating:

Rating of Foreign Guarantor	Maximum Accepted Guaranty if Country Rating is AAA	Maximum Accepted Guaranty if Country Rating is AA+
A- and above	USD50,000,000	USD30,000,000
BBB+	USD30,000,000	USD20,000,000
BBB	USD10,000,000	USD10,000,000
BBB- or below	USD 0	USD 0

- v. May not exceed 50% of the Participant's total credit, if the Foreign Grantor is rated less than BBB+.
- b. A Foreign Guarantor:
  - i. Must satisfy all provisions of the PJM credit policy applicable to domestic Guarantors.
  - ii. Must be an Affiliate of the Participant.
  - iii. Must maintain an agent for acceptance of service of process in the United States; such agent shall be situated in the Commonwealth of Pennsylvania, absent legal constraint.
  - iv. Must be rated by at least one Rating Agency acceptable to PJMSettlement; the credit strength of a Foreign Guarantor may not be determined based on an evaluation of its financials without an actual credit rating as well.
  - v. Must have a Senior Unsecured (or equivalent, in PJMSettlement's sole discretion) rating of BBB (one notch above BBB-) or greater by any and all agencies that provide rating coverage of the entity.
  - vi. Must provide financials in GAAP format or other format acceptable to PJMSettlement with clear representation of net worth, intangible assets, and any other information PJMSettlement may require in order to determine the entity's Unsecured Credit Allowance

- vii. Must provide a Secretary's Certificate certifying the adoption of Corporate Resolutions:
  - 1. Authorizing and approving the Guaranty; and
  - 2. Authorizing the Officers to execute and deliver the Guaranty on behalf of the Guarantor.
- viii. Must be domiciled in a country with a minimum long-term sovereign (or equivalent) rating of AA+/Aa1, with the following conditions:
  - 1. Sovereign ratings must be available from at least two rating agencies acceptable to PJMSettlement (e.g. S&P, Moody's, Fitch, DBRS).
  - 2. Each agency's sovereign rating for the domicile will be considered to be the lowest of: country ceiling, senior unsecured government debt, long-term foreign currency sovereign rating, long-term local currency sovereign rating, or other equivalent measures, at PJMSettlement's sole discretion.
  - 3. Whether ratings are available from two or three agencies, the lowest of the two or three will be used.
- ix. Must be domiciled in a country that recognizes and enforces judgments of US courts.
- x. Must demonstrate financial commitment to activity in the United States as evidenced by one of the following:
  - 1. American Depositary Receipts (ADR) are traded on the New York Stock Exchange, American Stock Exchange, or NASDAQ.
  - 2. Equity ownership worth over USD100,000,000 in the wholly-owned or majority owned subsidiaries in the United States.
- xi. Must satisfy all other applicable provisions of the PJM Tariff and/or Operating Agreement, including this credit policy.
- xii. Must pay for all expenses incurred by PJMSettlement related to reviewing and accepting a foreign guaranty beyond nominal in-house credit and legal review.
- xiii. Must, at its own cost, provide PJMSettlement with independent legal opinion from an attorney/solicitor of PJMSettlement's choosing and licensed to practice law in the United States and/or Guarantor's domicile, in form and substance acceptable to PJMSettlement in its sole discretion, confirming the enforceability of the Foreign Guaranty, the Guarantor's legal authorization to grant the Guaranty, the conformance of the Guaranty, Guarantor, and Guarantor's domicile to all of these requirements, and such other matters as PJMSettlement may require in its sole discretion.

## **2) Canadian Guaranties**

A Canadian Guaranty is a Corporate Guaranty that is provided by an Affiliate entity that is domiciled in Canada and satisfies all of the provisions below. The entity providing a Canadian Guaranty on behalf of a Participant is a Canadian Guarantor. A Participant may provide a Canadian Guaranty in satisfaction of part of its credit obligations or voluntary credit provision at PJMSettlement provided that all of the following conditions are met.

PJMSettlement reserves the right to deny, reject, or terminate acceptance of any Canadian Guaranty at any time for reasonable cause, including adverse material circumstances.

- a. A Canadian Guaranty:
  - i. Must contain provisions equivalent to those contained in PJMSettlement's standard form of Foreign Guaranty with any modifications subject to review and approval by PJMSettlement counsel.
  - ii. Must be denominated in US currency.
  - iii. Must be written and executed solely in English, including any duplicate originals.
- b. A Canadian Guarantor:
  - i. Must satisfy all provisions of the PJM credit policy applicable to domestic Guarantors.
  - ii. Must be an Affiliate of the Participant.
  - iii. Must maintain an agent for acceptance of service of process in the United States; such agent shall be situated in the Commonwealth of Pennsylvania, absent legal constraint.
  - iv. Must be rated by at least one Rating Agency acceptable to PJMSettlement; the credit strength of a Canadian Guarantor may not be determined based on an evaluation of its financials without an actual credit rating as well.
  - v. Must provide financials in GAAP format or other format acceptable to PJMSettlement with clear representation of net worth, intangible assets, and any other information PJMSettlement may require in order to determine the entity's Unsecured Credit Allowance.
  - vi. Must satisfy all other applicable provisions of the PJM Tariff and/or Operating Agreement, including this Credit Policy.

## **Ia. MINIMUM PARTICIPATION REQUIREMENTS**

### **A. PJM Market Participation Eligibility Requirements**

To be eligible to transact in PJM Markets, a Market Participant must demonstrate in accordance with the Risk Management and Verification processes set forth below that it qualifies in one of the following ways:

1. an "appropriate person," as that term is defined under Section 4(c)(3), or successor provision, of the Commodity Exchange Act, or;
2. an "eligible contract participant," as that term is defined in Section 1a(18), or successor provision, of the Commodity Exchange Act, or;
3. a business entity or person who is in the business of: (1) generating, transmitting, or distributing electric energy, or (2) providing electric energy services that are necessary to support the reliable operation of the transmission system, or;

4. a Market Participant seeking eligibility as an “appropriate person” providing an unlimited Corporate Guaranty in a form acceptable to PJMSettlement as described in Section I.C of Attachment Q from an issuer that has at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty, or;
5. a Market Participant providing a letter of credit of at least \$5 million to PJMSettlement in a form acceptable to PJMSettlement as described in Section VI.B of Attachment Q that the Market Participant acknowledges is separate from, and cannot be applied to meet, its credit requirements to PJMSettlement.

If, at any time, a Market Participant cannot meet the eligibility requirements set forth above, it shall immediately notify PJMSettlement and immediately cease conducting transactions in the PJM Markets. PJMSettlement shall terminate a Market Participant’s transaction rights in the PJM Markets if, at any time, it becomes aware that the Market Participant does not meet the minimum eligibility requirements set forth above.

In the event that a Market Participant is no longer able to demonstrate it meets the minimum eligibility requirements set forth above, and possesses, obtains or has rights to possess or obtain, any open or forward positions in PJM’s Markets, PJMSettlement may take any such action it deems necessary with respect to such open or forward positions, including, but not limited to, liquidation, transfer, assignment or sale; provided, however, that the Market Participant will, notwithstanding its ineligibility to participate in the PJM Markets, be entitled to any positive market value of those positions, net of any obligations due and owing to PJM and/or PJMSettlement.

## **B. Risk Management and Verification**

All Participants shall provide to PJMSettlement an executed copy of the annual certification set forth in Appendix 1 to this Attachment Q. This certification shall be provided before an entity is eligible to participate in the PJM Markets and shall be initially submitted to PJMSettlement together with the entity’s Credit Application. Thereafter, it shall be submitted each calendar year by all Participants during a period beginning on January 1 and ending April 30, except that new Participants who became eligible to participate in PJM markets during the period of January through April shall not be required to resubmit such certification until the following calendar year. Except for certain FTR Participants (discussed below) or in cases of manifest error, PJMSettlement will accept such certifications as a matter of course and Participants will not need further notice from PJMSettlement before commencing or maintaining their eligibility to participate in PJM markets. A Participant that fails to provide its annual certification by April 30 shall be ineligible to transact in the PJM markets and PJM will disable the Participant’s access to the PJM markets until such time as PJMSettlement receives the Participant’s certification.

Participants acknowledge and understand that the annual certification constitutes a representation upon which PJMSettlement will rely. Such representation is additionally made under the PJM Tariff, filed with and accepted by FERC, and any inaccurate or incomplete statement may subject the Participant to action by FERC. Failure to comply with any of the criteria or

requirements listed herein or in the certification may result in suspension of a Participant's transaction rights in the PJM markets.

Certain FTR Participants (those providing representations found in paragraph 3.b of the annual certification set forth in Appendix 1 to this Attachment Q) are additionally required to submit to PJMSettlement (at the time they make their annual certification) a copy of their current governing risk control policies, procedures and controls applicable to their FTR trading activities, except that if no substantive changes have been made to such policies, practices and/or controls applicable to their FTR trading activities, they may instead submit to PJMSettlement a certification stating that no changes have been made. PJMSettlement will review such documentation to verify that it appears generally to conform to prudent risk management practices for entities trading in FTR-type markets. If principles or best practices relating to risk management in FTR-type markets are published, as may be modified from time to time, by a third-party industry association, such as the Committee of Chief Risk Officers, PJMSettlement may, following stakeholder discussion and with no less than six months prior notice to stakeholders, apply such principles or best practices in determining the fundamental sufficiency of the FTR Participant's risk controls. Those FTR Participants subject to this provision shall make a one-time payment of \$1,000.00 to PJMSettlement to cover costs associated with review and verification. Thereafter, if such FTR Participant's risk policies, procedures and controls applicable to its FTR trading activities change substantively, it shall submit such modified documentation, without charge, to PJMSettlement for review and verification at the time it makes its annual certification. Such FTR Participant's continued eligibility to participate in the PJM FTR markets is conditioned on PJMSettlement notifying such FTR Participant that its annual certification, including the submission of its risk policies, procedures and controls, has been accepted by PJMSettlement. PJMSettlement may retain outside expertise to perform the review and verification function described in this paragraph, however, in all circumstances, PJMSettlement and any third-party it may retain will treat as confidential the documentation provided by an FTR Participant under this paragraph, consistent with the applicable provisions of PJM's Operating Agreement.

An FTR Participant that makes the representation in paragraph 3.a of the annual certification understand that PJMSettlement, given the visibility it has over a Participant's overall market activity in performing billing and settlement functions, may at any time request the FTR Participant provide additional information demonstrating that it is in fact eligible to make the representation in paragraph 3.a of the annual certification. If such additional information is not provided or does not, in PJMSettlement's judgment, demonstrate eligibility to make the representation in paragraph 3.a of the annual certification, PJMSettlement will require the FTR Participant to instead make the representations required in paragraph 3.b of the annual certification, including representing that it has submitted a copy of its current governing risk control policies, procedures and controls applicable to its FTR trading activities. If the FTR Participant cannot or does not make those representations as required in paragraph 3.b of the annual certification, then PJM will terminate the FTR Participant's rights to purchase FTRs in the FTR market and may terminate the FTR Participant's rights to sell FTRs in the PJM FTR market.



PJMSettlement shall also conduct a periodic compliance verification process to review and verify, as applicable, Participants' risk management policies, practices, and procedures pertaining to the Participants' activities in the PJM markets. Such review shall include verification that:

1. The risk management framework is documented in a risk policy addressing market, credit and liquidity risks.
2. The Participant maintains an organizational structure with clearly defined roles and responsibilities that clearly segregates trading and risk management functions.
3. There is clarity of authority specifying the types of transactions into which traders are allowed to enter.
4. The Participant has requirements that traders have adequate training relative to their authority in the systems and PJM markets in which they transact.
5. As appropriate, risk limits are in place to control risk exposures.
6. Reporting is in place to ensure that risks and exceptions are adequately communicated throughout the organization.
7. Processes are in place for qualified independent review of trading activities.
8. As appropriate, there is periodic valuation or mark-to-market of risk positions.

If principles or best practices relating to risk management in PJM-type markets are published, as may be modified from time to time, by a third-party industry association, PJMSettlement may, following stakeholder discussion and with no less than six months prior notice to stakeholders, apply such principles or best practices in determining the sufficiency of the Participant's risk controls. PJMSettlement may select Participants for review on a random basis and/or based on identified risk factors such as, but not limited to, the PJM markets in which the Participant is transacting, the magnitude of the Participant's transactions in the PJM markets, or the volume of the Participant's open positions in the PJM markets. Those Participants notified by PJMSettlement that they have been selected for review shall, upon 14 calendar days notice, provide a copy of their current governing risk control policies, procedures and controls applicable to their PJM market activities and shall also provide such further information or documentation pertaining to the Participants' activities in the PJM markets as PJMSettlement may reasonably request. Participants selected for risk management verification through a random process and satisfactorily verified by PJMSettlement shall be excluded from such verification process based on a random selection for the subsequent two years. PJMSettlement shall annually randomly select for review no more than 20% of the Participants in each member sector.

Each selected Participant's continued eligibility to participate in the PJM markets is conditioned upon PJMSettlement notifying the Participant of successful completion of PJMSettlement's verification of the Participant's risk management policies, practices and procedures, as discussed

herein. However, if PJMSettlement notifies the Participant in writing that it could not successfully complete the verification process, PJMSettlement shall allow such Participant 14 calendar days to provide sufficient evidence for verification prior to declaring the Participant as ineligible to continue to participate in PJM's markets, which declaration shall be in writing with an explanation of why PJMSettlement could not complete the verification. If, prior to the expiration of such 14 calendar days, the Participant demonstrates to PJMSettlement that it has filed with the Federal Energy Regulatory Commission an appeal of PJMSettlement's risk management verification determination, then the Participant shall retain its transaction rights, pending the Commission's determination on the Participant's appeal. PJMSettlement may retain outside expertise to perform the review and verification function described in this paragraph. PJMSettlement and any third party it may retain will treat as confidential the documentation provided by a Participant under this paragraph, consistent with the applicable provisions of the Operating Agreement. If PJMSettlement retains such outside expertise, a Participant may direct in writing that PJMSettlement perform the risk management review and verification for such Participant instead of utilizing a third party, provided however, that employees and contract employees of PJMSettlement and PJM shall not be considered to be such outside expertise or third parties.

Participants are solely responsible for the positions they take and the obligations they assume in PJM markets. PJMSettlement hereby disclaims any and all responsibility to any Participant or PJM Member associated with Participant's submitting or failure to submit its annual certification or PJMSettlement's review and verification of an FTR Participant's risk policies, procedures and controls. Such review and verification is limited to demonstrating basic compliance by an FTR Participant with the representation it makes under paragraph 3.b of its annual certification showing the existence of written policies, procedures and controls to limit its risk in PJM's FTR markets and does not constitute an endorsement of the efficacy of such policies, procedures or controls.

## **C. Capitalization**

In addition to the Annual Certification requirements in Appendix 1 to this Attachment Q, a Participant must demonstrate that it meets the minimum financial requirements appropriate for the PJM market(s) in which it transacts by satisfying either the Minimum Capitalization or the Provision of Collateral requirements listed below:

### **1. Minimum Capitalization**

FTR Participants must demonstrate a tangible net worth in excess of \$1 million or tangible assets in excess of \$10 million. Other Participants must demonstrate a tangible net worth in excess of \$500,000 or tangible assets in excess of \$5 million.

- a. In either case, consideration of "tangible" assets and net worth shall exclude assets (net of any matching liabilities, assuming the result is a positive value) which PJMSettlement reasonably believes to be restricted, highly risky, or potentially unavailable to settle a claim in the event of default. Examples include, but are not

limited to, restricted assets and Affiliate assets, derivative assets, goodwill, and other intangible assets.

- b. Demonstration of “tangible” assets and net worth may be satisfied through presentation of an acceptable Corporate Guaranty, provided that both:
  - (i) the guarantor is an affiliate company that satisfies the tangible net worth or tangible assets requirements herein, and;
  - (ii) the Corporate Guaranty is either unlimited or at least \$500,000.

If the Corporate Guaranty presented by the Participant to satisfy these Capitalization requirements is limited in value, then the Participant’s resulting Unsecured Credit Allowance shall be the lesser of:

- (1) the applicable Unsecured Credit Allowance available to the Participant by the Corporate Guaranty pursuant to the creditworthiness provisions of this Credit Policy, or:
- (2) the face value of the Corporate Guaranty, reduced by \$500,000 and further reduced by 10%. (For example, a \$10.5 million Corporate Guaranty would be reduced first by \$500,000 to \$10 million and then further reduced 10% more to \$9 million. The resulting \$9 million would be the Participant’s Unsecured Credit Allowance available through the Corporate Guaranty).

In the event that a Participant provides collateral in addition to a limited Corporate Guaranty to increase its available credit, the value of such collateral shall be reduced by 10%. This reduced value shall be deemed Financial Security and available to satisfy the requirements of this Credit Policy.

Demonstrations of capitalization must be presented in the form of audited financial statements for the Participant’s most recent fiscal year.

## **2. Provision of Collateral**

If a Participant does not demonstrate compliance with its applicable Minimum Capitalization Requirements above, it may still qualify to participate in PJM’s markets by posting additional collateral, subject to the terms and conditions set forth herein.

Any collateral provided by a Participant unable to satisfy the Minimum Capitalization Requirements above will be restricted in the following manner:

- i. Collateral provided by FTR Participants shall be reduced by \$500,000 and then further reduced by 10%. This reduced amount shall be considered the Financial Security provided by the Participant and available to satisfy requirements of this Credit Policy.
- ii. Collateral provided by other Participants that engage in Virtual Transactions or Export Transactions shall be reduced by \$200,000 and then further reduced by 10%. This reduced value shall be considered Financial Security available to satisfy requirements of this Credit Policy.
- iii. Collateral provided by other Participants that do not engage in Virtual Transactions or Export Transactions shall be reduced by 10%, and this reduced value shall be considered Financial Security available to satisfy requirements of this Credit Policy.

In the event a Participant that satisfies the Minimum Participation Requirements through provision of collateral also provides a Corporate Guaranty to increase its available credit, then the Participant's resulting Unsecured Credit Allowance conveyed through such Guaranty shall be the lesser of:

- (1) the applicable Unsecured Credit Allowance available to the Participant by the Corporate Guaranty pursuant to the creditworthiness provisions of this credit policy, or,
- (2) the face value of the Guaranty, reduced by 10%.

## **II. CREDIT ALLOWANCE AND WORKING CREDIT LIMIT**

PJMSettlement's credit evaluation process will include calculating a Credit Score for each Participant. The credit score will be utilized to determine a Participant's Unsecured Credit Allowance.

Participants who do not qualify for an Unsecured Credit Allowance will be required to provide Financial Security based on their Peak Market Activity, as provided below.

A corresponding Working Credit Limit will be established based on the Unsecured Credit Allowance and/or the Financial Security provided.

Where Participant of PJM are considered Affiliates, Unsecured Credit Allowances and Working Credit Limits will be established for each individual Participant, subject to an aggregate maximum amount for all Affiliates as provided for in §II.F of this policy.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness.

## A. Credit Score

For participants with credit ratings, a Credit Score will be assigned based on their senior unsecured credit rating and credit watch status as shown in the table below. If an explicit senior unsecured rating is not available, PJMSettlement may impute an equivalent rating from other ratings that are available. For Participants without a credit rating, but who wish to be considered for unsecured Credit, a Credit Score will be generated from PJMSettlement's review and analysis of various factors that are predictors of financial strength and creditworthiness. Key factors in the scoring process include, financial ratios, and years in business. PJMSettlement will consistently apply the measures it uses in determining Credit Scores. The credit scoring methodology details are included in a supplementary document available on OASIS.

### Rated Entities Credit Scores

Rating	Score	Score Modifier	
		Credit Watch Negative	Credit Watch Positive
AAA	100	-1.0	0.0
AA+	99	-1.0	0.0
AA	99	-1.0	0.0
AA-	98	-1.0	0.0
A+	97	-1.0	0.0
A	96	-2.0	0.0
A-	93	-3.0	1.0
BBB+	88	-4.0	2.0
BBB	78	-4.0	2.0
BBB-	65	-4.0	2.0
BB+ and below	0	0.0	0.0

## B. Unsecured Credit Allowance

PJMSettlement will determine a Participant's Unsecured Credit Allowance based on its Credit Score and the parameters in the table below. The maximum Unsecured Credit Allowance is the lower of:

- 1) A percentage of the Participant's Tangible Net Worth, as stated in the table below, with the percentage based on the Participant's credit score; and
- 2) A dollar cap based on the credit score, as stated in the table below:

<b>Credit Score</b>	<b>Tangible Net Worth Factor</b>	<b>Maximum Unsecured Credit Allowance</b>  <b>(\$ Million)</b>
91-100	2.125 – 2.50%	\$50
81-90	1.708 – 2.083%	\$42
71-80	1.292 – 1.667%	\$33
61-70	0.875 – 1.25%	\$7
51-60	0.458 – 0.833%	\$0-\$2
50 and Under	0%	\$0

If a Corporate Guaranty is utilized to establish an Unsecured Credit Allowance for a Participant, the value of a Corporate Guaranty will be the lesser of:

- The limit imposed in the Corporate Guaranty;
- The Unsecured Credit Allowance calculated for the Guarantor; and
- A portion of the Unsecured Credit Allowance calculated for the Guarantor in the case of Affiliated Participants.

PJMSettlement has the right at any time to modify any Unsecured Credit Allowance and/or require additional Financial Security as may be deemed reasonably necessary to support current market activity. Failure to pay the required amount of additional Financial Security within two Business Days shall be an event of default.

PJMSettlement will maintain a posting of each Participant's unsecured Credit Allowance, along with certain other credit related parameters, on the PJM web site in a secure, password-protected location. Such information will be updated at least weekly. Each Participant will be responsible for monitoring such information and recognizing changes that may occur.

### **C. Seller Credit**

Participants that have maintained a Net Sell Position for each of the prior 12 months are eligible for Seller Credit, which is an additional form of Unsecured Credit. A Participant's Seller Credit will be equal to sixty percent of the Participant's thirteenth smallest weekly Net Sell Position invoiced in the past 52 weeks.

Each Participant receiving Seller Credit must maintain both its Seller Credit and its Total Net Sell Position equal to or greater than the Participant's aggregate credit requirements, less any Financial Security or other sources of credit provided.

For Participants receiving Seller Credit, PJMSettlement may forecast the Participant's Total Net Sell Position considering the Participant's current Total Net Sell Position, recent trends in the Participant's Total Net Sell Position, and other information available to PJMSettlement, such as, but not limited to, known generator outages, changes in load responsibility, and bilateral

transactions impacting the Participant. If PJMSettlement's forecast ever indicates that the Participant's Total Net Sell Position may in the future be less than the Participant's aggregate credit requirements, less any Financial Security or other sources of credit provided, then PJMSettlement may require Financial Security as needed to cover the difference. Failure to pay the required amount of additional Financial Security within two Business Days shall be an event of default.

Any Financial Security required by PJMSettlement pursuant to these provisions for Seller Credit will be returned once the requirement for such Financial Security has ended. Seller Credit may not be conveyed to another entity through use of a guaranty. Seller Credit shall be subject to the cap on available Unsecured Credit set forth in Section II.F.

#### **D. Peak Market Activity and Financial Security Requirement**

A PJM Participant or Applicant that has an insufficient Unsecured Credit Allowance to satisfy its Peak Market Activity will be required to provide Financial Security such that its Unsecured Credit Allowance and Financial Security together are equal to its Peak Market Activity in order to secure its transactional activity in the PJM Market.

Peak Market Activity for Participants will be determined semi-annually beginning in the first complete billing week in the months of April and October. Peak Market Activity shall be the greater of the initial Peak Market Activity, as explained below, or the greatest amount invoiced for the Participant's transaction activity for all PJM markets and services in any rolling one, two, or three week period, ending within a respective semi-annual period. However, Peak Market Activity shall not exceed the greatest amount invoiced for the Participant's transaction activity for all PJM markets and services in any rolling one, two or three week period in the prior 52 weeks.

Peak Market Activity shall exclude FTR Net Activity, Virtual Transactions Net Activity, and Export Transactions Net Activity.

The initial Peak Market Activity for Applicants will be determined by PJMSettlement based on a review of an estimate of their transactional activity for all PJM markets and services over the next 52 weeks, which the Applicant shall provide to PJMSettlement.

The initial Peak Market Activity for Participants, calculated at the beginning of each respective semi-annual period, shall be the three-week average of all non-zero invoice totals over the previous 52 weeks. This calculation shall be performed and applied within three business days following the day the invoice is issued for the first full billing week in the current semi-annual period.

Prepayments shall not affect Peak Market Activity unless otherwise agreed to in writing pursuant to this Credit Policy.

All Peak Market Activity calculations shall take into account reductions of invoice values effectuated by early payments which are applied to reduce a Participant's Peak Market Activity

as contemplated by other terms of the Credit Policy; provided that the initial Peak Market Activity shall not be less than the average value calculated using the weeks for which no early payment was made.

A Participant may reduce its Financial Security Requirement by agreeing in writing (in a form acceptable to PJMSettlement) to make additional payments, including prepayments, as and when necessary to ensure that such Participant's Total Net Obligation at no time exceeds such reduced Financial Security Requirement.

PJMSettlement may, at its discretion, adjust a Participant's Financial Security Requirement if PJMSettlement determines that the Peak Market Activity is not representative of such Participant's expected activity, as a consequence of known, measurable, and sustained changes. Such changes may include the loss (without replacement) of short-term load contracts, when such contracts had terms of three months or more and were acquired through state-sponsored retail load programs, but shall not include short-term buying and selling activities.

PJMSettlement may waive the Financial Security Requirement for a Participant that agrees in writing that it shall not, after the date of such agreement, incur obligations under any of the Agreements. Such entity's access to all electronic transaction systems administered by PJM shall be terminated.

PJMSettlement will maintain a posting of each Participant's Financial Security Requirement on the PJM web site in a secure, password-protected location. Such information will be updated at least weekly. Each Participant will be responsible for monitoring such information and recognizing changes that may occur.

#### **E. Working Credit Limit**

PJMSettlement will establish a Working Credit Limit for each Participant against which its **Total Net Obligation** will be monitored. The Working Credit Limit is defined as 75% of the Financial Security provided to PJMSettlement and/or 75% of the Unsecured Credit Allowance determined by PJMSettlement based on a credit evaluation, as reduced by any applicable credit requirement determinants defined in this policy. A Participant's Total Net Obligation should not exceed its Working Credit Limit.

Example: After a credit evaluation by PJMSettlement, a Participant is deemed able to support an Unsecured Credit Allowance of \$10.0 million. The Participant will be assigned a Working Credit Limit of \$8.5 million. PJMSettlement will monitor the Participant's Total Net Obligations against the Working Credit Limit.

A Participant with an Unsecured Credit Allowance may choose to provide Financial Security in order to increase its Working Credit Limit. A Participant with no Unsecured Credit Allowance may also choose to increase its Working Credit Limit by providing Financial Security in an amount greater than its Peak Market Activity.

If a Participant's Total Net Obligation approaches its Working Credit Limit, PJMSettlement may require the Participant to make an advance payment or increase its Financial Security in order to maintain its Total Net Obligation below its Working Credit Limit. Except as explicitly provided



below, advance payments shall not serve to reduce the Participant's Peak Market Activity for the purpose of calculating credit requirements.

Example: After 10 days, and with 5 days remaining before the bill is due to be paid, a Participant approaches its \$4.0 million Working Credit Limit. PJMSettlement may require a prepayment of \$2.0 million in order that the Total Net Obligation will not exceed the Working Credit Limit.

If a Participant exceeds its Working Credit Limit or is required to make advance payments more than ten times during a 52-week period, PJMSettlement may require Financial Security in an amount as may be deemed reasonably necessary to support its Total Net Obligation.

A Participant receiving unsecured credit may make early payments up to ten times in a rolling 52-week period in order to reduce its Peak Market Activity for credit requirement purposes. Imputed Peak Market Activity reductions for credit purposes will be applied to the billing period for which the payment was received. Payments used as the basis for such reductions must be received prior to issuance or posting of the invoice for the relevant billing period. The imputed Peak Market Activity reduction attributed to any payment may not exceed the amount of Unsecured Credit for which the Participant is eligible.

#### **F. Credit Limit Setting For Affiliates**

If two or more Participants are Affiliates and each is being granted an Unsecured Credit Allowance and a corresponding Working Credit Limit, PJMSettlement will consider the overall creditworthiness of the Affiliated Participants when determining the Unsecured Credit Allowances and Working Credit Limits in order not to grant more Unsecured Credit than the overall corporation could support.

**Example:** Participants A and B each have a \$10.0 million Corporate Guaranty from their common parent, a holding company with an Unsecured Credit Allowance calculation of \$12.0 million. PJMSettlement may limit the Unsecured Credit Allowance for each Participant to \$6.0 million, so the total Unsecured Credit Allowance does not exceed the corporate total of \$12.0 million.

PJMSettlement will work with Affiliated Participants to allocate the total Unsecured Credit Allowance among the Affiliates while assuring that no individual Participant, nor common guarantor, exceeds the Unsecured Credit Allowance appropriate for its credit strength. The aggregate Unsecured Credit for a Participant, including Unsecured Credit Allowance granted based on its own creditworthiness and any Unsecured Credit Allowance conveyed through a Guaranty shall not exceed \$50 million. The aggregate Unsecured Credit for a group of Affiliates shall not exceed \$50 million. A group of Affiliates subject to this cap shall request PJMSettlement to allocate the maximum Unsecured Credit and Working Credit Limit amongst the group, assuring that no individual Participant or common guarantor, shall exceed the Unsecured Credit level appropriate for its credit strength and activity.

#### **G. Working Credit Limit Violations**

##### **1) Notification**

A Participant is subject to notification when its Total Net Obligation to PJMSettlement approaches the Participant's established Working Credit Limit.

## **2) Suspension**

A Participant that exceeds its Working Credit Limit is subject to suspension from participation in the PJM markets and from scheduling any future Transmission Service unless and until Participant's credit standing is brought within acceptable limits. A Participant will have two Business Days from notification to remedy the situation in a manner deemed acceptable by PJMSettlement. Additionally, PJMSettlement, in coordination with PJM, will take such actions as may be required or permitted under the Agreements, including but not limited to the termination of the Participant's ongoing Transmission Service and participation in PJM Markets. Failure to comply with this policy will be considered an event of default under this credit policy.

## **H. PJM Administrative Charges**

Financial Security held by PJMSettlement shall also secure obligations to PJM for PJM administrative charges.

## **I. Pre-existing Financial Security**

PJMSettlement's credit requirements are applicable as of the effective date of the filing on May 5, 2010 by PJM and PJMSettlement of amendments to Attachment Q. Financial Security held by PJM prior to the effective date of such amendments shall be held by PJM for the benefit of PJMSettlement.

## **III. VIRTUAL TRANSACTION SCREENING**

### **A. Credit and Financial Security**

PJMSettlement does not require a Market Participant to establish separate or additional credit for submitting Virtual Transactions. If a Market Participant chooses to establish additional Financial Security and/or Unsecured Credit Allowance in order to increase its Credit Available for Virtual Transactions, the Market Participant's Working Credit Limit for Virtual Transactions shall be increased in accordance with the definition thereof. The Financial Security and/or Unsecured Credit Allowance available to increase a Market Participant's Credit Available for Virtual Transactions shall be the amount of Financial Security and/or Unsecured Credit Allowance available after subtracting any credit required for Minimum Participation Requirements, FTR, Export Transactions, or other credit requirement determinants as defined in this policy, as applicable.

If a Market Participant chooses to provide additional Financial Security in order to increase its **Credit Available for Virtual Transactions PJMSettlement** may establish a reasonable timeframe, not to exceed three months, for which such Financial Security must be maintained. PJMSettlement will not impose such restriction on a deposit unless a Market Participant is

notified prior to making the deposit. Such restriction, if applied, shall be applied to all future deposits by all Market Participants engaging in Virtual Transactions.

A Market Participant wishing to increase its Credit Available for Virtual Transactions by providing additional Financial Security may make the appropriate arrangements with PJMSettlement. PJMSettlement will make a good faith effort to make new Financial Security available as Credit Available for Virtual Transactions as soon as practicable after confirmation of receipt. In any event, however, Financial Security received and confirmed by noon on a business day will be applied (as provided under this policy) to Credit Available for Virtual Transactions no later than 10:00 am on the following business day. Receipt and acceptance of wired funds for cash deposit shall mean actual receipt by PJMSettlement's bank, deposit into PJMSettlement's customer deposit account, and confirmation by PJMSettlement that such wire has been received and deposited. Receipt and acceptance of letters of credit shall mean receipt of the original letter of credit or amendment thereto, and confirmation from PJMSettlement's credit and legal staffs that such letter of credit or amendment thereto conforms to PJMSettlement's requirements, which confirmation shall be made in a reasonable and practicable timeframe. To facilitate this process, bidders wiring funds for the purpose of increasing their Credit Available for Virtual Transactions are advised to specifically notify PJMSettlement that a wire is being sent for such purpose.

## **B. Virtual Transaction Screening Process**

All Virtual Transactions submitted to PJM shall be subject to a credit screen prior to acceptance in the Day-ahead Energy Market auction. The credit screen process will automatically reject Virtual Transactions submitted by the PJM market participant if the participant's Credit Available for Virtual Transactions is exceeded by the **Virtual Credit Exposure** that is calculated based on the participant's submitted Virtual Transactions as described below.

A Participant's Virtual Credit Exposure will be calculated on a daily basis for all Virtual Transactions submitted by the market participant for the next market day using the following equation:

Virtual Credit Exposure = INC and DEC Exposure + Up-to Congestion Exposure

Where:

1) INC and DEC Exposure is calculated as:

(a) ((the total MWh bid or offered, whichever is greater, hourly at each node) x the Nodal Reference Price x 1 day) summed over all nodes and all hours; plus (b) ((the difference between the total bid MWh cleared and total offered MWh cleared hourly at each node) x Nodal Reference Price) summed over all nodes and all hours for the previous cleared Day-ahead Energy Market.

2) Up-to Congestion Exposure is calculated as:

(a) Total MWh bid hourly for each Up-to Congestion Transaction x (price bid – Up-to Congestion Reference Price) summed over all Up-to Congestion Transactions and all hours; plus (b) Total MWh cleared hourly for each Up-to Congestion Transaction x (cleared price – Up-to Congestion Reference Price) summed over all Up-to Congestion Transactions and all hours for the previous cleared Day-ahead Energy Market, provided that hours for which the calculation for an Up-to Congestion Transaction is negative, it shall be deemed to have a zero contribution to the sum.

If a Market Participant's Virtual Transactions are rejected as a result of the credit screen process, the Market Participant will be notified via an eMKT error message. A Market Participant whose Virtual Transactions are rejected may alter its Virtual Transactions so that its Virtual Credit Exposure does not exceed its Credit Available for Virtual Transactions, and may resubmit them. Virtual Transactions may be submitted in one or more groups during a day. If one or more groups of Virtual Transactions is submitted and accepted, and a subsequent group of submitted Virtual Transactions causes the total submitted Virtual Transactions to exceed the Virtual Credit Exposure, then only that subsequent set of Virtual Transactions will be rejected. Previously accepted Virtual Transactions will not be affected, though the Market Participant may choose to withdraw them voluntarily.

#### **IV. RELIABILITY PRICING MODEL AUCTION AND PRICE RESPONSIVE DEMAND CREDIT REQUIREMENTS**

Settlement during any Delivery Year of cleared positions resulting or expected to result from any Reliability Pricing Model Auction shall be included as appropriate in Peak Market Activity, and the provisions of this Attachment Q shall apply to any such activity and obligations arising therefrom. In addition, the provisions of this section shall apply to any entity seeking to participate in any RPM Auction, to address credit risks unique to such auctions. The provisions of this section also shall apply under certain circumstances to PRD Providers that seek to commit Price Responsive Demand pursuant to the provisions of the Reliability Assurance Agreement.

##### **A. Applicability**

A Market Seller seeking to submit a Sell Offer in any Reliability Pricing Model Auction based on any Capacity Resource for which there is a materially increased risk of non-performance must satisfy the credit requirement specified in section IV.B before submitting such Sell Offer. A PRD Provider seeking to commit Price Responsive Demand for which there is a materially increased risk of non-performance must satisfy the credit requirement specified in section IV.B before it may commit the Price Responsive Demand. A Wholesale Entity seeking to submit a WLR Bid based on any WLR Load or WEEL for which there is a materially increased risk of non-performance must satisfy the credit requirement in section IV.F for WLR Loads and section IV.G for WEELs before submitting such WLR Bid. Credit must be maintained until such risk of non-performance is substantially eliminated, but may be reduced commensurate with the reduction in such risk, as set forth in Section IV.C.

For purposes of this provision, a resource for which there is a materially increased risk of non-performance shall mean: (i) a Planned Generation Capacity Resource; (ii) a Planned Demand

Resource or an Energy Efficiency Resource; (iii) a Qualifying Transmission Upgrade; (iv) an existing or Planned Generation Capacity Resource located outside the PJM Region that at the time it is submitted in a Sell Offer has not secured firm transmission service to the border of the PJM Region sufficient to satisfy the deliverability requirements of the Reliability Assurance Agreement; (v) a Planned WLR Load; (vi) a Wholesale Energy Efficiency Load; or (vii) Price Responsive Demand to the extent the responsible PRD Provider has not registered PRD-eligible load at a PRD Substation level to satisfy its Nominal PRD Value commitment, in accordance with Schedule 6.1 of the Reliability Assurance Agreement.

## **B. Reliability Pricing Model Auction and Price Responsive Demand Credit Requirement**

Except as provided for Credit-Limited Offers below, for any resource specified in Section IV.A, other than WLR Load, Wholesale Energy Efficiency Load, and Price Responsive Demand, the credit requirement shall be the RPM Auction Credit Rate, as provided in Section IV.D, times the megawatts to be offered for sale from such resource in a Reliability Pricing Model Auction. The RPM Auction Credit Requirement for each Market Seller shall be the sum of the credit requirements for all such resources to be offered by such Market Seller in the auction or, as applicable, cleared by such Market Seller from the relevant auctions. For Price Responsive Demand specified in section IV.A, the credit requirement shall be based on the Nominal PRD Value (stated in Unforced Capacity terms) times the Price Responsive Demand Credit Rate as set forth in section IV.E. For WLR Load specified in Section IV.A, the credit requirement shall be based on the Nominal WLR Value (stated in Unforced Capacity terms) times the WLR Credit Rate as set forth in Section IV.F. For Wholesale Energy Efficiency Load specified in Section IV.A, the credit requirement shall be based on the Nominal WEEL Value (stated in Unforced Capacity terms) times the WEEL Credit Rate as set forth in Section IV.G.

Except for Credit-Limited Offers, the RPM Auction Credit Requirement for a Market Seller will be reduced for any Delivery Year to the extent less than all of such Market Seller's offers clear in the Base Residual Auction or any Incremental Auction for such Delivery Year. Such reduction shall be proportional to the quantity, in megawatts, that failed to clear in such Delivery Year.

A Sell Offer based on a Planned Generation Capacity Resource, Planned Demand Resource, or Energy Efficiency Resource or a WLR Bid based on a Planned WLR Load or a Wholesale Energy Efficiency Load may be submitted as a Credit-Limited Offer. ~~An entity-Market Seller~~ electing this option shall specify a maximum amount of Unforced Capacity or load reduction (in Unforced Capacity terms), in megawatts, and a maximum credit requirement, in dollars, applicable to the Sell Offer or WLR Bid. A Credit-Limited Offer or WLR Bid shall clear the RPM Auction in which it is submitted (to the extent it otherwise would clear based on the other offer parameters and the system's need for the offered capacity) only to the extent of the lesser of: (i) the quantity of Unforced Capacity or load reduction (in Unforced Capacity terms) that is the quotient of the division of the specified maximum credit requirement by the Auction Credit Rate resulting from section IV.D.b.; and (ii) the maximum amount of Unforced Capacity or load reduction (in Unforced Capacity terms) specified in the Sell Offer or WLR Bid. For ~~an entity Market Seller~~ electing this alternative, the RPM Auction Credit Requirement applicable prior to the posting of results of the auction shall be the maximum credit requirement specified in its

Credit-Limited Offer or WLR Bid, and the RPM Auction Credit Requirement subsequent to posting of the results will be the Auction Credit Rate, as provided in Section IV.D.b, c, or d, or Sections IV.F or IV.G as applicable, times the amount of Unforced Capacity or load reduction (in Unforced Capacity terms) from such Sell Offer or WLR Bid that cleared or was accepted in the auction. The availability and operational details of Credit-Limited Offers and WLR Bids shall be as described in the PJM Manuals.

As set forth in Sections IV.D, IV.F, and IV.G, ~~a Market Seller's~~ the Auction Credit Requirement for a Market Seller, a WLR Provider, or a WEEL Provider shall be determined separately for each Delivery Year.

### **C. Reduction in Credit Requirement**

As specified in Section IV.D for Capacity Resources, Section IV.E for Price Responsive Demand, and Section IV.F for WLR Loads, and Section IV.G for Wholesale Energy Efficiency Load, the RPM Auction Credit Rate may be reduced under certain circumstances after the auction has closed.

The Price Responsive Demand credit requirement shall be reduced as and to the extent the PRD Provider registers PRD-eligible load at a PRD Substation level to satisfy its Nominal PRD Value commitment, in accordance with Schedule 6.1 of the Reliability Assurance Agreement.

In addition, the RPM Auction Credit Requirement for a Participant for any given Delivery Year shall be reduced periodically, provided the Participant successfully meets progress milestones that reduce the risk of non-performance, as follows:

- a. For Planned Demand Resources and Energy Efficiency Resources, the RPM Auction Credit Requirement will be reduced in direct proportion to the megawatts of such Demand Resource that the Resource Provider qualifies as a Capacity Resource, in accordance with the procedures established under the Reliability Assurance Agreement.
- b. For Existing Generation Capacity Resources located outside the PJM Region that have not secured sufficient firm transmission to the border of the PJM Region prior to the auction in which such resource is first offered, the RPM Credit Requirement shall be reduced in direct proportion to the megawatts of firm transmission service secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement.
- c. For Planned Generation Capacity Resources, the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B beginning as of the effective date of an Interconnection Service Agreement, and shall be reduced to zero on the date of commencement of Interconnection Service.
- d. For Planned Generation Capacity Resources located outside the PJM Region, the RPM Credit Requirement shall be reduced once the conditions in both b and c above are met, i.e., the

RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B when 1) beginning as of the effective date of the equivalent Interconnection Service Agreement, and 2) when 50% or more megawatts of firm transmission service have been secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement. The RPM Credit Requirement for a Planned Generation Capacity Resource located outside the PJM Region shall be reduced to zero when 1) the resource commences Interconnection Service and 2) 100% of the megawatts of firm transmission service have been secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement.

e. For Qualifying Transmission Upgrades, the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B beginning as of the effective date of the latest associated Interconnection Service Agreement (or, when a project will have no such agreement, an Upgrade Construction Service Agreement), and shall be reduced to zero on the date the Qualifying Transmission Upgrade is placed in service. In addition, a Qualifying Transmission Upgrade will be allowed a reduction in its RPM Credit Requirement equal to the amount of collateral currently posted with PJM for the facility construction when the Qualifying Transmission Upgrade meets the following requirements: the Upgrade Construction Service Agreement has been fully executed, the full estimated cost to complete as most recently determined or updated by PJM has been fully paid or collateralized, and all regulatory and other required approvals (except those that must await construction completion) have been obtained. Such reduction in RPM Credit Requirement may not be transferred across different projects.

f. For Planned WLR Load, the WLR Credit Requirement will be reduced in direct proportion to the megawatts of such WLR Load that the WLR Provider qualifies as a WLR Load, in accordance with the procedures established under the Reliability Assurance Agreement.

g. For Wholesale Energy Efficiency Load, the WEEL Credit Requirement will be reduced in direct proportion to the megawatts of such Wholesale Energy Efficiency Load that the WEEL Provider qualifies as a Wholesale Energy Efficiency Load, in accordance with the procedures established under the Reliability Assurance Agreement.

#### **D. RPM Auction Credit Rate**

As set forth in the PJM Manuals, a separate Auction Credit Rate shall be calculated for each Delivery year prior to each Reliability Pricing Model Auction for such Delivery Year, as follows:

For Delivery Years through the Delivery Year that ends on May 31, 2012, the Auction Credit Rate for any resource for a Delivery Year shall be (the greater of \$20/MW-day or 0.24 times the Capacity Resource Clearing Price in the Base Residual Auction for such Delivery Year for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year.

For Delivery Years beginning with the Delivery Year that commences on June 1, 2012:

- a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the Auction Credit Rate shall be (the greater of ( ) times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or ( ) \$20 per MW-day) times the number of days in such Delivery Year.
- b. Subsequent to the posting of the results from a Base Residual Auction, the Auction Credit Rate used for ongoing credit requirements for supply committed in such auction shall be (the greater of (i) \$20/MW-day or (ii) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year;
- c. For any resource not previously committed for a Delivery Year that seeks to participate in an Incremental Auction, the Auction Credit Rate shall be the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) 0.24 times the Capacity Resource Clearing Price in the Base Residual Auction for such Delivery Year for the Locational Deliverability Area within which the resource is located or (iii) \$20 per MW-day) times the number of days in such Delivery Year.
- d. Subsequent to the posting of the results of an Incremental Auction, the Auction Credit Rate used for ongoing credit requirements for supply committed in such auction shall be (the greater of (i) \$20/MW-day or (ii) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year, but no greater than the Auction Credit Rate previously established for such resource's participation in such Incremental Auction pursuant to subsection (c) above) times the number of days in such Delivery Year.

#### **E. Price Responsive Demand Credit Rate**

- a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the Price Responsive Demand Credit Rate shall be (the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) \$20 per MW-day) times the number of days in such Delivery Year;
- b. Subsequent to the posting of the results from a Base Residual Auction, the Price Responsive Demand Credit Rate used for ongoing credit requirements for Price Responsive Demand registered prior to such auction shall be (the greater of (i) \$20/MW-day or (ii) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the PRD load is located) times the number of days in such Delivery Year times a final price uncertainty factor of 1.05;
- c. For any additional Price Responsive Demand that seeks to commit in a Third Incremental Auction in response to a qualifying change in the final LDA load forecast, the Price Responsive Demand Credit Rate shall be the same as the rate for Price Responsive Demand that had cleared in the Base Residual Auction;



d. Subsequent to the posting of the results of the Third Incremental Auction, the Price Responsive Demand Credit Rate used for ongoing credit requirements for all Price Responsive Demand, shall be (the greater of (i) \$20/MW-day or (ii) 0.2 times the Final Zonal Capacity Price for the Locational Deliverability Area within which the Price Responsive Demand is located) times the number of days in such Delivery Year, but no greater than the Price Responsive Demand Credit Rate previously established under subsections (a), (b), or (c) of this section for such Delivery Year.

#### **F. WLR Credit Rate**

a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the WLR Credit Rate shall be (the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) \$20 per MW-day) times the number of days in such Delivery Year.

b. Subsequent to the posting of the results from a Base Residual Auction, the WLR Credit Rate used for ongoing credit requirements for supply committed in such auction shall be (the greater of (i) \$20 per MW-day or (ii) 0.2 times the applicable WLR Value corresponding to the WLR Load type in such auction for the Locational Deliverability Area within which the WLR Load is located) times the number of days in such Delivery Year.

#### **G. WEEL Credit Rate**

a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the WEEL Credit Rate shall be (the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) \$20 per MW-day) times the number of days in such Delivery Year.

b. Subsequent to the posting of the results from a Base Residual Auction, the WEEL Credit Rate used for ongoing credit requirements for supply committed in such auction shall be (the greater of (i) \$20 per MW-day or (ii) 0.2 times the applicable WLR Value determined in such auction for the Locational Deliverability Area within which the WEEL is located) times the number of days in such Delivery Year.

#### **FH. RPM Seller Credit - Additional Form of Unsecured Credit for RPM**

In addition to the forms of credit specified elsewhere in this Attachment Q, RPM Seller Credit shall be available to Market Sellers, but solely for purposes of satisfying RPM Auction Credit Requirements. If a supplier has a history of being a net seller into PJM markets, on average, over the past 12 months, then PJMSettlement will count as available Unsecured Credit twice the average of that participant's total net monthly PJMSettlement bills over the past 12 months. This RPM Seller Credit shall be subject to the cap on available Unsecured Credit as established in Section II.F.

#### **GI. Credit Responsibility for Traded Planned RPM Capacity Resources**

PJMSettlement may require that credit and financial responsibility for planned RPM Capacity Resources that are traded remain with the original party (which for these purposes, means the party bearing credit responsibility for the planned RPM Capacity Resource immediately prior to trade) unless the receiving party independently establishes consistent with the PJM credit policy, that it has sufficient credit with PJMSettlement and agrees by providing written notice to PJMSettlement that it will fully assume the credit responsibility associated with the traded planned RPM Capacity Resource.

## **V. FINANCIAL TRANSMISSION RIGHT AUCTIONS**

### **A. FTR Credit Limit.**

PJMSettlement will establish an FTR Credit Limit for each Participant. Participants must maintain their FTR Credit Limit at a level equal to or greater than their FTR Credit Requirement. FTR Credit Limits will be established only by a Participant providing Financial Security.

### **B. FTR Credit Requirement.**

For each Participant with FTR activity, PJMSettlement shall calculate an FTR Credit Requirement based on FTR cost less a discounted historical value. FTR Credit Requirements shall be further adjusted by ARR credits available and by an amount based on portfolio diversification, if applicable. The requirement will be based on individual monthly exposures which are then used to derive a total requirement.

The FTR Credit Requirement shall be calculated by first adding for each month the FTR Monthly Credit Requirement Contribution for each submitted, accepted, and cleared FTR and then subtracting the prorated value of any ARRs held by the Participant for that month. The resulting twelve monthly subtotals represent the expected value of net payments between PJMSettlement and the Participant for FTR activity each month during the Planning Period. Subject to later adjustment by an amount based on portfolio diversification, if applicable, the FTR Credit Requirement shall be the sum of the individual positive monthly subtotals, representing months in which net payments to PJMSettlement are expected.

### **C. Rejection of FTR Bids.**

Bids submitted into an auction will be rejected if the Participant's FTR Credit Requirement including such submitted bids would exceed the Participant's FTR Credit Limit, or if the Participant fails to establish additional credit as required pursuant to provisions related to portfolio diversification.

### **D. FTR Credit Collateral Returns.**

A Market Participant may request from PJMSettlement the return of any collateral no longer required for the FTR auctions. PJMSettlement is permitted to limit the frequency of such requested collateral returns, provided that collateral returns shall be made by PJMSettlement at least once per calendar quarter, if requested by a Market Participant.

## **E. Credit Responsibility for Traded FTRs.**

PJMSettlement may require that credit responsibility associated with an FTR traded within PJM's eFTR system remain with the original party (which for these purposes, means the party bearing credit responsibility for the FTR immediately prior to trade) unless and until the receiving party independently establishes, consistent with the PJM credit policy, sufficient credit with PJMSettlement and agrees through confirmation of the FTR trade within the eFTR system that it will meet in full the credit requirements associated with the traded FTR.

## **F. Portfolio Diversification.**

Subsequent to calculating a tentative cleared solution for an FTR auction (or auction round), PJM shall both:

1. Determine the FTR Portfolio Auction Value, including the tentative cleared solution. Any Participants with such FTR Portfolio Auction Values that are negative shall be deemed FTR Flow Undiversified.
2. Measure the geographic concentration of the FTR Flow Undiversified portfolios by testing such portfolios using a simulation model including, one at a time, each planned transmission outage or other network change which would substantially affect the network for the specific auction period. A list of such planned outages or changes anticipated to be modeled shall be posted prior to commencement of the auction (or auction round). Any FTR Flow Undiversified portfolio that experiences a net reduction in calculated congestion credits as a result of any one or more of such modeled outages or changes shall be deemed FTR Geographically Undiversified.

For portfolios that are FTR Flow Undiversified but not FTR Geographically Undiversified, PJMSettlement shall increment the FTR Credit Requirement by an amount equal to twice the absolute value of the FTR Portfolio Auction Value, including the tentative cleared solution. For Participants with portfolios that are both FTR Flow Undiversified and FTR Geographically Undiversified, PJMSettlement shall increment the FTR Credit Requirement by an amount equal to three times the absolute value of the FTR Portfolio Auction Value, including the tentative cleared solution. For portfolios that are FTR Flow Undiversified in months subsequent to the current planning year, these incremental amounts, calculated on a monthly basis, shall be reduced (but not below zero) by an amount up to 25% of the monthly value of ARR credits that are held by a Participant. Subsequent to the ARR allocation process preceding an annual FTR auction, such ARR credits shall be reduced to zero for months associated with that ARR allocation process. PJMSettlement may recalculate such ARR credits at any time, but at a minimum shall do so subsequent to each annual FTR auction. If a reduction in such ARR credits at any time increases the amount of credit required for the Participant beyond its credit available for FTR activity, the Participant must increase its credit to eliminate the shortfall.

If the FTR Credit Requirement for any Participant exceeds its credit available for FTRs as a result of these diversification requirements for the tentatively cleared portfolio of FTRs,

PJMSettlement shall immediately issue a demand for additional credit, and such demand must be fulfilled before 4:00 p.m. on the business day following the demand. If any Participant does not timely satisfy such demand, PJMSettlement, in coordination with PJM, shall cause the removal that Participant's entire set of bids for that FTR auction (or auction round) and a new cleared solution shall be calculated for the entire auction (or auction round).

If necessary, PJM shall repeat the auction clearing calculation. PJM shall repeat these portfolio diversification calculations subsequent to any such secondary clearing calculation, and PJMSettlement shall require affected Participants to establish additional credit.

#### **G. FTR Administrative Charge Credit Requirement**

In addition to any other credit requirements, PJMSettlement may apply a credit requirement to cover the maximum administrative fees that may be charged to a Participant for its bids and offers.

#### **H. Long-Term FTR Credit Recalculation**

Long-term FTR Credit Requirement calculations shall be updated annually for known history, consistent with updating of historical values used for FTR Credit Requirement calculations in the annual auctions.

### **VI. EXPORT TRANSACTION SCREENING**

Export Transactions in the Real-time Energy Market shall be subject to Export Transaction Screening. Export Transaction Screening may be performed either for the duration of the entire Export Transaction, or separately for each time interval comprising an Export Transaction. PJM will deny or curtail all or a portion (based on the relevant time interval) of an Export Transaction if that Export Transaction, or portion thereof, would otherwise cause the Market Participant's Export Credit Exposure to exceed its Credit Available for Export Transactions. Export Transaction Screening shall be applied separately for each Operating Day and shall also be applied to each Export Transaction one or more times prior to the market clearing process for each relevant time interval. Export Transaction Screening shall not apply to transactions established directly by and between PJM and a neighboring Balancing Authority for the purpose of maintaining reliability.

A Market Participant's credit exposure for an individual Export Transaction shall be the MWh volume of the Export Transaction for each relevant time interval multiplied by each relevant Export Transaction Price Factor and summed over all relevant time intervals of the Export Transaction.

### **VII. FORMS OF FINANCIAL SECURITY**

Participants that provide Financial Security must provide the security in a PJMSettlement approved form and amount according to the guidelines below.

Financial Security which is no longer required to be maintained under provisions of the Agreements shall be returned at the request of a participant no later than two Business Days following determination by PJMSettlement within a commercially reasonable period of time that such collateral is not required.

Except when an event of default has occurred, a Participant may substitute an approved PJMSettlement form of Financial Security for another PJMSettlement approved form of Financial Security of equal value. The Participant must provide three (3) Business Days notice to PJMSettlement of its intent to substitute the Financial Security. PJMSettlement will release the replaced Financial Security with interest, if applicable, within (3) Business Days of receiving an approved form of substitute Financial Security.

#### **A. Cash Deposit**

Cash provided by a Participant as Financial Security will be held in a depository account by PJMSettlement with interest earned at PJMSettlement's overnight bank rate, and accrued to the Participant. PJMSettlement also may establish an array of investment options among which a Participant may choose to invest its cash deposited as Financial Security. Such investment options shall be comprised of high quality debt instruments, as determined by PJMSettlement, and may include obligations issued by the federal government and/or federal government sponsored enterprises. These investment options will reside in accounts held in PJMSettlement's name in a banking or financial institution acceptable to PJMSettlement. Where practicable, PJMSettlement may establish a means for the Participant to communicate directly with the bank or financial institution to permit the Participant to direct certain activity in the PJMSettlement account in which its Financial Security is held. PJMSettlement will establish and publish procedural rules, identifying the investment options and respective discounts in collateral value that will be taken to reflect any liquidation, market and/or credit risk presented by such investments. PJMSettlement has the right to liquidate all or a portion of the account balances at its discretion to satisfy a Participant's Total Net Obligation to PJMSettlement in the event of default under this credit policy or one or more of the Agreements.

#### **B. Letter Of Credit**

An unconditional, irrevocable standby letter of credit can be utilized to meet the Financial Security requirement. As stated below, the form, substance, and provider of the letter of credit must all be acceptable to PJMSettlement.

- The letter of credit will only be accepted from U.S.-based financial institutions or U.S. branches of foreign financial institutions ("financial institutions") that have a minimum corporate debt rating of "A" by Standard & Poor's or Fitch Ratings, or "A2" from Moody's Investors Service, or an equivalent short term rating from one of these agencies. PJMSettlement will consider the lowest applicable rating to be the rating of the financial institution. If the rating of a financial institution providing a letter of credit is lowered below A/A2 by any rating agency, then PJMSettlement may require the Participant to provide a letter of credit from another financial institution that is rated A/A2 or better, or to provide a cash deposit. If a letter of credit is provided from a U.S. branch of a foreign

institution, the U.S. branch must itself comply with the terms of this credit policy, including having its own acceptable credit rating.

- The letter of credit shall state that it shall renew automatically for successive one-year periods, until terminated upon at least ninety (90) days prior written notice from the issuing financial institution. If PJM or PJMSettlement receives notice from the issuing financial institution that the current letter of credit is being cancelled, the Participant will be required to provide evidence, acceptable to PJMSettlement, that such letter of credit will be replaced with appropriate Financial Security, effective as of the cancellation date of the letter of credit, no later than thirty (30) days before the cancellation date of the letter of credit, and no later than ninety (90) days after the notice of cancellation. Failure to do so will constitute a default under this credit policy and one of more of the Agreements.
- The letter of credit must clearly state the full names of the "Issuer", "Account Party" and "Beneficiary" (PJMSettlement), the dollar amount available for drawings, and shall specify that funds will be disbursed upon presentation of the drawing certificate in accordance with the instructions stated in the letter of credit. The letter of credit should specify any statement that is required to be on the drawing certificate, and any other terms and conditions that apply to such drawings.
- The PJMSettlement Credit Application contains an acceptable form of a letter of credit that should be utilized by a Participant choosing to meet its Financial Security requirement with a letter of credit. If the letter of credit varies in any way from the PJMSettlement format, it must first be reviewed and approved by PJMSettlement. All costs associated with obtaining and maintaining a letter of credit and meeting the policy provisions are the responsibility of the Participant
- PJMSettlement may accept a letter of credit from a Financial Institution that does not meet the credit standards of this policy provided that the letter of credit has third-party support, in a form acceptable to PJMSettlement, from a financial institution that does meet the credit standards of this policy.

## **VIII. POLICY BREACH AND EVENTS OF DEFAULT**

A Participant will have two Business Days from notification of Breach (including late payment notice) or notification of a Collateral Call to remedy the Breach or satisfy the Collateral Call in a manner deemed acceptable by PJMSettlement. Failure to remedy the Breach or satisfy such Collateral Call within such two Business Days will be considered an event of default. If a Participant fails to meet the requirements of this policy but then remedies the Breach or satisfies a Collateral Call within the two Business Day cure period, then the Participant shall be deemed to have complied with the policy. Any such two Business Day cure period will expire at 4:00 p.m. eastern prevailing time on the final day.

Only one cure period shall apply to a single event giving rise to a breach or default. Application of Financial Security towards a non-payment Breach shall not be considered a satisfactory cure of the Breach if the Participant fails to meet all requirements of this policy after such application.

Failure to comply with this policy (except for the responsibility of a Participant to notify PJMSettlement of a Material change) shall be considered an event of default. Pursuant to § 15.1.3(a) of the Operating Agreement of PJM Interconnection, L.L.C. and § 1.7.3 of the PJM Open Access Transmission Tariff, non-compliance with the PJMSettlement credit policy is an event of default under those respective Agreements. In event of default under this credit policy or one or more of the Agreements, PJMSettlement, in coordination with PJM, will take such actions as may be required or permitted under the Agreements, including but not limited to the termination of the Participant's ongoing Transmission Service and participation in PJM Markets. PJMSettlement has the right to liquidate all or a portion of a Participant's Financial Security at its discretion to satisfy Total Net Obligations to PJMSettlement in the event of default under this credit policy or one or more of the Agreements.

PJMSettlement may hold a defaulting Participant's Financial Security for as long as such party's positions exist and consistent with the PJM credit policy in this Attachment Q, in order to protect PJM's membership from default.

No payments shall be due to a Participant, nor shall any payments be made to a Participant, while the Participant is in default or has been declared in Breach of this policy or the Agreements, or while a Collateral Call is outstanding. PJMSettlement may apply towards an ongoing default any amounts that are held or later become available or due to the defaulting Participant through PJM's markets and systems.

In order to cover Obligations, PJMSettlement may hold a Participant's Financial Security through the end of the billing period which includes the 90th day following the last day a Participant had activity, open positions, or accruing obligations (other than reconciliations and true-ups), and until such Participant has satisfactorily paid any obligations invoiced through such period. Obligations incurred or accrued through such period shall survive any withdrawal from PJM. In event of non-payment, PJMSettlement may apply such Financial Security to such Participant's Obligations, even if Participant had previously announced and effected its withdrawal from PJM.

## **IX. DEFINITIONS:**

All capitalized terms in this Attachment Q that are not otherwise defined herein shall have the same meaning as they are defined in the Agreements.

### **Affiliate**

Affiliate is defined in the PJM Operating Agreement, §1.2.

### **Agreements**

Agreements are the Operating Agreement of PJM Interconnection, L.L.C., the PJM Open Access Transmission Tariff, the Reliability Assurance Agreement, the Reliability Assurance Agreement – West, and/or other agreements between PJM Interconnection, L.L.C. and its Members.

**Applicant**

Applicant is an entity desiring to become a PJM Member, or to take Transmission Service that has submitted the PJMSettlement Credit Application, PJMSettlement Credit Agreement and other required submittals as set forth in this policy.

**Breach**

Breach is the status of a Participant that does not currently meet the requirements of this policy or other provisions of the Agreements.

**Business Day**

A Business Day is a day in which the Federal Reserve System is open for business and is not a scheduled PJM holiday.

**Canadian Guaranty**

Canadian Guaranty is a Corporate Guaranty provided by an Affiliate of a Participant that is domiciled in Canada, and meets all of the provisions of this credit policy.

**Capacity**

Capacity is the installed capacity requirement of the Reliability Assurance Agreement or similar such requirements as may be established.

**Collateral Call**

Collateral Call is a notice to a Participant that additional Financial Security, or possibly early payment, is required in order to remain in, or to regain, compliance with this policy.

**Corporate Guaranty**

Corporate Guaranty is a legal document used by one entity to guaranty the obligations of another entity.

**Credit Available for Export Transactions**

Credit Available for Export Transactions is a set-aside of credit to be used for Export Transactions that is allocated by each Market Participant from its Credit Available for Virtual Transactions, and which reduces the Market Participant's Credit Available for Virtual Transactions accordingly.

**Credit Available for Virtual Transactions**

A Market Participant's Credit Available for Virtual Transactions is the Market Participant's Working Credit Limit for Virtual Transactions calculated on its credit provided in compliance with its Peak Market Activity requirement plus available credit submitted above that amount, less any unpaid billed and unbilled amounts owed to PJMSettlement, plus any unpaid unbilled amounts owed by PJMSettlement to the Market Participant, less any applicable credit required for Minimum Participation Requirements, FTR, Export Transactions, or other credit requirement determinants as defined in this policy.

**Credit-Limited Offer**



Credit-Limited Offer shall mean a Sell Offer that is submitted by a Market Seller in an RPM Auction subject to a maximum credit requirement specified by such Market Seller.

### **Credit Score**

Credit Score is a composite numerical score scaled from 0-100 as calculated by PJM Settlement that incorporates various predictors of creditworthiness.

### **Export Credit Exposure**

Export Credit Exposure is determined for each Market Participant for a given Operating Day, and is the sum of credit exposures for the Market Participant's Export Transactions for that Operating Day and for the preceding Operating Day.

### **Export Nodal Reference Price**

The Export Nodal Reference Price at each location is the 97th percentile real-time hourly integrated price experienced over the corresponding two-month period in the preceding calendar year, calculated separately for peak and off-peak time periods. The two-month time periods used in this calculation shall be January and February, March and April, May and June, July and August, September and October, and November and December.

### **Export Transaction**

An Export Transaction is a transaction by a Market Participant that results in the transfer of energy from within the PJM Control Area to outside the PJM Control Area. Coordinated External Transactions that result in the transfer of energy from the PJM Control Area to an adjacent Control Area are one form of Export Transaction.

### **Export Transactions Net Activity**

Export Transactions Net Activity shall mean the aggregate net total, resulting from Export Transactions, of (i) Spot Market Energy charges, (ii) Transmission Congestion Charges, and (iii) Transmission Loss Charges, calculated as set forth in Attachment K-Appendix. Export Transactions Net Activity may be positive or negative.

### **Export Transaction Price Factor**

The Export Transaction Price Factor for a prospective time interval shall be the greater of (i) PJM's forecast price for the time interval, if available, or (ii) the Export Nodal Reference Price, but shall not exceed the Export Transaction's dispatch ceiling price cap, if any, for that time interval. The Export Transaction Price Factor for a past time interval shall be calculated in the same manner as for a prospective time interval, except that the Export Transaction Price Factor may use a tentative or final settlement price, as available. If an Export Nodal Reference Price is not available for a particular time interval, PJM may use an Export Transaction Price Factor for that time interval based on an appropriate alternate reference price.

### **Export Transaction Screening**

Export Transaction Screening is the process PJM uses to review the Export Credit Exposure of Export Transactions against the Credit Available for Export Transactions, and deny or curtail all or a portion of an Export Transaction, if the credit required for such transactions is greater than the credit available for the transactions.

**Financial Security**

Financial Security is a cash deposit or letter of credit in an amount and form determined by and acceptable to PJMSettlement, provided by a Participant to PJMSettlement as security in order to participate in the PJM Markets or take Transmission Service.

**Foreign Guaranty**

Foreign Guaranty is a Corporate Guaranty provided by an Affiliate of a Participant that is domiciled in a foreign country, and meets all of the provisions of this credit policy.

**FTR Credit Limit**

FTR Credit Limit will be equal to the amount of credit established with PJMSettlement that a Participant has specifically designated to PJMSettlement to be set aside and used for FTR activity. Any such credit so set aside shall not be considered available to satisfy any other credit requirement the Participant may have with PJMSettlement.

**FTR Credit Requirement**

FTR Credit Requirement is the amount of credit that a Participant must provide in order to support the FTR positions that it holds and/or is bidding for. The FTR Credit Requirement shall not include months for which the invoicing has already been completed, provided that PJMSettlement shall have up to two Business Days following the date of the invoice completion to make such adjustments in its credit systems.

**FTR Flow Undiversified**

FTR Flow Undiversified shall have the meaning established in section V.G of this Attachment Q.

**FTR Geographically Undiversified**

FTR Geographically Undiversified shall have the meaning established in section V.G of this Attachment Q.

**FTR Historical Value**

FTR Historical Value – For each FTR for each month, this is the historical weighted average value over three years for the FTR path using the following weightings: 50% - most recent year; 30% - second year; 20% - third year. FTR Historical Values shall be calculated separately for on-peak, off-peak, and 24-hour FTRs for each month of the year. FTR Historical Values shall be adjusted by plus or minus ten percent (10%) for cleared counterflow or normal flow FTRs, respectively, in order to mitigate exposure due to uncertainty and fluctuations in actual FTR value.

**FTR Monthly Credit Requirement Contribution**

FTR Monthly Credit Requirement Contribution - For each FTR for each month, this is the total FTR cost for the month, prorated on a daily basis, less the FTR Historical Value for the month. For cleared FTRs, this contribution may be negative; prior to clearing, FTRs with negative contribution shall be deemed to have zero contribution.

**FTR Net Activity**

FTR Net Activity shall mean the aggregate net value of the billing line items for auction revenue rights credits, FTR auction charges, FTR auction credits, and FTR congestion credits, and shall also include day-ahead and balancing/real-time congestion charges up to a maximum net value of the sum of the foregoing auction revenue rights credits, FTR auction charges, FTR auction credits and FTR congestion credits.

**FTR Participant**

FTR Participant shall mean any Market Participant that is required to provide Financial Security in order to participate in PJM's FTR auctions.

**FTR Portfolio Auction Value**

FTR Portfolio Auction Value shall mean for each Participant (or Participant account), the sum, calculated on a monthly basis, across all FTRs, of the FTR price times the FTR volume in MW.

**Market Participant**

Market Participant shall have the meaning provided in the Operating Agreement.

**Material**

For these purposes, material is defined in §I.B.3, Material Changes. For the purposes herein, the use of the term "material" is not necessarily synonymous with use of the term by governmental agencies and regulatory bodies.

**Member**

Member shall have the meaning provided in the Operating Agreement.

**Minimum Participation Requirements**

A set of minimum training, risk management, communication and capital or collateral requirements required for Participants in the PJM markets, as set forth herein and in the Form of Annual Certification set forth as Appendix 1 to this Attachment Q. Participants transacting in FTRs in certain circumstances will be required to demonstrate additional risk management procedures and controls as further set forth in the Annual Certification found in Appendix 1 to this Attachment Q.

**Net Obligation**

Net Obligation is the amount owed to PJMSettlement and PJM for purchases from the PJM Markets, Transmission Service, (under both Part II and Part III of the O.A.T.T.), and other services pursuant to the Agreements, after applying a deduction for amounts owed to a Participant by PJMSettlement as it pertains to monthly market activity and services. Should other markets be formed such that Participants may incur future Obligations in those markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

**Net Sell Position**

Net Sell Position is the amount of Net Obligation when Net Obligation is negative.

**Nodal Reference Price**

The Nodal Reference Price at each location is the 97th percentile price differential between hourly day-ahead and real-time prices experienced over the corresponding two-month reference period in the prior calendar year. In order to capture seasonality effects and maintain a two-month reference period, reference months will be grouped by two, starting with January (e.g., Jan-Feb, Mar-Apr, ... , Jul-Aug, ... Nov-Dec). For any given current-year month, the reference period months will be the set of two months in the prior calendar year that include the month corresponding to the current month. For example, July and August 2003 would each use July-August 2002 as their reference period.

**Obligation**

Obligation is all amounts owed to PJMSettlement for purchases from the PJM Markets, Transmission Service, (under both Part II and Part III of the O.A.T.T.), and other services or obligations pursuant to the Agreements. In addition, aggregate amounts that will be owed to PJMSettlement in the future for Capacity purchases within the PJM Capacity markets will be added to this figure. Should other markets be formed such that Participants may incur future Obligations in those markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

**Operating Agreement of PJM Interconnection, L.L.C., (“Operating Agreement”)**

The Amended and Restated Operating Agreement of PJM Interconnection, L.L.C., dated as of June 2, 1997, on file with the Federal Energy Regulatory Commission, and as revised from time to time.

**Participant**

A Participant is a Market Participant and/or Transmission Customer and/or Applicant requesting to be an active Market Participant and/or Transmission Customer.

**Peak Market Activity**

Peak Market Activity is a measure of exposure for which credit is required, involving peak exposures in rolling three-week periods over a year timeframe, with two semi-annual reset points, pursuant to provisions of section II.D of this Credit Policy.

**PJM Markets**

The PJM Markets are the PJM Interchange Energy Market and the PJM Capacity markets as established by the Operating Agreement. Also any other markets that exist or may be established in the future wherein Participants may incur Obligations to PJMSettlement.

**PJM Open Access Transmission Tariff (“O.A.T.T.”)**

The Open Access Transmission Tariff of PJM Interconnection, L.L.C., on file with the Federal Energy Regulatory Commission, and as revised from time to time.

**Reliability Assurance Agreement (“R.A.A.”)**

See the definition of the Reliability Assurance Agreement (“R.A.A.”) in the Operating Agreement.

**RPM Seller Credit**

RPM Seller Credit is an additional form of Unsecured Credit defined in section IV of this document.

**Seller Credit**

A Seller Credit is a form of Unsecured Credit extended to Participants that have a consistent long-term history of selling into PJM Markets, as defined in this document.

**Tangible Net Worth**

Tangible Net Worth is all assets (not including any intangible assets such as goodwill) less all liabilities. Any such calculation may be reduced by PJMSettlement upon review of the available financial information.

**Total Net Obligation**

Total Net Obligation is all unpaid billed Net Obligations plus any unbilled Net Obligation incurred to date, as determined by PJMSettlement on a daily basis, plus any other Obligations owed to PJMSettlement at the time.

**Total Net Sell Position**

Total Net Sell Position is all unpaid billed Net Sell Positions plus any unbilled Net Sell Positions accrued to date, as determined by PJMSettlement on a daily basis.

**Transmission Customer**

Transmission Customer is a Transmission Customer is an entity taking service under Part II or Part III of the O.A.T.T.

**Transmission Service**

Transmission Service is any or all of the transmission services provided by PJM pursuant to Part II or Part III of the O.A.T.T.

**Uncleared Bid Exposure**

Uncleared Bid Exposure is a measure of exposure from Increment Offers and Decrement Bids activity relative to a Participant's established credit as defined in this policy. It is used only as a pre-screen to determine whether a Participant's Increment Offers and Decrement Bids should be subject to Increment Offer and Decrement Bid Screening.

**Unsecured Credit**

Unsecured Credit is any credit granted by PJMSettlement to a Participant that is not secured by a form of Financial Security.

**Unsecured Credit Allowance**

Unsecured Credit Allowance is Unsecured Credit extended by PJMSettlement in an amount determined by PJMSettlement's evaluation of the creditworthiness of a Participant. This is also defined as the amount of credit that a Participant qualifies for based on the strength of its own financial condition without having to provide Financial Security. See also: "Working Credit Limit."

**Up-to Congestion Counterflow Transaction**

An Up-to Congestion Transaction will be deemed an Up-to Congestion Counterflow Transaction if the following value is negative: (a) when bidding, the lower of the bid price and the prior Up-to Congestion Historical Month's average real-time value for the transaction; or (b) for cleared Virtual Transactions, the cleared day-ahead price of the Virtual Transactions.

**Up-to Congestion Historical Month**

An Up-to Congestion Historical Month is a consistently-defined historical period nominally one month long that is as close to a calendar month as PJM determines is practical.

**Up-to Congestion Prevailing Flow Transaction**

An Up-to Congestion Transaction will be deemed an Up-to Congestion Prevailing Flow Transaction if it is not an Up-to Congestion Counterflow Transaction.

**Up-to Congestion Reference Price**

The Up-to Congestion Reference Price for an Up-to Congestion Transaction is the specified percentile price differential between source and sink (defined as sink price minus source price) for hourly real-time prices experienced over the prior Up-to Congestion Historical Month, averaged with the same percentile value calculated for the second prior Up-to Congestion Historical Month. Up-to Congestion Reference Prices shall be calculated using the following historical percentiles:

For Up-to Congestion Prevailing Flow Transactions: 30<sup>th</sup> percentile

For Up-to Congestion Counterflow Transactions when bid: 20<sup>th</sup> percentile

For Up-to Congestion Counterflow Transactions when cleared: 5<sup>th</sup> percentile

**Virtual Credit Exposure**

Virtual Credit Exposure is the amount of potential credit exposure created by a market participant's bid submitted into the Day-ahead market, as defined in this policy.

**Virtual Transaction Screening**

Virtual Transaction Screening is the process of reviewing the Virtual Credit Exposure of submitted Virtual Transactions against the Credit Available for Virtual Transactions. If the credit required is greater than credit available, then the Virtual Transactions will not be accepted.

**Virtual Transactions Net Activity**

Virtual Transactions Net Activity shall mean the aggregate net total, resulting from Virtual Transactions, of (i) Spot Market Energy charges, (ii) Transmission Congestion Charges, and (iii) Transmission Loss Charges, calculated as set forth in Attachment K-Appendix. Virtual Transactions Net Activity may be positive or negative.

**Working Credit Limit**

Working Credit Limit amount is 75% of the Market Participant's Unsecured Credit Allowance and/or 75% of the Financial Security provided by the Market Participant to PJMSettlement. The Working Credit Limit establishes the maximum amount of Total Net Obligation that a Market Participant may have outstanding at any time. The calculation of Working Credit Limit shall

take into account applicable reductions for Minimum Participation Requirements, FTR, or other credit requirement determinants as defined in this policy.

**Working Credit Limit for Virtual Transactions**

The Working Credit Limit for Virtual Transactions shall be calculated as 75% of the Market Participant's Unsecured Credit Allowance and/or 75% of the Financial Security provided by the Market Participant to PJMSettlement when the Market Participant is at or below its Peak Market Activity credit requirements as specified in section II.D of this Credit Policy. When the Market Participant provides additional Unsecured Credit Allowance and/or Financial Security in excess of its Peak Market Activity credit requirements, such additional Unsecured Credit Allowance and/or Financial Security shall not be discounted by 25% when calculating the Working Credit Limit for Virtual Transactions. The Working Credit Limit for Virtual Transactions is a component in the calculation of Credit Available for Virtual Transactions. The calculation of Working Credit Limit for Virtual Transactions shall take into account applicable reductions for Minimum Participation Requirements, FTR, or other credit requirement determinants as defined in this policy.

## **Appendix 1 to Attachment Q**



**PJM MINIMUM PARTICIPATION CRITERIA  
OFFICER CERTIFICATION FORM**

Participant Name: _____ ("Participant")
---

I, \_\_\_\_\_, a duly authorized officer of Participant, understanding that PJM Interconnection, L.L.C. and PJM Settlement, Inc. ("PJMSettlement") are relying on this certification as evidence that Participant meets the minimum requirements set forth in Attachment Q to the PJM Open Access Transmission Tariff ("PJM Tariff"), hereby certify that I have full authority to represent on behalf of Participant and further represent as follows, as evidenced by my initialing each representation in the space provided below:

1. All employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Amended and Restated Operating Agreement ("PJM Operating Agreement") on behalf of the Participant have received appropriate<sup>1</sup> training and are authorized to transact on behalf of Participant. \_\_\_\_\_
2. Participant has written risk management policies, procedures, and controls, approved by Participant's independent risk management function<sup>2</sup> and applicable to transactions in the PJM markets in which it participates and for which employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Operating Agreement have been trained, that provide an appropriate, comprehensive risk management framework that, at a minimum, clearly identifies and documents the range of risks to which Participant is exposed, including, but not limited to credit risks, liquidity risks and market risks. \_\_\_\_\_
3. An FTR Participant (as defined in Attachment Q to the PJM Tariff) must make either the following 3.a. or 3.b. additional representations, evidenced by the undersigned officer initialing either the one 3.a. representation or the six 3.b. representations in the spaces provided below:
  - 3.a. Participant transacts in PJM's FTR markets with the sole intent to hedge congestion risk in connection with either obligations Participant has to serve load or rights Participant has to generate electricity in the PJM Region ("physical

<sup>1</sup> As used in this representation, the term "appropriate" as used with respect to training means training that is (i) comparable to generally accepted practices in the energy trading industry, and (ii) commensurate and proportional in sophistication, scope and frequency to the volume of transactions and the nature and extent of the risk taken by the participant.

<sup>2</sup> As used in this representation, a Participant's "independent risk management function" can include appropriate corporate persons or bodies that are independent of the Participant's trading functions, such as a risk management committee, a risk officer, a Participant's board or board committee, or a board or committee of the Participant's parent company.

transactions”) and monitors all of the Participant’s FTR market activity to endeavor to ensure that its FTR positions, considering both the size and pathways of the positions, are either generally proportionate to or generally do not exceed the Participant’s physical transactions, and remain generally consistent with the Participant’s intention to hedge its physical transactions.\_\_\_\_\_

- 3.b. On no less than a weekly basis, Participant values its FTR positions and engages in a probabilistic assessment of the hypothetical risk of such positions using analytically based methodologies, predicated on the use of industry accepted valuation methodologies.\_\_\_\_\_

Such valuation and risk assessment functions are performed either by persons within Participant’s organization independent from those trading in PJM’s FTR markets or by an outside firm qualified and with expertise in this area of risk management.\_\_\_\_\_

Having valued its FTR positions and quantified their hypothetical risks, Participant applies its written policies, procedures and controls to limit its risks using industry recognized practices, such as value-at-risk limitations, concentration limits, or other controls designed to prevent Participant from purposefully or unintentionally taking on risk that is not commensurate or proportional to Participant’s financial capability to manage such risk.\_\_\_\_\_

Exceptions to Participant’s written risk policies, procedures and controls applicable to Participant’s FTR positions are documented and explain a reasoned basis for the granting of any exception.\_\_\_\_\_

Participant has provided to PJMSettlement, in accordance with Section I A. of Attachment Q to the PJM Tariff, a copy of its current governing risk management policies, procedures and controls applicable to its FTR trading activities.\_\_\_\_\_

If the risk management policies, procedures and controls applicable to Participant’s FTR trading activities submitted to PJMSettlement were submitted prior to the current certification, Participant certifies that no substantive changes have been made to such policies, procedures and controls applicable to its FTR trading activities since such submission.\_\_\_\_\_

4. Participant has appropriate personnel resources, operating procedures and technical abilities to promptly and effectively respond to all PJM communications and directions.\_\_\_\_\_
5. Participant has demonstrated compliance with the Minimum Capitalization criteria set forth in Attachment Q of the PJM Open Access Transmission Tariff that are applicable to the PJM market(s) in which Participant transacts, and is not aware of any change having occurred or being imminent that would invalidate such compliance.\_\_\_\_\_

6. All Participants must certify and initial in at least one of the four sections below:

- a. I certify that Participant qualifies as an “appropriate person” as that term is defined under Section 4(c)(3), or successor provision, of the Commodity Exchange Act or an “eligible contract participant” as that term is defined under Section 1a(18), or successor provision, of the Commodity Exchange Act. I certify that Participant will cease transacting in PJM’s Markets and notify PJMSettlement immediately if Participant no longer qualifies as an “appropriate person” or “eligible contract participant.” \_\_\_\_\_

If providing financial statements to support Participant’s certification of qualification as an “appropriate person:”

I certify, to the best of my knowledge and belief, that the financial statements provided to PJMSettlement present fairly, pursuant to such disclosures in such financial statements, the financial position of Participant as of the date of those financial statements. Further, I certify that Participant continues to maintain the minimum \$1 million total net worth and/or \$5 million total asset levels reflected in these financial statements as of the date of this certification. I acknowledge that both PJM and PJMSettlement are relying upon my certification to maintain compliance with federal regulatory requirements. \_\_\_\_\_

If providing financial statements to support Participant’s certification of qualification as an “eligible contract participant:”

I certify, to the best of my knowledge and belief, that the financial statements provided to PJMSettlement present fairly, pursuant to such disclosures in such financial statements, the financial position of Participant as of the date of those financial statements. Further, I certify that Participant continues to maintain the minimum \$1 million total net worth and/or \$10 million total asset levels reflected in these financial statements as of the date of this certification. I acknowledge that both PJM and PJMSettlement are relying upon my certification to maintain compliance with federal regulatory requirements. \_\_\_\_\_

- b. I certify that Participant has provided an unlimited Corporate Guaranty in a form acceptable to PJM as described in Section I.C of Attachment Q from an issuer that has at least \$1 million of total net worth or \$5 million of total assets per Participant per Participant for which the issuer has issued an unlimited Corporate Guaranty. I certify that Participant will cease transacting PJM’s Markets and notify PJMSettlement immediately if issuer of the unlimited Corporate Guaranty for Participant no longer has at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty. \_\_\_\_\_

I certify that the issuer of the unlimited Corporate Guaranty to Participant continues to have at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty. I acknowledge that PJM and PJMSettlement are relying upon my certifications to maintain compliance with federal regulatory requirements.\_\_\_\_\_

c. I certify that Participant fulfills the eligibility requirements of the Commodity Futures Trading Commission exemption order (78 F.R. 19880 – April 2, 2013) by being in the business of at least one of the following in the PJM Region as indicated below (initial those applicable):

1. Generating electric energy, including Participants that resell physical energy acquired from an entity generating electric energy:\_\_\_\_\_
2. Transmitting electric energy:\_\_\_\_\_
3. Distributing electric energy delivered under Point-to-Point or Network Integration Transmission Service, including scheduled import, export and wheel through transactions:\_\_\_\_\_
4. Other electric energy services that are necessary to support the reliable operation of the transmission system:\_\_\_\_\_

Description only if c(4) is initialed:

---

Further, I certify that Participant will cease transacting in PJM's Markets and notify PJMSettlement immediately if Participant no longer performs at least one of the functions noted above in the PJM Region. I acknowledge that PJM and PJMSettlement are relying on my certification to maintain compliance with federal energy regulatory requirements.\_\_\_\_\_

- d. I certify that Participant has provided a letter of credit of \$5 million or more to PJMSettlement in a form acceptable to PJMSettlement as described in Section VI.B of Attachment Q that the Participant acknowledges cannot be utilized to meet its credit requirements to PJMSettlement. I acknowledge that PJM and PJMSettlement are relying on the provision of this letter of credit and my certification to maintain compliance with federal regulatory requirements.\_\_\_\_\_
7. I acknowledge that I have read and understood the provisions of Attachment Q of the PJM Tariff applicable to Participant's business in the PJM markets, including those provisions describing PJM's minimum participation requirements and the enforcement actions available to PJMSettlement of a Participant not satisfying those requirements. I acknowledge that the information provided herein is true and accurate to the best of my belief and knowledge after due investigation. In addition, by signing this Certification, I

acknowledge the potential consequences of making incomplete or false statements in this  
Certification. \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_  
(Signature)

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

## 1. INTRODUCTION

This Attachment sets forth the terms and conditions governing the Reliability Pricing Model for the PJM Region. In the event of a conflict between this Attachment DD and Attachment M and its Appendix with respect to the responsibilities of the Market Monitoring Unit, the provisions of Attachment M and its Appendix shall control. As more fully set forth in this Attachment and the PJM Manuals, and in conjunction with the Reliability Assurance Agreement, the Reliability Pricing Model provides:

- (a) support for LSEs in satisfying Daily Unforced Capacity Obligations for future Delivery Years through Self Supply of Capacity Resources;
- (b) a competitive auction mechanism to secure the forward commitment of additional Capacity Resources and Qualifying Transmission Upgrades as necessary to satisfy the portion of LSEs' Unforced Capacity Obligations not satisfied through Self-Supply, in order to ensure the reliability of the PJM Region for future Delivery Years;
- (c) long-term pricing signals for the development of Capacity Resources, including demand resources and planned generation resources, to ensure the reliability of the PJM Region;
- (d) recognition for the locational benefits of Capacity Resources;
- (e) deficiency charges to ensure progress toward, and fulfillment of, forward commitments by demand and generation resources to satisfy capacity requirements;
- (f) measures to identify and mitigate capacity market structure deficiencies; and
- (g) a Reliability Backstop mechanism to ensure that sufficient generation, transmission and demand response solutions will be available to preserve system reliability.

Notwithstanding any other provision of this Attachment DD, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **2. DEFINITIONS**

Definitions specific to this Attachment are set forth below. In addition, any capitalized terms used in this Attachment not defined herein shall have the meaning given to such terms elsewhere in this Tariff or in the RAA. References to section numbers in this Attachment DD refer to sections of this attachment, unless otherwise specified.

### **2.1A Annual Demand Resource**

“Annual Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.1B Annual Resource**

“Annual Resource” shall mean a Generation Capacity Resource, an Energy Efficiency Resource or an Annual Demand Resource.

### **2.1C Annual Resource Price Adder**

“Annual Resource Price Adder” shall mean, for Delivery Years starting June 1, 2014 and ending May 31, 2017, an addition to the marginal value of Unforced Capacity and the Extended Summer Resource Price Adder as necessary to reflect the price of Annual Resources required to meet the applicable Minimum Annual Resource Requirement.

### **2.1D Annual Revenue Rate**

“Annual Revenue Rate” shall mean the rate employed to assess a compliance penalty charge on a Curtailment Service Provider under section 11.

### **2.1E Annual WRL Load**

“Annual WRL Load” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.2 Avoidable Cost Rate**

“Avoidable Cost Rate” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

### **2.3 Base Load Generation Resource**

“Base Load Generation Resource” shall mean a Generation Capacity Resource that operates at least 90 percent of the hours that it is available to operate, as determined by the Office of the Interconnection in accordance with the PJM Manuals.

### **2.4 Base Offer Segment**

“Base Offer Segment” shall mean a component of a Sell Offer based on an existing Generation Capacity Resource, equal to the Unforced Capacity of such resource, as determined in accordance with the PJM Manuals. If the Sell Offers of multiple Market Sellers are based on a single Existing Generation Capacity Resource, the Base Offer Segments of such Market Sellers shall be determined pro rata based on their entitlements to Unforced Capacity from such resource.

## **2.5 Base Residual Auction**

“Base Residual Auction” shall mean the auction conducted three years prior to the start of the Delivery Year to secure commitments from Capacity Resources as necessary to satisfy any portion of the Unforced Capacity Obligation of the PJM Region not satisfied through Self-Supply.

## **2.6 Buy Bid**

“Buy Bid” shall mean a bid to buy Capacity Resources in any Incremental Auction.

### **2.6A Compliance Aggregation Area (CAA)**

“Compliance Aggregation Area” or “CAA” shall mean a geographic area of Zones or sub-Zones that are electrically-contiguous and experience for the relevant Delivery Year, based on Resource Clearing Prices of Annual Resources, the same locational price separation in the Base Residual Auction, the same locational price separation in the First Incremental Auction, the same locational price separation in the Second Incremental Auction, or the same locational price separation in the Third Incremental Auction.

## **2.7 Capacity Credit**

“Capacity Credit” shall have the meaning specified in Schedule 11 of the Operating Agreement, including Capacity Credits obtained prior to the termination of such Schedule applicable to periods after the termination of such Schedule.

## **2.8 Capacity Emergency Transfer Limit**

“Capacity Emergency Transfer Limit” or “CETL” shall have the meaning provided in the Reliability Assurance Agreement.

## **2.9 Capacity Emergency Transfer Objective**

“Capacity Emergency Transfer Objective” or “CETO” shall have the meaning provided in the Reliability Assurance Agreement.

### **2.9A Capacity Export Transmission Customer**



“Capacity Export Transmission Customer” shall mean a customer taking point to point transmission service under Part II of this Tariff to export capacity from a generation resource located in the PJM Region that has qualified for an exception to the RPM must-offer requirement as described in section 6.6(g).

## **2.9B Capacity Import Limit**

“Capacity Import Limit” shall have the meaning provided in the Reliability Assurance Agreement.

## **2.10 Capacity Market Buyer**

“Capacity Market Buyer” shall mean a Member that submits bids to buy Capacity Resources in any Incremental Auction.

## **2.11 Capacity Market Seller**

“Capacity Market Seller” shall mean a Member that owns, or has the contractual authority to control the output or load reduction capability of, a Capacity Resource, that has not transferred such authority to another entity, and that offers such resource in the Base Residual Auction or an Incremental Auction.

## **2.12 Capacity Resource**

“Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.13 Capacity Resource Clearing Price**

“Capacity Resource Clearing Price” shall mean the price calculated for a Capacity Resource that offered and cleared in a Base Residual Auction or Incremental Auction, in accordance with Section 5.

## **2.14 Capacity Transfer Right**

“Capacity Transfer Right” shall mean a right, allocated to LSEs serving load in a Locational Deliverability Area, to receive payments, based on the transmission import capability into such Locational Deliverability Area, that offset, in whole or in part, the charges attributable to the Locational Price Adder, if any, included in the Zonal Capacity Price calculated for a Locational Delivery Area.

## **2.14A Conditional Incremental Auction**

“Conditional Incremental Auction” shall mean an Incremental Auction conducted for a Delivery Year if and when necessary to secure commitments of additional capacity to address reliability criteria violations arising from the delay in a Backbone Transmission upgrade that was modeled in the Base Residual Auction for such Delivery Year.

## **2.15 CONE Area**

“CONE Area” shall mean the areas listed in section 5.10(a)(iv)(A) and any LDAs established as CONE Areas pursuant to section 5.10(a)(iv)(B).

## **2.16 Cost of New Entry**

“Cost of New Entry” or “CONE” shall mean the nominal levelized cost of a Reference Resource, as determined in accordance with section 5.

### **2.16A Credit-Limited Offer**

“Credit-Limited Offer” shall have the meaning provided in Attachment Q to this Tariff.

## **2.17 Daily Deficiency Rate**

“Daily Deficiency Rate” shall mean the rate employed to assess certain deficiency charges under sections 7, 8, 9, or 13.

## **2.18 Daily Unforced Capacity Obligation**

“Daily Unforced Capacity Obligation” shall mean the capacity obligation of a Load Serving Entity during the Delivery Year, determined in accordance with Schedule 8 of the Reliability Assurance Agreement.

## **2.19 Delivery Year**

Delivery Year shall mean the Planning Period for which a Capacity Resource is committed pursuant to the auction procedures specified in Section 5.

## **2.20 Demand Resource**

“Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.21 Demand Resource Factor**

“Demand Resource Factor” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.22 [Reserved for Future Use]**

## **2.23 EFORD**

“EFORD” shall have the meaning specified in the PJM Reliability Assurance Agreement.

## **2.24 Energy Efficiency Resource**

“Energy Efficiency Resource” shall have the meaning specified in the PJM Reliability Assurance Agreement.

### **2.24.01 Existing WLR Load**

“Existing WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.24A Extended Summer Demand Resource**

“Extended Summer Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.24B Extended Summer Resource Price Adder**

“Extended Summer Resource Price Adder” shall mean an addition to the marginal value of Unforced Capacity as necessary to reflect the price of Annual Resources and Extended Summer Demand Resources required to meet the applicable Minimum Extended Summer Resource Requirement.

## **2.24C Sub-Annual Resource Reliability Target**

“Sub-Annual Reliability Target” for the PJM Region or an LDA, shall mean the maximum amount of the combination of Extended Summer Demand Resources and Limited Demand Resources in Unforced Capacity determined by PJM to be consistent with the maintenance of reliability, stated in Unforced Capacity, that shall be used to calculate the Minimum Annual Resource Requirement for Delivery Years through May 31, 2017 and the Sub-Annual Resource Constraint for Delivery Years beginning June 1, 2017. As more fully set forth in the PJM Manuals, PJM calculates the Sub-Annual Resource Reliability Target, by first determining a reference annual loss of load expectation (“LOLE”) assuming no Demand Resources. The calculation for the unconstrained portion of the PJM Region uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast and iteratively shifting the load distributions to result in the Installed Reserve Margin established for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). The calculation for each relevant LDA uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Capacity Emergency Transfer Objective study for the Delivery Year in question). For the relevant LDA calculation, the weekly capacity distributions are adjusted to reflect the Capacity Emergency Transfer Limit for the Delivery Year in question.

For both the PJM Region and LDA analyses, PJM then models the commitment of varying amounts of DR (displacing otherwise committed generation) as interruptible from May 1 through October 31 and unavailable from November 1 through April 30 and calculates the LOLE at each DR level. The Extended Summer DR Reliability Target is the DR amount, stated as a percentage

of the unrestricted peak load, that produces no more than a ten percent increase in the LOLE, compared to the reference value. The Sub-Annual Resource Reliability Target shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the DR Factor] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

#### **2.24D Extended Summer WLR Load**

“Extended Summer WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.25 Sub-Annual Resource Constraint**

“Sub-Annual Resource Constraint” shall mean, for the PJM Region or for each LDA for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for a Delivery Year, a limit on the total amount of Unforced Capacity that can be committed as Limited Demand Resources and Extended Summer Demand Resources for such Delivery Year in the PJM Region or in such LDA, calculated as the Sub-Annual Resource Reliability Target for the PJM Region or for such LDA, respectively, minus the Short-Term Resource Procurement Target for the PJM Region or for such LDA, respectively.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **2.26 Final RTO Unforced Capacity Obligation**

“Final RTO Unforced Capacity Obligation” shall mean the capacity obligation for the PJM Region, determined in accordance with Schedule 8 of the Reliability Assurance Agreement.

#### **2.26A [Reserved]**

#### **2.27 First Incremental Auction**

“First Incremental Auction” shall mean an Incremental Auction conducted 20 months prior to the start of the Delivery Year to which it relates.

#### **2.28 Forecast Pool Requirement**

“Forecast Pool Requirement” shall have the meaning specified in the Reliability Assurance Agreement.

**2.29 [Reserved]**

**2.30 [Reserved]**

**2.31 Generation Capacity Resource**

“Generation Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

**2.32 [Reserved]**

**2.33 [Reserved]**

**2.34 Incremental Auction**

“Incremental Auction” shall mean any of several auctions conducted for a Delivery Year after the Base Residual Auction for such Delivery Year and before the first day of such Delivery Year, including the First Incremental Auction, Second Incremental Auction, Third Incremental Auction or Conditional Incremental Auction. Incremental Auctions (other than the Conditional Incremental Auction), shall be held for the purposes of:

(i) allowing Market Sellers that committed Capacity Resources in the Base Residual Auction for a Delivery Year, which subsequently are determined to be unavailable to deliver the committed Unforced Capacity in such Delivery Year (due to resource retirement, resource cancellation or construction delay, resource derating, EFORD increase, a decrease in the Nominated Demand Resource Value of a Planned Demand Resource, delay or cancellation of a Qualifying Transmission Upgrade, or similar occurrences) to submit Buy Bids for replacement Capacity Resources; and

(ii) allowing the Office of the Interconnection to reduce or increase the amount of committed capacity secured in prior auctions for such Delivery Year if, as a result of changed circumstances or expectations since the prior auction(s), there is, respectively, a significant excess or significant deficit of committed capacity for such Delivery Year, for the PJM Region or for an LDA.

**2.35 Incremental Capacity Transfer Right**

“Incremental Capacity Transfer Right” shall mean a Capacity Transfer Right allocated to a Generation Interconnection Customer or Transmission Interconnection Customer obligated to fund a transmission facility or upgrade, to the extent such upgrade or facility increases the transmission import capability into a Locational Deliverability Area, or a Capacity Transfer Right allocated to a Responsible Customer in accordance with Schedule 12A of the Tariff.

**2.36 [Reserved]**

**2.36A Limited Demand Resource**

“Limited Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.36B Limited Demand Resource Reliability Target**

“Limited Demand Resource Reliability Target” for the PJM Region or an LDA, shall mean the maximum amount of Limited Demand Resources determined by PJM to be consistent with the maintenance of reliability, stated in Unforced Capacity that shall be used to calculate the Minimum Extended Summer Demand Resource Requirement for Delivery Years through May 31, 2017 and the Limited Resource Constraint for Delivery Years beginning June 1, 2017 for the PJM Region or such LDA. As more fully set forth in the PJM Manuals, PJM calculates the Limited Demand Resource Reliability Target by first: i) testing the effects of the ten-interruption requirement by comparing possible loads on peak days under a range of weather conditions (from the daily load forecast distributions for the Delivery Year in question) against possible generation capacity on such days under a range of conditions (using the cumulative capacity distributions employed in the Installed Reserve Margin study for the PJM Region and in the Capacity Emergency Transfer Objective study for the relevant LDAs for such Delivery Year) and, by varying the assumed amounts of DR that is committed and displaces committed generation, determines the DR penetration level at which there is a ninety percent probability that DR will not be called (based on the applicable operating reserve margin for the PJM Region and for the relevant LDAs) more than ten times over those peak days; ii) testing the six-hour duration requirement by calculating the MW difference between the highest hourly unrestricted peak load and seventh highest hourly unrestricted peak load on certain high peak load days (e.g., the annual peak, loads above the weather normalized peak, or days where load management was called) in recent years, then dividing those loads by the forecast peak for those years and averaging the result; and (iii) (for the 2016-2017 and subsequent Delivery Years) testing the effects of the six-hour duration requirement by comparing possible hourly loads on peak days under a range of weather conditions (from the daily load forecast distributions for the Delivery Year in question) against possible generation capacity on such days under a range of conditions (using a Monte Carlo model of hourly capacity levels that is consistent with the capacity model employed in the Installed Reserve Margin study for the PJM Region and in the Capacity Emergency Transfer Objective study for the relevant LDAs for such Delivery Year) and, by varying the assumed amounts of DR that is committed and displaces committed generation, determines the DR penetration level at which there is a ninety percent probability that DR will not be called (based on the applicable operating reserve margin for the PJM Region and for the relevant LDAs) for more than six hours over any one or more of the tested peak days. Second, PJM adopts the lowest result from these three tests as the Limited Demand Resource Reliability Target. The Limited Demand Resource Reliability Target shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the DR Factor] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

### **2.36C Limited Resource Constraint**

“Limited Resource Constraint” shall mean, for the PJM Region or each LDA for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for a Delivery Year, a limit on the total amount of Unforced Capacity that can be committed as Limited Demand Resources for such Delivery Year in the PJM Region or in such LDA, calculated as the Limited Demand Resource Reliability Target for the PJM Region or such LDA, respectively, minus the Short Term Resource Procurement Target for the PJM Region or such LDA, respectively.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **2.36D Limited Resource Price Decrement**

“Limited Resource Price Decrement” shall mean, for the Delivery Year commencing June 1, 2017 and subsequent Delivery Years, a difference between the clearing price for Limited Demand Resources and the clearing price for Extended Summer Demand Resources and Annual Resources, representing the cost to procure additional Extended Summer Demand Resources or Annual Resources out of merit order when the Limited Resource Constraint is binding.

#### **2.36E Limited WLR Load**

“Limited WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.36F Limited WLR Load Constraint**

“Limited WLR Load Constraint” for the PJM Region or an LDA, shall mean the maximum amount of Limited WLR Load determined by PJM to be consistent with the maintenance of reliability, stated in Unforced Capacity. As more fully set forth in the PJM Manuals, PJM calculates the Limited WLR Load Constraint by first: i) testing the effects of the ten-interruption requirement by comparing possible loads on peak days under a range of weather conditions (from the daily load forecast distributions for the Delivery Year in question) against possible generation capacity on such days under a range of conditions (using the cumulative capacity distributions employed in the Installed Reserve Margin study for the PJM Region and in the Capacity Emergency Transfer Objective study for the relevant LDAs for such Delivery Year) and, by varying the assumed amounts of WLR Load that is committed and displaces committed generation, determines the WLR Load penetration level at which there is a ninety percent probability that WLR Load will not be called (based on the applicable operating reserve margin for the PJM Region and for the relevant LDAs) more than ten times over those peak days; ii) testing the six-hour duration requirement by calculating the MW difference between the highest hourly unrestricted peak load and seventh highest hourly unrestricted peak load on certain high peak load days (e.g., the annual peak, loads above the weather normalized peak, or days where load management was called) in recent years, then dividing those loads by the forecast peak for those years and averaging the result; and (iii) testing the effects of the six-hour duration

requirement by comparing possible hourly loads on peak days under a range of weather conditions (from the daily load forecast distributions for the Delivery Year in question) against possible generation capacity on such days under a range of conditions (using a Monte Carlo model of hourly capacity levels that is consistent with the capacity model employed in the Installed Reserve Margin study for the PJM Region and in the Capacity Emergency Transfer Objective study for the relevant LDAs for such Delivery Year) and, by varying the assumed amounts of WLR Load that is committed and displaces committed generation, determines the WLR Load penetration level at which there is a ninety percent probability that WLR Load will not be called (based on the applicable operating reserve margin for the PJM Region and for the relevant LDAs) for more than six hours over any one or more of the tested peak days. Second, PJM adopts the lowest result from these three tests as the Limited WLR Load Constraint. The Limited WLR Load Constraint shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the DR Factor] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

## **2.37 Load Serving Entity (LSE)**

“Load Serving Entity” or “LSE” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.38 Locational Deliverability Area (LDA)**

“Locational Deliverability Area” or “LDA” shall mean a geographic area within the PJM Region that has limited transmission capability to import capacity to satisfy such area’s reliability requirement, as determined by the Office of the Interconnection in connection with preparation of the Regional Transmission Expansion Plan, and as specified in Schedule 10.1 of the Reliability Assurance Agreement.

## **2.39 Locational Deliverability Area Reliability Requirement**

“Locational Deliverability Area Reliability Requirement” shall mean the projected internal capacity in the Locational Deliverability Area plus the Capacity Emergency Transfer Objective for the Delivery Year, as determined by the Office of the Interconnection in connection with preparation of the Regional Transmission Expansion Plan, less the minimum internal resources required for all FRR Entities in such Locational Deliverability Area.

## **2.40 Locational Price Adder**

“Locational Price Adder” shall mean an addition to the marginal value of Unforced Capacity within an LDA as necessary to reflect the price of Capacity Resources required to relieve applicable binding locational constraints.

## **2.41 Locational Reliability Charge**



“Locational Reliability Charge” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.41A Locational UCAP**

“Locational UCAP” shall mean unforced capacity that a Member with available uncommitted capacity sells in a bilateral transaction to a Member that previously committed capacity or load reduction through an RPM Auction but now requires replacement capacity to fulfill its RPM Auction commitment. The Locational UCAP Seller retains responsibility for performance of the resource providing such replacement capacity. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **2.41B Locational UCAP Seller**

“Locational UCAP Seller” shall mean a Member that sells Locational UCAP.

#### **2.41C Market Seller Offer Cap**

“Market Seller Offer Cap” shall mean a maximum offer price applicable to certain Market Sellers under certain conditions, as determined in accordance with section 6 of Attachment DD and section II.E of Attachment M - Appendix.

#### **2.41D Minimum Annual Resource Requirement**

“Minimum Annual Resource Requirement” shall mean, for Delivery Years through May 31, 2017, the minimum amount of capacity that PJM will seek to procure from Annual Resources for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. For the PJM Region, the Minimum Annual Resource Requirement shall be equal to the RTO Reliability Requirement minus [the Sub-Annual Resource Reliability Target for the RTO in Unforced Capacity]. For an LDA, the Minimum Annual Resource Requirement shall be equal to the LDA Reliability Requirement minus [the LDA CETL] minus [the Sub-Annual Resource Reliability Target for such LDA in Unforced Capacity]. The LDA CETL may be adjusted pro rata for the amount of load served under the FRR Alternative.

#### **2.41E Minimum Extended Summer Resource Requirement**

“Minimum Extended Summer Resource Requirement” shall mean, for Delivery Years through May 31, 2017, the minimum amount of capacity that PJM will seek to procure from Extended Summer Demand Resources and Annual Resources for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a)

of this Attachment DD to establish a separate VRR Curve for such Delivery Year. For the PJM Region, the Minimum Extended Summer Resource Requirement shall be equal to the RTO Reliability Requirement minus [the Limited Demand Resource Reliability Target for the PJM Region in Unforced Capacity]. For an LDA, the Minimum Extended Summer Resource Requirement shall be equal to the LDA Reliability Requirement minus [the LDA CETL] minus [the Limited Demand Resource Reliability Target for such LDA in Unforced Capacity]. The LDA CETL may be adjusted pro rata for the amount of load served under the FRR Alternative.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **2.42 Net Cost of New Entry**

“Net Cost of New Entry” shall mean the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset, as defined in Section 5.

## **2.43 Nominated Demand Resource Value**

“Nominated Demand Resource Value” shall mean the amount of load reduction that a Demand Resource commits to provide either through direct load control, firm service level or guaranteed load drop programs. For existing Demand Resources, the maximum Nominated Demand Resource Value is limited, in accordance with the PJM Manuals, to the value appropriate for the method by which the load reduction would be accomplished, at the time the Base Residual Auction or Incremental Auction is being conducted.

## **2.43A Nominated Energy Efficiency Value**

“Nominated Energy Efficiency Value” shall mean the amount of load reduction that an Energy Efficiency Resource commits to provide through installation of more efficient devices or equipment or implementation of more efficient processes or systems.

## **2.43B Nominated WLR Quantity**

“Nominated WLR Quantity” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.44 Nominated WEEL Quantity[Reserved]**

“Nominated WEEL Quantity” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.45 Opportunity Cost**

“Opportunity Cost” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

#### **2.46 Peak-Hour Dispatch**

“Peak-Hour Dispatch” shall mean, for purposes of calculating the Energy and Ancillary Services Revenue Offset under section 5 of this Attachment, an assumption, as more fully set forth in the PJM Manuals, that the Reference Resource is committed in the Day-Ahead Energy Market in four distinct blocks of four hours of continuous output for each block from the peak-hour period beginning with the hour ending 0800 EPT through to the hour ending 2300 EPT for any day when the average day-ahead LMP for the area for which the Net Cost of New Entry is being determined is greater than, or equal to, the cost to generate (including the cost for a complete start and shutdown cycle) for at least two hours during each four-hour block, where such blocks shall be assumed to be committed independently; provided that, if there are not at least two economic hours in any given four-hour block, then the Reference Resource shall be assumed not to be committed for such block; and to the extent not committed in any such block in the Day-Ahead Energy Market under the above conditions based on Day-Ahead LMPs, is dispatched in the Real-Time Energy Market for such block if the Real-Time LMP is greater than or equal to the cost to generate under the same conditions as described above for the Day-Ahead Energy Market.

#### **2.47 Peak Season**

“Peak Season” shall mean the weeks containing the 24th through 36th Wednesdays of the calendar year. Each such week shall begin on a Monday and end on the following Sunday, except for the week containing the 36th Wednesday, which shall end on the following Friday.

#### **2.48 Percentage Internal Resources Required**

“Percentage Internal Resources Required” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.49 Planned Demand Resource**

“Planned Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.50 Planned External Generation Capacity Resource**

“Planned External Generation Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.50A Planned Generation Capacity Resource**

“Planned Generation Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.50B Planned WLR Load**

**“Planned WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.**

## **2.51 Planning Period**

“Planning Period” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.52 PJM Region**

“PJM Region” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.53 PJM Region Installed Reserve Margin**

“PJM Region Installed Reserve Margin” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.54 PJM Region Peak Load Forecast**

“PJM Region Peak Load Forecast” shall mean the peak load forecast used by the Office of the Interconnection in determining the PJM Region Reliability Requirement, and shall be determined on both a preliminary and final basis as set forth in section 5.

## **2.55 PJM Region Reliability Requirement**

“PJM Region Reliability Requirement” shall mean, for purposes of the Base Residual Auction, the Forecast Pool Requirement multiplied by the Preliminary PJM Region Peak Load Forecast, less the sum of all Preliminary Unforced Capacity Obligations of FRR Entities in the PJM Region; and, for purposes of the Incremental Auctions, the Forecast Pool Requirement multiplied by the updated PJM Region Peak Load Forecast, less the sum of all updated Unforced Capacity Obligations of FRR Entities in the PJM Region.

## **2.56 Projected PJM Market Revenues**

“Projected PJM Market Revenues” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

## **2.57 Qualifying Transmission Upgrade**

“Qualifying Transmission Upgrade” shall mean a proposed enhancement or addition to the Transmission System that: (a) will increase the Capacity Emergency Transfer Limit into an LDA by a megawatt quantity certified by the Office of the Interconnection; (b) the Office of the Interconnection has determined will be in service on or before the commencement of the first Delivery Year for which such upgrade is the subject of a Sell Offer in the Base Residual Auction; (c) is the subject of a Facilities Study Agreement executed before the conduct of the

Base Residual Auction for such Delivery Year and (d) a New Service Customer is obligated to fund through a rate or charge specific to such facility or upgrade.

## **2.58 Reference Resource**

“Reference Resource” shall mean a combustion turbine generating station, configured with two General Electric Frame 7FA turbines with inlet air cooling to 50 degrees, Selective Catalytic Reduction technology all CONE Areas, dual fuel capability, and a heat rate of 10.096 Mmbtu/MWh.

## **2.59 Reliability Assurance Agreement**

“Reliability Assurance Agreement” shall mean that certain “Reliability Assurance Agreement Among Load-Serving Entities in the PJM Region,” on file with FERC as PJM Interconnection, L.L.C. Rate Schedule FERC No.44.

## **2.60 Reliability Pricing Model Auction**

“Reliability Pricing Model Auction” or “RPM Auction” shall mean the Base Residual Auction or any Incremental Auction.

### **2.60A Repowered / Repowering**

“Repowering” or “Repowered” shall refer to a partial or total replacement of existing steam production equipment with new technology or a partial or total replacement of steam production process and power generation equipment, or an addition of steam production and/or power generation equipment, or a change in the primary fuel being used at the plant. A resource can be considered Repowered whether or not such aforementioned replacement, addition, or fuel change provides an increase in installed capacity, and whether or not the pre-existing plant capability is formally deactivated or retired.

## **2.61 Resource Substitution Charge**

“Resource Substitution Charge” shall mean a charge assessed on Capacity Market Buyers in an Incremental Auction to recover the cost of replacement Capacity Resources.

### **2.61A Scheduled Incremental Auctions**

“Scheduled Incremental Auctions” shall refer to the First, Second, or Third Incremental Auction.

## **2.62 Second Incremental Auction**

“Second Incremental Auction” shall mean an Incremental Auction conducted ten months before the Delivery Year to which it relates.

## **2.63 Sell Offer**

“Sell Offer” shall mean an offer to sell Capacity Resources in a Base Residual Auction, Incremental Auction, or Reliability Backstop Auction.

## **2.64 [Reserved for Future Use]**

## **2.65 Self-Supply**

“Self-Supply” shall mean Capacity Resources secured by a Load-Serving Entity, by ownership or contract, outside a Reliability Pricing Model Auction, and used to meet obligations under this Attachment or the Reliability Assurance Agreement through submission in a Base Residual Auction or an Incremental Auction of a Sell Offer indicating such Market Seller’s intent that such Capacity Resource be Self-Supply. Self-Supply may be either committed regardless of clearing price or submitted as a Sell Offer with a price bid. A Load Serving Entity’s Sell Offer with a price bid for an owned or contracted Capacity Resource shall not be deemed “Self-Supply,” unless it is designated as Self-Supply and used by the LSE to meet obligations under this Attachment or the Reliability Assurance Agreement.

### **2.65A Short-Term Resource Procurement Target**

“Short-Term Resource Procurement Target” shall mean, as to the PJM Region, for purposes of the Base Residual Auction, 2.5% of the PJM Region Reliability Requirement determined for such Base Residual Auction, for purposes of the First Incremental Auction, 2% of the of the PJM Region Reliability Requirement as calculated at the time of the Base Residual Auction; and, for purposes of the Second Incremental Auction, 1.5% of the of the PJM Region Reliability Requirement as calculated at the time of the Base Residual Auction; and, as to any Zone, an allocation of the PJM Region Short-Term Resource Procurement Target based on the Preliminary Zonal Forecast Peak Load, reduced by the amount of load served under the FRR Alternative. For any LDA, the LDA Short-Term Resource Procurement Target shall be the sum of the Short-Term Resource Procurement Targets of all Zones in the LDA.

### **2.65B Short-Term Resource Procurement Target Applicable Share**

“Short-Term Resource Procurement Target Applicable Share” shall mean: (i) for the PJM Region, as to the First and Second Incremental Auctions, 0.2 times the Short-Term Resource Procurement Target used in the Base Residual Auction and, as to the Third Incremental Auction for the PJM Region, 0.6 times such target; and (ii) for an LDA, as to the First and Second Incremental Auctions, 0.2 times the Short-Term Resource Procurement Target used in the Base Residual Auction for such LDA and, as to the Third Incremental Auction, 0.6 times such target.

#### **2.65B.01 Small Commercial Customer**

“Small Commercial Customer,” as used in Schedule 6 of the RAA and Attachment DD-1 of the Tariff, shall mean a commercial retail electric end-use customer of an electric distribution company that participates in a mass market demand response program under the jurisdiction of a RERRA and satisfies the definition of a “small commercial customer” under the terms of the

applicable RERRA's program, provided that the customer has an annual peak demand no greater than 100kW.

## **2.65C Sub-Annual Resource Price Decrement**

"Sub-Annual Resource Price Decrement" shall mean, for the Delivery Year commencing June 1, 2017 and subsequent Delivery Years, a difference between the clearing price for Extended Summer Demand Resources and the clearing price for Annual Resources, representing the cost to procure additional Annual Resources out of merit order when the Sub-Annual Resource Constraint is binding.

## **2.65D Sub-Annual WLR Load Constraint**

"Sub-Annual WLR Load Constraint" for the PJM Region or an LDA, shall mean the maximum amount of the combination of Extended Summer WLR Load and Limited WLR Loads in Unforced Capacity determined by PJM to be consistent with the maintenance of reliability, stated in Unforced Capacity. As more fully set forth in the PJM Manuals, PJM calculates the Sub-Annual WLR Load Constraint, by first determining a reference annual LOLE assuming no WLR Load. The calculation for the unconstrained portion of the PJM Region uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast and iteratively shifting the load distributions to result in the Installed Reserve Margin established for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). The calculation for each relevant LDA uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Capacity Emergency Transfer Objective study for the Delivery Year in question). For the relevant LDA calculation, the weekly capacity distributions are adjusted to reflect the Capacity Emergency Transfer Limit for the Delivery Year in question.

For both the PJM Region and LDA analyses, PJM then models the commitment of varying amounts of WLR Loads (displacing otherwise committed generation) as interruptible from May 1 through October 31 and unavailable from November 1 through April 30 and calculates the LOLE at each WLR Load level. The Sub-Annual WLR Load Constraint is the WLR Load amount, stated as a percentage of the unrestricted peak load, that produces no more than a ten percent increase in the LOLE, compared to the reference value. The Sub-Annual WLR Load Constraint shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the DR Factor] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

## **2.66 Third Incremental Auction**

"Third Incremental Auction" shall mean an Incremental Auction conducted three months before the Delivery Year to which it relates.

## **2.67 [Reserved for Future Use]**

## **2.68 Unconstrained LDA Group**

“Unconstrained LDA Group” shall mean a combined group of LDAs that form an electrically contiguous area and for which a separate Variable Resource Requirement Curve has not been established under Section 5.10 of Attachment DD. Any LDA for which a separate Variable Resource Requirement Curve has not been established under Section 5.10 of Attachment DD shall be combined with all other such LDAs that form an electrically contiguous area.

## **2.69 Unforced Capacity**

“Unforced Capacity” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.69A Updated VRR Curve**

“Updated VRR Curve” shall mean the Variable Resource Requirement Curve as defined in section 5.10(a) of this Attachment for use in the Base Residual Auction of the relevant Delivery Year, updated to reflect the Short-term Resource Procurement Target applicable to the relevant Incremental Auction and any change in the Reliability Requirement from the Base Residual Auction to such Incremental Auction.

### **2.69B Updated VRR Curve Increment**

“Updated VRR Curve Increment” shall mean the portion of the Updated VRR Curve to the right of a vertical line at the level of Unforced Capacity on the x-axis of such curve equal to the net Unforced Capacity committed to the PJM Region as a result of all prior auctions conducted for such Delivery Year *and adjusted, if applicable, by the reduction in Unforced Capacity commitments associated with the transition provision of section 5.14C of this Attachment DD.*

### **2.69C Updated VRR Curve Decrement**

“Updated VRR Curve Decrement” shall mean the portion of the Updated VRR Curve to the left of a vertical line at the level of Unforced Capacity on the x-axis of such curve equal to the net Unforced Capacity committed to the PJM Region as a result of all prior auctions conducted for such Delivery Year *and adjusted, if applicable, by the reduction in Unforced Capacity commitments associated with the transition provision of section 5.14C of this attachment DD.*

## **2.70 Variable Resource Requirement Curve**

“Variable Resource Requirement Curve” shall mean a series of maximum prices that can be cleared in a Base Residual Auction for Unforced Capacity, corresponding to a series of varying resource requirements based on varying installed reserve margins, as determined by the Office of the Interconnection for the PJM Region and for certain Locational Deliverability Areas in accordance with the methodology provided in Section 5.



#### **2.70A WEEL Provider**

“WEEL Provider” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70B Wholesale Energy Efficiency Load or WEEL**

“Wholesale Energy Efficiency Load or WEEL” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70C Wholesale Entity**

“Wholesale Entity” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70D Wholesale Load Reduction or WLR**

“Wholesale Load Reduction or WLR” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70E WLR Bid**

“WLR Bid” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70F WLR Bid Price**

“WLR Bid Price” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70G WLR Load**

“WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70H WLR Provider**

“WLR Provider” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70I WLR Value**

“WLR Value” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.71 Zonal Capacity Price**

“Zonal Capacity Price” shall mean the clearing price required in each Zone to meet the demand for Unforced Capacity and satisfy Locational Deliverability Requirements for the LDA or LDAs associated with such Zone. 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. RESPONSIBILITIES OF THE OFFICE OF THE INTERCONNECTION**

#### **3.1 Support for Self-Supply and Bilateral Transactions**

The Office of the Interconnection shall:

(a) support electronic tools to facilitate communication by Market Sellers and Market Buyers of information to the Office of the Interconnection concerning Self-Supply arrangements;

(b) support an electronic bulletin board providing a forum for prospective buyers and sellers to transact Capacity Resources outside the Reliability Pricing Model Auctions, including Locational UCAP transactions (including mechanisms to allow prospective Sellers with partial-year resources to explore voluntary opportunities to combine their resources such that they can be offered together for a full Delivery Year) and support electronic tools to report bilateral capacity transactions and bilateral load reduction transactions between Market Participants to the Office of the Interconnection, in accordance with procedures set forth in the PJM Manuals; and

(c) define one or more capacity trading hubs and determine and publicize values for such hubs based on the capacity prices determined for one or more Locational Deliverability Areas, in accordance with the PJM Manuals.

#### **3.2 Administration of the Base Residual Auction and Incremental Auctions**

The Office of the Interconnection shall conduct and administer the Base Residual Auction and Incremental Auctions in accordance with this Attachment, the Operating Agreement, and the Reliability Assurance Agreement. Administration of the Base Residual Auction and Incremental Auctions shall include, but not be limited to, the following:

a) Determining the qualification of entities to become Capacity Market Sellers, ~~and~~ Capacity Market Buyers, and Wholesale Entities;

b) Determining PJM Region Peak Load Forecasts and Locational Deliverability Area Reliability Requirements;

c) Determining the Minimum Annual Resource Requirements and the Minimum Extended Summer Resource Requirements for the PJM Region and applicable LDAs for Delivery Years starting June 1, 2014 and ending May 31, 2017;

d) Determining Limited Resource Constraints, ~~and~~ Sub-Annual Resource Constraints, Limited WLR Load Constraints, and Sub-Annual WLR Load Constraints for Delivery Years starting June 1, 2017;

e) Determining the need, if any, for a Conditional Incremental Auction and providing appropriate prior notice of any such auction

f) Calculating the EFORD for each Generation Capacity Resource in the PJM Region to be used in the Third Incremental Auction;

g) Receiving WLR Bids, Buy Bids, and Sell Offers, determining Locational Deliverability Requirements and Variable Resource Requirement Curves, and determining the clearing price that reflects all such inputs;

h) Conducting settlements for auction transactions, including but not limited to rendering bills to, receiving payments from, and disbursing payments to, participants in Base Residual Auctions and Incremental Auctions.

i) Maintaining such records of WLR Bids, Sell Offers, and Buy Bids, clearing price determinations, and other aspects of auction transactions, as may be appropriate to the administration of Base Residual Auctions and Incremental Auctions; and

j) Posting of selected non-confidential data used in Reliability Pricing Model Auctions to calculate clearing prices, WLR Values, and other auction results, as appropriate to inform market participants of auction conditions.

### **3.3 Records and Reports**

The Office of the Interconnection shall prepare and maintain such records as are required for the administration of the Base Residual Auction and Incremental Auctions. For each auction conducted, the Office of the Interconnection shall, consistent with section 18.17 of the Operating Agreement, publish the following: (i) Zonal Capacity Prices for each LDA; (ii) Capacity Resource Clearing Prices for each LDA; (iii) Locational Price Adders; (iv) the total megawatts of Unforced Capacity that cleared; and (v) such other auction data as may be appropriate to the efficient and competitive conduct of the Base Residual Auction and Incremental Auctions. Such information shall be available on the PJM internet site through the end of the Delivery Year to which such auctions apply.

### **3.4 Counterparty**

(a) PJMSettlement shall be the Counterparty to the transactions arising from the cleared Base Residual Auctions and Incremental Auctions; provided, however, PJMSettlement shall not be a contracting party to (i) any bilateral transactions between Market Participants, or (ii) with respect to Self-Supply for which designation of Self-Supply has been reported to the Office of the Interconnection.

(b) Charges. PJMSettlement shall be the Counterparty with respect to the obligations to pay, and the payment of, charges pursuant to this Attachment DD.

## **4. GENERAL PROVISIONS**

### **4.1 Capacity Market Sellers**

Only Capacity Market Sellers shall be eligible to submit Sell Offers into the Base Residual Auction and Incremental Auctions. Capacity Market Sellers shall comply with the terms and conditions of all Sell Offers, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M - Appendix and the Operating Agreement.

### **4.2 Capacity Market Buyers**

Only Capacity Market Buyers shall be eligible to submit Buy Bids into an Incremental Auction. Capacity Market Buyers shall comply with the terms and conditions of all Buy Bids, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M - Appendix and the Operating Agreement.

#### **4.2A Wholesale Entity**

Only Wholesale Entities shall be eligible to submit WLR Bids into a Base Residual Auction. Wholesale Entities shall comply with the terms and conditions of all WLR Bids, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M – Appendix, and the Reliability Assurance Agreement.

### **4.3 Agents**

A Capacity Market Seller or Wholesale Entity may participate in a Base Residual Auction or Incremental Auction through an Agent, provided that the Capacity Market Seller or Wholesale Entity informs the Office of the Interconnection in advance in writing of the appointment and authority of such Agent. A Capacity Market Buyer or Wholesale Entity may participate in an Incremental Auction through an Agent, provided that the Capacity Market Buyer informs the Office of the Interconnection in advance in writing of the appointment and authority of such Agent. A Wholesale Entity, Capacity Market Buyer, or Capacity Market Seller participating in such an auction through an Agent shall be bound by all of the acts or representations of such Agent with respect to transactions in such auction. Any written instrument establishing the authority of such Agent shall provide that any such Agent shall comply with the requirements of this Attachment, the Reliability Assurance Agreement, and the Operating Agreement, as applicable.

### **4.4 General Obligations of Wholesale Entities, Capacity Market Buyers, and Capacity Market Sellers**

Each Wholesale Entity, Capacity Market Buyer, and Capacity Market Seller shall comply with all laws and regulations applicable to the operation of the Base Residual and Incremental Auctions and the use of these auctions shall comply with all applicable provisions of this Attachment, Attachment M, Attachment M - Appendix, the Operating Agreement, and the Reliability Assurance Agreement, and all procedures and requirements for the conduct of the

Base Residual and Incremental Auctions and the PJM Region established by the Office of the Interconnection in accordance with the foregoing.

#### **4.5 Confidentiality**

The following information submitted to the Office of the Interconnection in connection with any Base Residual Auction, Incremental Auction, or Reliability Backstop Auction shall be deemed confidential information for purposes of Section 18.17 of the Operating Agreement, Attachment M and Attachment M - Appendix: (i) the terms and conditions of the WLR Bids, Sell Offers, and Buy Bids; and (ii) the terms and conditions of any bilateral transactions for Capacity Resources, Wholesale Load Reductions, or Wholesale Energy Efficiency Loads.

#### **4.6 Bilateral Capacity Transactions**

(a) Unit-Specific Internal Capacity Bilateral Transaction Transferring All Rights and Obligations (“Section 4.6(a) Bilateral”).

(i) Market Participants may enter into unit-specific internal bilateral capacity contracts for the purchase and sale of title and rights to a specified amount of installed capacity from a specific generating unit or units. Such bilateral capacity contracts shall be for the transfer of rights to capacity to and from a Market Participant and shall be reported to the Office of the Interconnection in accordance with this Attachment DD and the Office of the Interconnection’s rules related to its eRPM tools.

(ii) For purposes of clarity, with respect to all Section 4.6(a) Bilateral transactions, the rights to, and obligations regarding, the capacity that is the subject of the transaction shall pass to the buyer under the contract at the location of the unit and further transactions and rights and obligations associated with such capacity shall be the responsibility of the buyer under the contract. Such obligations include any charges, including penalty charges, relating to the capacity under this Attachment DD. In no event shall the purchase and sale of the rights to capacity pursuant to a Section 4.6(a) Bilateral constitute a transaction with the Office of the Interconnection or PJMSettlement or a transaction in any auction under this Attachment DD.

(iii) All payments and related charges associated with a Section 4.6(a) Bilateral shall be arranged between the parties to the transaction and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The Office of the Interconnection, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Section 4.6(a) Bilateral reported to the Office of the Interconnection under this Attachment DD.

(iv) With respect to capacity that is the subject of a Section 4.6(a) Bilateral that has cleared an auction under this Attachment DD prior to a transfer, the buyer of the cleared capacity shall be considered in the Delivery Year the party to a transaction with PJMSettlement as Counterparty for the cleared capacity at the Capacity Resource Clearing Price published for the applicable auction.

(v) A buyer under a Section 4.6(a) Bilateral contract shall pay any penalties or charges associated with the capacity transferred under the contract. To the extent the capacity that is the subject of a Section 4.6(a) Bilateral contract has cleared an auction under this Attachment DD prior to a transfer, then the seller under the contract also shall guarantee and indemnify the Office of the Interconnection, PJMSettlement, and the Members for the buyer's obligation to pay any penalties or charges associated with the capacity and for which payment is not made to PJMSettlement by the buyer as determined by the Office of the Interconnection. All claims regarding a default of a buyer to a seller under a Section 4.6(a) Bilateral contract shall be resolved solely between the buyer and the seller.

(vi) To the extent the capacity that is the subject of the Section 4.6(a) Bilateral transaction already has cleared an auction under this Attachment DD, such bilateral capacity transactions shall be subject to the prior consent of the Office of the Interconnection and its determination that sufficient credit is in place for the buyer with respect to the credit exposure associated with such obligations.

(b) Bilateral Capacity Transaction Transferring Title to Capacity But Not Transferring Performance Obligations ("Section 4.6(b) Bilateral").

(i) Market Participants may enter into bilateral capacity transactions for the purchase and sale of a specified megawatt quantity of capacity that has cleared an auction pursuant to this Attachment DD. The parties to a Section 4.6(b) Bilateral transaction shall identify (1) each unit from which the transferred megawatts are being sold, and (2) the auction in which the transferred megawatts cleared. Such bilateral capacity transactions shall transfer title and all rights with respect to capacity and shall be reported to the Office of the Interconnection on an annual basis prior to each Delivery Year in accordance with this Attachment DD and pursuant to the Office of the Interconnection's rules related to its eRPM tools. Reported transactions with respect to a unit will be accepted by the Office of the Interconnection only to the extent that the total of all bilateral sales from the reported unit (including Section 4.6(a) Bilaterals, Section 4.6(b) Bilaterals, and Locational UCAP bilaterals) do not exceed the unit's cleared unforced capacity.

(ii) For purposes of clarity, with respect to all Section 4.6(b) Bilateral transactions, the rights to the capacity shall pass to the buyer at the location of the unit(s) specified in the reported transaction. In no event shall the purchase and sale of the rights to capacity pursuant to a Section 4.6(b) Bilateral constitute a transaction with PJMSettlement or the Office of the Interconnection or a transaction in any auction under this Attachment DD.

(iii) With respect to a Section 4.6(b) Bilateral, the buyer of the cleared capacity shall be considered in the Delivery Year the party to a transaction with PJMSettlement as Counterparty for the cleared capacity at the Capacity Resource Clearing Price published for the applicable auction; provided, however, with respect to all Section 4.6(b) Bilateral transactions, such transactions do not effect a novation of the seller's obligations to make RPM capacity available to PJM pursuant to the terms and conditions originally agreed to by the seller; provided further, however, the buyer shall indemnify PJMSettlement, the LLC, and the Members for any failure by a seller under a Section 4.6(b) Bilateral to meet any resulting obligations, including the

obligation to pay deficiency penalties and charges owed to PJMSettlement, associated with the capacity.

(iv) All payments and related charges associated with a Section 4.6(b) Bilateral shall be arranged between the parties to the contract and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The Office of the Interconnection, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Section 4.6(b) Bilateral capacity contract reported to the Office of the Interconnection under this Attachment DD.

(v) All claims regarding a default of a buyer to a seller under a Section 4.6(b) Bilateral shall be resolved solely between the buyer and the seller.

(c) Locational UCAP Bilateral Transactions ~~Between Capacity Sellers.~~

(i) Market Participants may enter into Locational UCAP bilateral transactions as defined in, and pursuant to the rules set forth in, section 5.3A of this Attachment DD, which shall be reported to the Office of the Interconnection in accordance with this Attachment DD and the LLC's rules related to its eRPM tools.

(ii) For purposes of clarity, with respect to all Locational UCAP bilateral transactions, the rights to the Locational UCAP that are the subject of the Locational UCAP bilateral transaction shall pass to the buyer under the Locational UCAP bilateral contract subject to the provisions of section 5.3A. In no event, shall the purchase and sale of Locational UCAP pursuant to a Locational UCAP bilateral transaction constitute a transaction with the Office of the Interconnection or PJMSettlement, or a transaction in any auction under this Attachment DD.

(iii) A Locational UCAP Seller shall have the obligation to make the capacity available to PJM in the same manner as capacity that has cleared an auction under this Attachment DD and the Locational UCAP Seller shall have all obligations for charges and penalties associated with the capacity that is the subject of the Locational UCAP bilateral contract; provided, however, the buyer shall indemnify PJMSettlement, the LLC, and the Members for any failure by a seller to meet any resulting obligations, including the obligation to pay deficiency penalties and charges owed to PJMSettlement, associated with the capacity. All claims regarding a default of a buyer to a seller under a Locational UCAP bilateral contract shall be resolved solely between the buyer and the seller.

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

(d) The bilateral transactions provided for in this section 4.6 shall be for the physical transfer of capacity to or from a Market Participant and shall be reported to and coordinated with



the Office of the Interconnection in accordance with this Attachment DD and pursuant to the Office of the Interconnection's rules relating to its eRPM tools. Bilateral transactions that do not contemplate the physical transfer of capacity to and from a Market Participant are not subject to this Attachment DD and shall not be reported to and coordinated with the Office of the Interconnection. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## 5.1 Introduction

In accordance with the Reliability Assurance Agreement, each Load Serving Entity is obligated to pay a Locational Reliability Charge for each Zone in which it serves load based on the Daily Unforced Capacity Obligation of its loads in such Zone. An LSE may offset the Locational Reliability charge for a Delivery Year, in whole or in part, by: (a) Self-Supply of Capacity Resources in the Base Residual Auction or an Incremental Auction; (b) offering and clearing Capacity Resources in the Base Residual Auction or an Incremental Auction (but only to the extent of the additional resources committed to meet Unforced Capacity Obligations through such Incremental Auction); (c) receiving payments from Capacity Transfer Rights; ~~or~~ (d) offering and clearing Qualifying Transmission Upgrades in the Base Residual Auction; or (e) bidding and clearing WLR Load(s) or Wholesale Energy Efficiency Load(s) in the Base Residual Auction.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## 5.2 Nomination of Self Supplied Capacity Resources

A Capacity Market Seller, including a Load Serving Entity, may designate a Capacity Resource as Self-Supply for a Delivery year by submitting a Sell Offer for such resource in the Base Residual Auction or an Incremental Auction in accordance with the procedure and time schedule set forth in the PJM Manuals. The LSE shall indicate its intent in the Sell Offer that the Capacity Resource be deemed Self-Supply and shall indicate whether it is committing the resource regardless of clearing price or with a price bid. Any such Sell Offer shall be subject to the minimum offer price rule set forth in section 5.14(h). Upon receipt of a Self-Supply Sell Offer, the Office of the Interconnection will verify that the designated Capacity Resource is available, in accordance with Section 5.6, and, if the LSE indicated that it is committing the resource regardless of clearing price, will treat such Capacity Resource as committed in the clearing process of the Reliability Pricing Model Auction for which it was offered for such Delivery Year. To address capacity obligation quantity uncertainty associated with the Variable Resource Requirement Curve, a Load Serving Entity may submit a Sell Offer with a contingent designation of a portion of its Capacity Resources as either Self-Supply (to the extent required to meet a portion (as specified by the LSE) of the LSE's peak load forecast in each transmission zone) or as not Self-Supply (to the extent not so required) and subject to an offer price, in accordance with the PJM Manuals. PJMSettlement shall not be the Counterparty with respect to a Capacity Resource designated as Self-Supply. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### 5.3A Locational UCAP Bilateral Transactions

A Member that has committed capacity or load reduction through an RPM Auction for a Delivery Year may purchase Locational UCAP as replacement capacity from a Member with available uncommitted capacity for such Delivery Year in accordance with the terms of this section and the PJM Manuals. Locational UCAP may not be sold or purchased prior to the date that the final EFORD is established for such Delivery Year, and if designated to PJM by the Locational UCAP Seller as sold prior to the Third Incremental Auction for a Delivery Year must be confirmed by the buyer prior to such Third Incremental Auction as purchased for replacement capacity, or such transaction shall be rejected. In accordance with procedures specified in the PJM Manuals, the parties to a Locational UCAP transaction must notify PJM of such transaction, which notification must specify: i) the buyer, ii) the Locational UCAP Seller, iii) the start and end dates of the transaction (which may not be retroactive), iv) the Locational UCAP amount (no less than 0.1 megawatts), v) the demand or generation resource with available uncommitted capacity that is the basis for the sale, and vi) the Locational Delivery Area in which the resource is located. The Locational UCAP Seller shall be responsible for any charges imposed under sections 7, 8, 9, 10, 11, or 13, as applicable, for such Delivery Year, with respect to the increment of capacity sold as Locational UCAP; any other settlement of charges under the Locational UCAP transaction shall be between the parties. A purchaser of Locational UCAP may not offer such capacity into an RPM Auction. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## 5.4 Reliability Pricing Model Auctions

The Office of the Interconnection shall conduct the following Reliability Pricing Model Auctions:

a) Base Residual Auction.

PJM shall conduct for each Delivery Year a Base Residual Auction to secure commitments of Capacity Resources, WLR Loads, and Wholesale Energy Efficiency Loads as needed to satisfy the portion of the RTO Unforced Capacity Obligation not satisfied through Self-Supply of Capacity Resources for such Delivery Year. All Self-Supply Capacity Resources must be offered in the Base Residual Auction. As set forth in section 6.6, all other Capacity Resources, and certain other existing generation resources, must be offered in the Base Residual Auction. The Base Residual Auction shall be conducted in the month of May that is three years prior to the start of such Delivery Year. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement from Load Serving Entities through the Locational Reliability Charge during such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and the payments, by Load Serving Entities; provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

b) Scheduled Incremental Auctions.

PJM shall conduct for each Delivery Year a First, a Second, and a Third Incremental Auction for the purposes set forth in section 2.34. The First Incremental Auction shall be conducted in the month of September that is twenty months prior to the start of the Delivery Year; the Second Incremental Auction shall be conducted in the month of July that is ten months prior to the start of the Delivery Year; and the Third Incremental Auction shall be conducted in the month of February that is three months prior to the start of the Delivery Year.

c) Adjustment through Scheduled Incremental Auctions of Capacity Previously Committed.

The Office of the Interconnection shall recalculate the PJM Region Reliability Requirement and each LDA Reliability Requirement prior to each Scheduled Incremental Auction, based on an updated peak load forecast, updated Installed Reserve Margin, WLR Bids that cleared in the Base Residual Auction for that Delivery Year, any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year, and an updated Capacity Emergency Transfer Objective; shall update such reliability requirements for the Third Incremental Auction to reflect any change from such recalculation; and shall update such reliability requirements for the First Incremental Auction or Second Incremental Auction only if the change is greater than or equal to the lesser of: (i) 500 MW or (ii) one percent of the applicable prior reliability requirement. Based on such update, the Office of the Interconnection shall, under certain conditions, seek through the Scheduled

Incremental Auction to secure additional commitments of capacity or release sellers from prior capacity commitments. Specifically, the Office of the Interconnection shall:

1) seek additional capacity commitments to serve the PJM Region or an LDA if the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year (including any reductions to such reliability requirements as a result of any WLR Bids that cleared in the Base Residual Auction for that Delivery Year and any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year) is less than, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; provided, however, that in the First Incremental Auction or Second Incremental Auction the Office of the Interconnection shall seek such additional capacity commitments only if such shortfall is in an amount greater than or equal to the lesser of: (i) 500 MW or (ii) one percent of the applicable prior reliability requirement;

LDA if:

2) seek additional capacity commitments to serve the PJM Region or an

i) the updated PJM Region Reliability Requirement less the PJM Region Short-Term Resource Procurement Target utilized in the most recent auction conducted for the Delivery Year, or if the LDA Reliability Requirement less the LDA Short Term Resource Procurement Target applicable to such auction, exceeds the total capacity committed in all prior auctions in such region or area, respectively, for such Delivery Year by an amount greater than or equal to the lesser of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement; or

ii) PJM conducts a Conditional Incremental Auction for such Delivery Year and does not obtain all additional commitments of Capacity Resources sought in such Conditional Incremental Auction, in which case, PJM shall seek in the Incremental Auction the commitments that were sought in the Conditional Incremental Auction but not obtained.

3) seek agreements to release prior capacity commitments to the PJM Region or to an LDA if:

i) the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year (including any reductions to such reliability requirements as a result of any WLR Bids that cleared in the Base Residual Auction for that Delivery Year and any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year) exceeds, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; provided, however, that in the First Incremental Auction or Second Incremental Auction the Office of the Interconnection shall seek such agreements only if such excess is in an amount greater than or equal to the lesser

of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement;  
or

ii) PJM obtains additional commitments of Capacity Resources in a Conditional Incremental Auction, in which case PJM shall seek release of an equal number of megawatts (comparing the total purchase amount for all LDAs and the PJM Region related to the delay in Backbone Transmission with the total sell amount for all LDAs and the PJM Region related to the delay in Backbone Transmission) of prior committed capacity that would not have been committed had the delayed Backbone Transmission upgrade that prompted the Conditional Incremental Auction not been assumed, at the time of the Base Residual Auction, to be in service for the relevant Delivery Year; and if PJM obtains additional commitments of capacity in an incremental auction pursuant to subsection c.2.ii above, PJM shall seek in such Incremental Auction to release an equal amount of capacity (in total for all LDAs and the PJM Region related to the delay in Backbone Transmission) previously committed that would not have been committed absent the Backbone Transmission upgrade.

4) The cost of payments to Market Sellers for additional Capacity Resources cleared in such auctions, and the credits from payments from Market Sellers for the release of previously committed Capacity Resources, shall be apportioned to Load Serving Entities in the PJM Region or LDA, as applicable, through adjustments to the Locational Reliability Charge for such Delivery Year.

5) PJMSettlement shall be the Counterparty to the sales (including releases) of Capacity Resources that clear in such auctions and to the obligations to pay, and the payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

d) Commitment of Replacement Capacity through Scheduled Incremental Auctions.

Each Scheduled Incremental Auction for each Delivery Year shall allow Capacity Market Sellers that committed Capacity Resources in any prior Reliability Pricing Model Auction for such Delivery Year and Wholesale Entities that committed WLR Loads or Wholesale Energy Efficiency Loads in the Base residual Auction for such Delivery Year to submit Buy Bids for replacement Capacity Resources. Capacity Market Sellers and Wholesale Entities that submit Buy Bids into an Incremental Auction must specify the type of Unforced Capacity desired, i.e., Annual Resource, Extended Summer Demand Resource, or Limited Demand Resource. The need to purchase replacement Capacity Resources may arise for any reason, including but not limited to resource retirement, resource cancellation or construction delay, resource derating, EFORd increase, a decrease in the Nominated Demand Resource Value of a Planned Demand Resource, delay or cancellation of a Qualifying Transmission Upgrade, a decrease in the Nominated WLR Quantity of a WLR Load or similar occurrences. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement from Capacity Market Buyers and Wholesale Entities that purchase replacement Capacity Resources in such auction.

PJMSettlement shall be the Counterparty to the sales and purchases that clear in such auction, provided, however, PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

e) Conditional Incremental Auction.

PJM shall conduct for any Delivery Year a Conditional Incremental Auction if the in service date of a Backbone Transmission Upgrade that was modeled in the Base Residual Auction is announced as delayed by the Office of the Interconnection beyond July 1 of the Delivery Year for which it was modeled and if such delay causes a reliability criteria violation. If conducted, the Conditional Incremental Auction shall be for the purpose of securing commitments of additional capacity for the PJM Region or for any LDA to address the identified reliability criteria violation. If PJM determines to conduct a Conditional Incremental Auction, PJM shall post on its website the date and parameters for such auction (including whether such auction is for the PJM Region or for an LDA) at least one month prior to the start of such auction. The cost of payments to Market Sellers for Capacity Resources cleared in such auction shall be collected by PJMSettlement from Load Serving Entities in the PJM Region or LDA, as applicable, through an adjustment to the Locational Reliability Charge for such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.



## **5.5 Eligibility for Participation in RPM Auctions**

A Capacity Market Seller may submit a Sell Offer for a Capacity Resource in a Base Residual or Incremental Auction only if such seller owns or has the contractual authority to control the output or load reduction capability of such resource and has not transferred such authority to another entity. Capacity Resources must satisfy the capability and deliverability requirements of Schedules 9 and 10 of the PJM Reliability Assurance Agreement, and, as applicable, the requirements for Demand Resources or Energy Efficiency Resources in Attachment DD-1 and Schedule 6 of the Reliability Assurance Agreement.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **5.6 Sell Offers**

Sell Offers shall be submitted or withdrawn via the internet site designated by the Office of the Interconnection, in accordance with the procedures and time schedule set forth in the PJM Manuals.

### **5.6.1 Specifications**

A Sell Offer shall state quantities in increments of 0.1 megawatts and shall specify, as appropriate:

a) Identification of the Generation Capacity Resource, Annual Demand Resource, Extended Summer Demand Resource, Limited Demand Resource or Energy Efficiency Resource on which such Sell Offer is based;

b) Minimum and maximum megawatt quantity of installed capacity that the Capacity Market Seller is willing to offer (notwithstanding such specification, the product offered shall be Unforced Capacity), or designate as Self-Supply, from a Generation Capacity Resource;

i) Price, in dollars and cents per megawatt-day, that will be accepted by the Capacity Market Seller for the megawatt quantity of Unforced Capacity offered from such Generation Capacity Resource.

ii) The Sell Offer may take the form of offer segments with varying price-quantity pairs for varying output levels from the underlying resource, but may not take the form of an offer curve with nonzero slope.

c) EFORD of each Generation Capacity Resource offered.

i) If a Capacity Market Seller is offering such resource in a Base Residual Auction, First Incremental Auction, Second Incremental Auction, or Conditional Incremental Auction occurring before the Third Incremental Auction, the Capacity Market Seller shall specify the EFORD to apply to the offer.

ii) If a Capacity Market Seller is committing the resource as Self-Supply, the Capacity Market Seller shall specify the EFORD to apply to the commitment.

iii) The EFORD applied to the Third Incremental Auction will be the final EFORD established by the Office of the Interconnection six (6) months prior to the Delivery Year, based on the actual EFORD in the PJM Region during the 12-month period ending September 30 that last precedes such Delivery Year.

d) The Nominated Demand Resource Value for each Demand Resource offered and the Nominated Energy Efficiency Value for each Energy Efficiency Resource offered. The Office of the Interconnection shall, in both cases, convert such value to an Unforced Capacity basis by multiplying such value by the DR Factor times the Forecast Pool Requirement. Demand

Resources shall specify the LDA in which the Demand Resource is located, including the location of such resource within any Zone that includes more than one LDA as identified on Schedule 10.1 of the RAA.

e) A Demand Resource with the potential to qualify as two or more of a Limited Demand Resource, Extended Summer Demand Resource or Annual Demand Resource may submit separate but coupled Sell Offers for each Demand Resource type for which it qualifies at different prices and the auction clearing algorithm will select the Sell Offer that yields the least-cost solution. For such coupled Demand Resource offers, the offer price of an Annual Demand Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Extended Summer Demand Resource offer and the offer price of a Extended Summer Demand Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Limited Demand Resource offer.

f) For a Qualifying Transmission Upgrade, the Sell Offer shall identify such upgrade, and the Office of the Interconnection shall determine and certify the increase in CETL provided by such upgrade. The Capacity Market Seller may offer the upgrade with an associated increase in CETL to an LDA in accordance with such certification, including an offer price that will be accepted by the Capacity Market Seller, stated in dollars and cents per megawatt-day as a price difference between a Capacity Resource located outside such an LDA and a Capacity Resource located inside such LDA; and the increase in CETL into such LDA to be provided by such Qualifying Transmission Upgrade, as certified by the Office of the Interconnection.

(g) Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### **5.6.2 Compliance with PJM Credit Policy**

Capacity Market Sellers shall comply with the provisions of the PJM Credit Policy as set forth in Attachment Q to this Tariff, including the provisions specific to the Reliability Pricing Model, prior to submission of Sell Offers in any Reliability Pricing Model Auction. A Capacity Market Seller desiring to submit a Credit-Limited Offer shall specify in its Sell Offer the maximum auction credit requirement, in dollars, and the maximum amount of Unforced Capacity, in megawatts, applicable to its Sell Offer.

### **5.6.3 [reserved]**

### **5.6.4 Qualifying Transmission Upgrades**

A Qualifying Transmission Upgrade may not be the subject of any Sell Offer in a Base Residual Auction unless it has been approved by the Office of the Interconnection, including certification of the increase in Import Capability to be provided by such Qualifying Transmission Upgrade, no later than 45 days prior to such Base Residual Auction. No such approval shall be granted

unless, at a minimum, a Facilities Study Agreement has been executed with respect to such upgrade, and such upgrade conforms to all applicable standards of the Regional Transmission Expansion Plan process.

### **5.6.5 Market-based Sell Offers**

Subject to section 6, a Market Seller authorized by FERC to sell electric generating capacity at market-based prices, or that is not required to have such authorization, may submit Sell Offers that specify market-based prices in any Base Residual Auction or Incremental Auction.

### **5.6.6 Availability of Capacity Resources for Sale**

(a) The Office of the Interconnection shall determine the quantity of megawatts of available installed capacity that each Capacity Market Seller must offer in any RPM Auction pursuant to Section 6.6 of Attachment DD, through verification of the availability of megawatts of installed capacity from: (i) all Generation Capacity Resources owned by or under contract to the Capacity Market Seller, including all Generation Capacity Resources obtained through bilateral contract; (ii) the results of prior Reliability Pricing Model Auctions, if any, for such Delivery Year (including consideration of any restriction imposed as a consequence of a prior failure to offer); and (iii) such other information as may be available to the Office of the Interconnection. The Office of the Interconnection shall reject Sell Offers or portions of Sell Offers for Capacity Resources in excess of the quantity of installed capacity that it determines to be available for sale.

(b) The Office of the Interconnection shall determine the quantity of installed capacity available for sale in a Base Residual Auction or Incremental Auction as of the beginning of the period during which Buy Bids and Sell Offers are accepted for such auction, as applicable, in accordance with the time schedule set forth in the PJM Manuals. Removal of a resource from Capacity Resource status shall not be reflected in the determination of available installed capacity unless the associated unit-specific bilateral transaction is approved, the designation of such resource (or portion thereof) as a network resource for the external load is demonstrated to the Office of the Interconnection, or equivalent evidence of a firm external sale is provided prior to the deadline established therefor. The determination of available installed capacity shall also take into account, as they apply in proportion to the share of each resource owned or controlled by a Capacity Market Seller, any approved capacity modifications, and existing capacity commitments established in a prior RPM Auction, an FRR Capacity Plan, Locational UCAP transactions and/or replacement capacity transactions under this Attachment DD. To enable the Office of the Interconnection to make this determination, no bilateral transactions for Capacity Resources applicable to the period covered by an auction will be processed from the beginning of the period for submission of Sell Offers and Buy Bids, as appropriate, for that auction until completion of the clearing determination for such auction. Processing of such bilateral transactions will reconvene once clearing for that auction is completed. A Generation Capacity Resource located in the PJM Region shall not be removed from Capacity Resource status to the extent the resource is committed to service of PJM loads as a result of an RPM Auction, FRR Capacity Plan, Locational UCAP transaction and/or by designation as a replacement resource under this Attachment DD.

(c) In order for a bilateral transaction for the purchase and sale of a Capacity Resource to be processed by the Office of the Interconnection, both parties to the transaction must notify the Office of the Interconnection of the transfer of the Capacity Resource from the seller to the buyer in accordance with procedures established by the Office of the Interconnection and set forth in the PJM Manuals. If a material change with respect to any of the prerequisites for the application of Section 5.6.6 to the Generation Capacity Resource occurs, the Capacity Resource Owner shall immediately notify the Market Monitoring Unit and the Office of the Interconnection.

## **5.9 Time Standard**

| All deadlines for the submission or withdrawal of Sell Offers, WLR Bids, or Buy Bids, or for other purposes specified in this Attachment, shall be determined by the prevailing time observed in the Eastern Time zone.

## 5.10 Auction Clearing Requirements

The Office of the Interconnection shall clear each Base Residual Auction and Incremental Auction for a Delivery Year in accordance with the following:

a) Variable Resource Requirement Curve

The Office of the Interconnection shall determine Variable Resource Requirement Curves for the PJM Region and for such Locational Deliverability Areas as determined appropriate in accordance with subsection (a)(iii) for such Delivery Year to establish the level of Capacity Resources that will provide an acceptable level of reliability consistent with the Reliability Principles and Standards. It is recognized that the variable resource requirement reflected in the Variable Resource Requirement Curve can result in an optimized auction clearing in which the level of Capacity Resources committed for a Delivery Year exceeds the PJM Region Reliability Requirement (less the Short-Term Resource Procurement Target) or Locational Deliverability Area Reliability Requirement (less the Short-Term Resource Procurement Target for the Zones associated with such LDA) for such Delivery Year. For any auction, the Updated Forecast Peak Load, and Short-Term Resource Procurement Target applicable to such auction, shall be used, and Price Responsive Demand from any applicable approved PRD Plan, including any associated PRD Reservation Prices, shall be reflected in the derivation of the Variable Resource Requirement Curves, in accordance with the methodology specified in the PJM Manuals.

i) Methodology to Establish the Variable Resource Requirement Curve

Prior to the Base Residual Auction, in accordance with the schedule in the PJM Manuals, the Office of the Interconnection shall establish the Variable Resource Requirement Curve for the PJM Region as follows:

- Each Variable Resource Requirement Curve shall be plotted on a graph on which Unforced Capacity is on the x-axis and price is on the y-axis;
- For the 2015/2016, 2016/2017, and 2017/2018 Delivery Years, the Variable Resource Requirement Curve for the PJM Region shall be plotted by combining (i) a horizontal line from the y-axis to point (1), (ii) a straight line connecting points (1) and (2), (iii) a straight line connecting points (2) and (3), and (iv) a vertical line from point (3) to the x-axis, where:
  - For point (1), price equals: {the greater of [the Cost of New Entry] or [1.5 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)]} divided by (one minus the pool-wide average EFORd) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus the approved PJM Region Installed Reserve Margin (“IRM”)% minus 3%) divided by (100% plus IRM%)] minus the Short-Term Resource Procurement Target;

- For point (2), price equals: (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset) divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 1%) divided by (100% plus IRM%)] minus the Short-Term Resource Procurement Target; and
- For point (3), price equals [0.2 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)] divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 5%) divided by (100% plus IRM%)] minus the Short-Term Resource Procurement Target;
- For the 2018/2019 Delivery Year and subsequent Delivery Years, the Variable Resource Requirement Curve for the PJM Region shall be plotted by combining (i) a horizontal line from the y-axis to point (1), (ii) a straight line connecting points (1) and (2), and (iii) a straight line connecting points (2) and (3), where:
  - For point (1), price equals: {the greater of [the Cost of New Entry] or [1.5 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)]} divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus the approved PJM Region Installed Reserve Margin (“IRM”)% minus 0.2%) divided by (100% plus IRM%)] minus the Short-Term Resource Procurement Target;
  - For point (2), price equals: [0.75 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)] divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 2.9%) divided by (100% plus IRM%)] minus the Short-Term Resource Procurement Target; and
  - For point (3), price equals zero and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 8.8%) divided by (100% plus IRM%)] minus the Short-Term Resource Procurement Target.

ii) For any Delivery Year, the Office of the Interconnection shall establish a separate Variable Resource Requirement Curve for each LDA for which:



- A. the Capacity Emergency Transfer Limit is less than 1.15 times the Capacity Emergency Transfer Objective, as determined by the Office of the Interconnection in accordance with NERC and Applicable Regional Entity guidelines; or
- B. such LDA had a Locational Price Adder in any one or more of the three immediately preceding Base Residual Auctions; or
- C. such LDA is determined in a preliminary analysis by the Office of the Interconnection to be likely to have a Locational Price Adder, based on historic offer price levels; provided however that for the Base Residual Auction conducted for the Delivery Year commencing on June 1, 2012, the Eastern Mid-Atlantic Region (“EMAR”), Southwest Mid-Atlantic Region (“SWMAR”), and Mid-Atlantic Region (“MAR”) LDAs shall employ separate Variable Resource Requirement Curves regardless of the outcome of the above three tests; and provided further that the Office of the Interconnection may establish a separate Variable Resource Requirement Curve for an LDA not otherwise qualifying under the above three tests if it finds that such is required to achieve an acceptable level of reliability consistent with the Reliability Principles and Standards, in which case the Office of the Interconnection shall post such finding, such LDA, and such Variable Resource Requirement Curve on its internet site no later than the March 31 last preceding the Base Residual Auction for such Delivery Year. The same process as set forth in subsection (a)(i) shall be used to establish the Variable Resource Requirement Curve for any such LDA, except that the Locational Deliverability Area Reliability Requirement for such LDA shall be substituted for the PJM Region Reliability Requirement and the LDA Short-Term Resource Procurement Target shall be substituted for the PJM Region Short-Term Resource Procurement Target. For purposes of calculating the Capacity Emergency Transfer Limit under this section, all generation resources located in the PJM Region that are, or that qualify to become, Capacity Resources, shall be modeled at their full capacity rating, regardless of the amount of capacity cleared from such resource for the immediately preceding Delivery Year.

For each such LDA, for the 2018/2019 Delivery Year and subsequent Delivery Years, the Office of the Interconnection shall (a) determine the Net Cost of New Entry for each Zone in such LDA, with such Net Cost of New Entry equal to the applicable Cost of New Entry value for such Zone minus the Net Energy and Ancillary Services Revenue Offset value for such Zone, and (b) compute the average of the Net Cost of New Entry values of all such Zones to determine the Net Cost of New Entry for such LDA; provided however, that the Net Cost of New Entry for an LDA may be greater than, but shall be no less than, the Net Cost of New Entry determined for any other LDA in which the first LDA resides

(immediately or successively) including the Net Cost of New Entry for the RTO. The Net Cost of New Entry for use in an LDA in any Incremental Auction for the 2015/2016, 2016/2017, and 2017/2018 Delivery Years shall be the Net Cost of New Entry used for such LDA in the Base Residual Auction for such Delivery Year.

iii) Procedure for ongoing review of Variable Resource Requirement Curve shape.

Beginning with the Delivery Year that commences June 1, 2018, and continuing no later than for every fourth Delivery Year thereafter, the Office of the Interconnection shall perform a review of the shape of the Variable Resource Requirement Curve, as established by the requirements of the foregoing subsection. Such analysis shall be based on simulation of market conditions to quantify the ability of the market to invest in new Capacity Resources and to meet the applicable reliability requirements on a probabilistic basis. Based on the results of such review, PJM shall prepare a recommendation to either modify or retain the existing Variable Resource Requirement Curve shape. The Office of the Interconnection shall post the recommendation and shall review the recommendation through the stakeholder process to solicit stakeholder input. If a modification of the Variable Resource Requirement Curve shape is recommended, the following process shall be followed:

- A) If the Office of the Interconnection determines that the Variable Resource Requirement Curve shape should be modified, Staff of the Office of the Interconnection shall propose a new Variable Resource Requirement Curve shape on or before May 15, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
- B) The PJM Members shall review the proposed modification to the Variable Resource Requirement Curve shape.
- C) The PJM Members shall either vote to (i) endorse the proposed modification, (ii) propose alternate modifications or (iii) recommend no modification, by August 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
- D) The PJM Board of Managers shall consider a proposed modification to the Variable Resource Requirement Curve shape, and the Office of the Interconnection shall file any approved modified Variable Resource Requirement Curve shape 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.

iv) Cost of New Entry

- A) For the Incremental Auctions for the 2015/2016, 2016/2017, and 2017/2018 Delivery Years, the Cost of New Entry for the PJM Region and for each LDA shall be the respective value used in the Base Residual Auction for such Delivery Year and LDA. For the Delivery Year commencing on June 1, 2018, and continuing thereafter unless and until changed pursuant to subsection (B) below, the Cost of New Entry for the PJM Region shall be the average of the Cost of New Entry for each CONE Area listed in this section as adjusted pursuant to subsection (a)(iv)(B).

<b>Geographic Location Within the PJM Region Encompassing These Zones</b>	<b>Cost of New Entry in \$/MW-Year</b>
PS, JCP&L, AE, PECO, DPL, RECO (“CONE Area 1”)	132,200
BGE, PEPCO (“CONE Area 2”)	130,300
AEP, Dayton, ComEd, APS, DQL, ATSI, DEOK, EKPC, Dominion (“CONE Area 3”)	128,900
PPL, MetEd, Penelec (“CONE Area 4”)	130,300

- B) Beginning with the 2019/2020 Delivery Year, the CONE for each CONE Area shall be adjusted to reflect changes in generating plant construction costs based on changes in the Applicable United States Bureau of Labor Statistics (“BLS”) Composite Index, in accordance with the following:

(1) The Applicable BLS Composite Index for any Delivery Year and CONE Area shall be the most recently published twelve-month change, at the time CONE values are required to be posted for the Base Residual Auction for such Delivery Year, in a composite of the BLS Quarterly Census of Employment and Wages for Utility System Construction (weighted 20%), the BLS Producer Price Index for Construction Materials and Components (weighted 50%), and the BLS Producer Price Index Turbines and Turbine Generator Sets (weighted 30%), as each such index is further specified for each CONE Area in the PJM Manuals.

(2) The CONE in a CONE Area shall be adjusted prior to the Base Residual Auction for each Delivery Year by applying the Applicable BLS Composite Index for such CONE Area to the Benchmark CONE for such CONE Area.

(3) The Benchmark CONE for a CONE Area shall be the CONE used for such CONE Area in the Base Residual Auction for the prior Delivery Year (provided, however that the Gross CONE values stated in subsection (a)(iv)(A) above shall be the Benchmark

CONE values for the 2018/2019 Delivery Year to which the Applicable BLS Composite Index shall be applied to determine the CONE for subsequent Delivery Years).

(4) Notwithstanding the foregoing, CONE values for any CONE Area for any Delivery Year shall be subject to amendment pursuant to appropriate filings with FERC under the Federal Power Act, including, without limitation, any filings resulting from the process described in section 5.10(a)(vi)(C) or any filing to establish new or revised CONE Areas.

v) Net Energy and Ancillary Services Revenue Offset

- A) The Office of the Interconnection shall determine the Net Energy and Ancillary Services Revenue Offset each year for the PJM Region as (A) the annual average of the revenues that would have been received by the Reference Resource from the PJM energy markets during a period of three consecutive calendar years preceding the time of the determination, based on (1) the heat rate and other characteristics of such Reference Resource; (2) fuel prices reported during such period at an appropriate pricing point for the PJM Region with a fuel transmission adder appropriate for such region, as set forth in the PJM Manuals, assumed variable operation and maintenance expenses for such resource of \$6.47 per MWh, and actual PJM hourly average Locational Marginal Prices recorded in the PJM Region during such period; and (3) an assumption that the Reference Resource would be dispatched for both the Day-Ahead and Real-Time Energy Markets on a Peak-Hour Dispatch basis; plus (B) ancillary service revenues of \$2,199 per MW-year.
- B) For the Incremental Auctions for the 2015/2016, 2016/2017 and 2017/2018 Delivery Years, the Office of the Interconnection will employ for purposes of the Variable Resource Requirement Curves for such Delivery Years the same calculations of the sub-regional Net Energy and Ancillary Services Revenue Offsets that were used in the Base Residual Auctions for such Delivery year and sub-region. For the 2018/2019 Delivery Year and subsequent Delivery Years, the Office of the Interconnection also shall determine a Net Energy and Ancillary Service Revenue Offset each year for each Zone, using the same procedures and methods as set forth in the previous subsection; provided, however, that: (1) the average hourly LMPs for such Zone shall be used in place of the PJM Region average hourly LMPs; (2) if such Zone was not integrated into the PJM Region for the entire applicable period, then the offset shall be calculated using only those whole calendar years during which the Zone was integrated; and (3) a posted fuel pricing point in such Zone, if available, and (if such pricing point is not available in such Zone) a fuel transmission adder appropriate

to such Zone from an appropriate PJM Region pricing point shall be used for each such Zone.

Curve

vi) Process for Establishing Parameters of Variable Resource Requirement

- A) The parameters of the Variable Resource Requirement Curve will be established prior to the conduct of the Base Residual Auction for a Delivery Year and will be used for such Base Residual Auction.
- B) The Office of the Interconnection shall determine the PJM Region Reliability Requirement and the Locational Deliverability Area Reliability Requirement for each Locational Deliverability Area for which a Variable Resource Requirement Curve has been established for such Base Residual Auction on or before February 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values will be applied, in accordance with the Reliability Assurance Agreement.
- C) Beginning with the Delivery Year that commences June 1, 2018, and continuing no later than for every fourth Delivery Year thereafter, the Office of the Interconnection shall review the calculation of the Cost of New Entry for each CONE Area.
  - 1) If the Office of the Interconnection determines that the Cost of New Entry values should be modified, the Staff of the Office of the Interconnection shall propose new Cost of New Entry values on or before May 15, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
  - 2) The PJM Members shall review the proposed values.
  - 3) The PJM Members shall either vote to (i) endorse the proposed values, (ii) propose alternate values or (iii) recommend no modification, by August 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
  - 4) The PJM Board of Managers shall consider Cost of New Entry values, and the Office of the Interconnection shall file any approved modified Cost of New Entry values 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.

- D) Beginning with the Delivery Year that commences June 1, 2018, and continuing no later than for every fourth Delivery Year thereafter, the Office of the Interconnection shall review the methodology set forth in this Attachment for determining the Net Energy and Ancillary Services Revenue Offset for the PJM Region and for each Zone.
- 1) If the Office of the Interconnection determines that the Net Energy and Ancillary Services Revenue Offset methodology should be modified, Staff of the Office of the Interconnection shall propose a new Net Energy and Ancillary Services Revenue Offset methodology on or before May 15, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new methodology would be applied.
  - 2) The PJM Members shall review the proposed methodology.
  - 3) The PJM Members shall either vote to (i) endorse the proposed methodology, (ii) propose an alternate methodology or (iii) recommend no modification, by August 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new methodology would be applied.
  - 4) The PJM Board of Managers shall consider the Net Revenue Offset methodology, and the Office of the Interconnection shall file any approved modified Net Energy and Ancillary Services Revenue Offset values 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.

b) Locational Requirements

The Office of Interconnection shall establish locational requirements prior to the Base Residual Auction to quantify the amount of Unforced Capacity that must be committed in each Locational Deliverability Area, in accordance with the PJM Reliability Assurance Agreement.

c) Resource Requirements and Constraints

Prior to the Base Residual Auction and each Incremental Auction for the Delivery Years starting on June 1, 2014 and ending May 31, 2017, the Office of the Interconnection shall establish the Minimum Annual Resource Requirement and the Minimum Extended Summer Resource Requirement for the PJM Region and for each Locational Deliverability Area for which the

Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. Prior to the Base Residual Auction and Incremental Auctions for each Delivery Year beginning with the Delivery Year that commences June 1, 2017, the Office of the Interconnection shall establish the Limited Resource Constraints, ~~and~~ the Sub-Annual Resource Constraints, the Limited WLR Load Constraints, and the Sub-Annual WLR Load Constraints for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year.

d) Preliminary PJM Region Peak Load Forecast for the Delivery Year

The Office of the Interconnection shall establish the Preliminary PJM Region Load Forecast for the Delivery Year in accordance with the PJM Manuals by February 1, prior to the conduct of the Base Residual Auction for such Delivery Year.

e) Updated PJM Region Peak Load Forecasts for Incremental Auctions

The Office of the Interconnection shall establish the updated PJM Region Peak Load Forecast for a Delivery Year in accordance with the PJM Manuals by February 1, prior to the conduct of the First, Second, and Third Incremental Auction for such Delivery Year.

## 5.11 Posting of Information Relevant to the RPM Auctions

a) In accordance with the schedule provided in the PJM Manuals, PJM will post the following information for a Delivery Year prior to conducting the Base Residual Auction for such Delivery Year:

i) The Preliminary PJM Region Peak Load Forecast (for the PJM Region, and allocated to each Zone);

ii) The PJM Region Installed Reserve Margin, the Pool-wide average EFORd, the Forecast Pool Requirement, *and all applicable Capacity Import Limits*;

iii) The Demand Resource Factor;

iv) The PJM Region Reliability Requirement, and the Variable Resource Requirement Curve for the PJM Region, including the details of any adjustments to account for Price Responsive Demand and any associated PRD Reservation Prices;

v) The Locational Deliverability Area Reliability Requirement and the Variable Resource Requirement Curve for each Locational Deliverability Area for which a separate Variable Resource Requirement Curve has been established for such Base Residual Auction, including the details of any adjustments to account for Price Responsive Demand and any associated PRD Reservation Prices, and the CETO and CETL values for all Locational Deliverability Areas;

vi) For the 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 PJM is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year; and for the Delivery Year that commences June 1, 2017 and subsequent Delivery Years, the Limited Resource Constraints, ~~and~~ the Sub-Annual Resource Constraints, the Limited WLR Load Constraints, and the Sub-Annual WLR Load Constraints for the PJM Region and for each Locational Deliverability Area for which PJM is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year;

vii) Any Transmission Upgrades that are expected to be in service for such Delivery Year, provided that a Transmission Upgrade that is Backbone Transmission satisfies the project development milestones set forth in section 5.11A;

viii) The bidding window time schedule for each auction to be conducted for such Delivery Year; and

ix) The Net Energy and Ancillary Services Revenue Offset values for the PJM Region for use in the Variable Resource Requirement Curves for the PJM Region and each Locational Deliverability Area for which a separate Variable Resource Requirement Curve has been established for such Base Residual Auction.



b) In addition to the information required to be posted by subsection (a), PJM will post for a Delivery Year, at least sixty (60) days prior to conducting the Base Residual Auction for such Delivery Year, the aggregate megawatt quantity of, for the PJM Region, all Self-Supply Exemption requests under section 5.14(h), all Competitive Entry Exemption requests under section 5.14(h), and such exemptions granted in each such category, and to the extent PJM has made any such determination, notice that PJM has determined that one or more state-sponsored or state-mandated procurement processes is Competitive and Non-Discriminatory pursuant to section 5.14(h).

c) The information listed in (a) will be posted and applicable for the First, Second, Third, and Conditional Incremental Auctions for such Delivery Year, except to the extent updated or adjusted as required by other provisions of this Tariff.

d) In accordance with the schedule provided in the PJM Manuals, PJM will post the Final PJM Region Peak Load Forecast and the allocation to each zone of the obligation resulting from such final forecast, following the completion of the final Incremental Auction (including any Conditional Incremental Auction) conducted for such Delivery Year;

e) In accordance with the schedule provided in the PJM Manuals, PJM will advise owners of Generation Capacity Resources of the updated EFORd values for such Generation Capacity Resources prior to the conduct of the Third Incremental Auction for such Delivery Year.

f) After conducting the Reliability Pricing Model Auctions, PJM will post the results of each auction as soon thereafter as possible, including any adjustments to PJM Region or LDA Reliability Requirements to reflect Price Responsive Demand with a PRD Reservation Price equal to or less than the applicable Base Residual Auction clearing price, or to any VRR Curves to reflect commitments of WLR Loads or WEELs with a bid price equal to or less than the applicable Base Residual Auction clearing price. The posted results shall include graphical supply curves that are (a) provided for the entire PJM Region, (b) provided for any Locational Deliverability Area for which there are four (4) or more suppliers, and (c) developed using a formulaic approach to smooth the curves using a statistical technique that fits a smooth curve to the underlying supply curve data while ensuring that the point of intersection between supply and demand curves is at the market clearing price. At such time, PJM also shall post the aggregate megawatt quantity requested and granted in the Self-Supply and Competitive Entry Exemption categories in the EMAAC, MAAC and Rest of RTO LDAs/regions; the aggregate megawatt quantity cleared in the RPM Auction for Self-Supply and Competitive Entry Exemption categories; and the aggregate megawatt quantity of Self-Supply and Competitive Entry Exemptions requested and granted for any LDA other than those specified in the preceding clause if the LDA has more than four new generation projects in the generation interconnection queue that could have offered into the applicable RPM Auction and the LDA had a separate VRR Curve posted for the applicable RPM Auction.

If PJM discovers an error in the initial posting of auction results for a particular Reliability Pricing Model Auction, it shall notify Market Participants of the error as soon as possible after it

is found, but in no event later than 5:00 p.m. of the fifth business day following the initial publication of the results of the auction. After this initial notification, if PJM determines it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the seventh business day following the initial publication of the results of the auction. Thereafter, PJM must post on its Web site any corrected auction results by no later than 5:00 p.m. of the tenth business day following the initial publication of the results of the auction. Should any of the above deadlines pass without the associated action on the part of the Office of the Interconnection, the originally posted results will be considered final. Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced auction results are under publicly noticed review by the FERC.

## 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, WLR Bids, and other inputs to such auction to determine the Sell Offers and the WLR Bids 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;
- all WLR Bids 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, the Limited WLR Load Constraints, and the Sub-Annual WLR Load 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. The Variable Resource Requirement Curve for the PJM Region, or LDA, as applicable, shall shift to the left to reflect the Nominated WLR Quantity, Nominated WEEL Quantity, and WLR Bid Price of any WLR Bids for the PJM Region or such LDA, as applicable, in such RPM Auction. Each such leftward shift shall begin at the price point on the Variable Resource Requirement Curve corresponding to the WLR Bid Price of the WLR Bid, and shall uniformly shift the Variable Resource Requirement Curve to the left in the amount of the combined sum of the Nominated WLR Quantity and Nominated WEEL Quantity times FPR

at that price point and all higher price points. 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.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

b) Scheduled Incremental Auctions.

For purposes of a Scheduled Incremental Auction, 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 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~~
- To the extent relevant to any necessary shifting of the Updated VRR Curve Increment or Decrement, the WLR Loads and WEELs previously committed for such Delivery Year; and
- The Unforced Capacity previously committed for such Delivery Year.

(i) When the requirement to seek additional resource commitments in a Scheduled Incremental Auction 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.

(ii) When 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 provisions of sections 5.14B and 5.14C of this Attachment DD. 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.

(iii) When 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 provisions of sections 5.14B and 5.14C of this Attachment DD; 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.

(iv) If none of the tests for adjustment of capacity procurement in subsections (i), (ii), or (iii) 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), (ii), or (iii) 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

(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), (ii), (iii) or (iv) 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), (ii), or (iii) 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) above in the Scheduled Incremental Auctions for such Delivery Year that does not clear such auctions, 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 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 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.

(ix) Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

c) Conditional Incremental Auction

For each 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 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 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.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

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.

For each Base Residual Auction, the Office of the Interconnection shall determine: (1) a WLR Value for Annual WLR Loads and WEELs equal to the Capacity Resource Clearing Price for Annual Resources, as determined in such auction; (2) a WLR Value for Extended Summer WLR Loads equal to the price determined by the auction-clearing algorithm as the optimum price at which to recognize the binding of the Sub-Annual WLR Load Constraint or, if such constraint does not bind, such WLR Value shall be the same as the WLR Value determined for Annual WLR Loads and WEELs; and (3) a WLR Value for Limited WLR Loads equal to the price determined by the auction-clearing algorithm as the optimum price at which to recognize the binding of the Limited WLR Load Constraint or, if such constraint does not bind, such WLR Value shall be the same as the WLR Value determined for Extended Summer WLR Loads.

### 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, as may be adjusted pursuant to Schedule 6.2 of the Reliability Assurance Agreement, 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.

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

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.

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 2018/2019 Delivery Year and subsequent Delivery Years, 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. *For purposes of Incremental Auctions for the 2015/2016, 2016/2017 and 2017/2018 Delivery Years, the MOPR Floor Offer Price shall be the same as that used in the Base Residual Auction for such Delivery Year.* 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
CT \$/MW-yr	132,200	130,300	128,900	130,300
CC \$/MW-yr	185,700	176,000	172,600	179,400
IGCC \$/MW-yr	582,042	558,486	547,240	537,306

i) Commencing with the Delivery Year that begins on June 1, 2019, 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 the Applicable BLS Composite Index used for CC plants shall be calculated from the three indices referenced in that section but weighted 25% for the wages index, 60% for the construction materials index, and 15% for the turbines index, and provided further 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 *section 5.14A*. A Demand Resource cleared for a Transition Delivery Year is not viable for purposes of this *section 5.14A* 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 *section 5.14A*, 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 *section 5.14A* 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 *section 5.14A*, 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) and 5.12(b)(iii) 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.

**5.14C Demand Response Operational Resource Flexibility Transition Provision for RPM Delivery Years 2015/2016 and 2016/2017**

A. This transition provision applies only to Demand Resources for which a Curtailment Service Provider has existing RPM commitments for the 2015/2016 or 2016/2017 Delivery Years (alternatively referred to in this section 5.14C as “Applicable Delivery Years” and each an “Applicable Delivery Year”) that (i) cannot satisfy the 30-minute notification requirement as described in Section A.2 of Attachment DD-1 of the Tariff and the parallel provision of Schedule 6 of the RAA; (ii) are not excepted from the 30-minute notification requirement as described in Section A.2 of Attachment DD-1 of the Tariff and the parallel provision of Schedule 6 of the RAA; and (iii) cleared in the Base Residual Auction or First Incremental Auction for the 2015/2016 Delivery Year, or cleared in the Base Residual Auction for the 2016/2017 Delivery Year. A Demand Resource meeting these criteria and the Curtailment Service Provider of such a resource are hereafter in this section 5.14C referred to as an “Affected Demand Resource” and an “Affected Curtailment Service Provider,” respectively.

B. For this section 5.14C to apply to an Affected Demand Resource, the Affected Curtailment Service Provider must notify the Office of the Interconnection in writing, with regard to the Affected Demand Resource, of the number of cleared megawatts of Unforced Capacity for the Applicable Delivery Year, by type of Demand Resource (i.e., Limited DR, Annual DR, Extended Summer DR) and by Zone or sub-Zone, by the applicable deadline as follows:

1. For the 2015/2016 Delivery Year, the notice shall be provided by no later than seven (7) days prior to the posting by the Office of the Interconnection of planning parameters for the Third Incremental Auction for the 2015/2016 Delivery Year. Such Affected Curtailment Service Provider that utilizes this transition provision may not sell or offer to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Third Incremental Auction for the 2015/2016 Delivery Year.

2. For the 2016/2017 Delivery Year, the notice shall be provided by no later than seven (7) days prior to the posting by the Office of the Interconnection of planning parameters for the Second Incremental Auction for the 2016/2017 Delivery Year. Such Affected Curtailment Service Provider that utilizes this transition provision may not sell or offer to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Second or Third Incremental Auctions for the 2016/2017 Delivery Year.

3. For the 2016/2017 Delivery Year, the notice shall be provided by no later than seven (7) days prior to the posting by the Office of the Interconnection of planning parameters for the Third Incremental Auction for the 2016/2017 Delivery Year. Such Affected Curtailment Service Provider that utilizes this transition provision must not have sold or offered to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Second Incremental Auction for the 2016/2017 Delivery Year, and may not sell or offer to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Third Incremental Auction for the 2016/2017 Delivery Year.

C. For the Third Incremental Auction for the 2015/2016 Delivery Year and the First, Second, and Third Incremental Auctions for the 2016/2017 Delivery Year, the Office of the Interconnection shall publish aggregate information on the undeliverable megawatts declared under this transition provision (hereafter, “non-viable megawatts”), by type of Demand Resource and by Zone or sub-Zone, concurrently with its posting of planning parameters for the applicable Scheduled Incremental Auction. Non-viable megawatts for a Scheduled Incremental Auction for an Applicable Delivery Year represent those megawatts meeting the criteria of subsection A above and declared in accordance with subsection B above. Prior to each Third Incremental Auction for an Applicable Delivery Year, the Office of the Interconnection shall apply adjustments equal to the declared non-viable megawatt quantity to the quantity of Buy Bid or Sell Offer activity in the upcoming Scheduled Incremental Auctions for the Applicable Delivery Year, as described in sections 5.12(b)(ii) and 5.12(b)(iii) of this Attachment DD. Prior to the Second Incremental Auction for the 2016/2017 Delivery Year, the Office of the Interconnection shall adjust the recalculated PJM Region Reliability Requirement and recalculated LDA Reliability Requirements, as described in section 5.4(c) of this Attachment DD, by the applicable quantity of declared non-viable megawatts, and shall update the PJM Region Reliability Requirement and each LDA Reliability Requirement for such Second Incremental Auction only if the combined change of the applicable adjustment and applicable recalculation is greater than or equal to the lesser of (i) 500 megawatts or (ii) one percent of the prior PJM Region Reliability Requirement or one percent of the prior LDA Reliability Requirement, as applicable.

D. Prior to the start of each Applicable Delivery Year, the Office of the Interconnection shall reduce, by type of Demand Resource and by Zone or sub-Zone, the capacity commitment of each Affected Curtailment Service Provider that utilizes this transition provision for the Applicable Delivery Year based on the non-viable megawatts declared by the Affected Curtailment Service Provider under this transition provision. If the Affected Curtailment Service Provider cleared megawatts from multiple Affected Demand Resources of the same type and Zone or sub-Zone, or cleared megawatts in multiple RPM Auctions for the Applicable Delivery Year, the Office of the Interconnection shall allocate the reduction in capacity commitment by type of Demand Resource and by Zone or sub-Zone across the applicable Affected Demand Resources and



relevant RPM Auctions. Such allocation shall be performed on a pro-rata basis, based on megawatts cleared by the Affected Demand Resources in the relevant RPM Auctions.

E. For each Applicable Delivery Year, an Affected Curtailment Service Provider that utilizes this transition provision for the Applicable Delivery Year relinquishes an Affected Demand Resource's RPM Auction Credits for the amount of capacity commitment reduction as determined under subsection D above. Locational Reliability Charges as described in section 5.14(e) of this Attachment DD are also adjusted accordingly.

## **ATTACHMENT DD-1**

Preface: The provisions of this Attachment incorporate into the Tariff for ease of reference the provisions of Schedule 6 of the Reliability Assurance Agreement among Load Serving Entities in the PJM Region. As a result, this Attachment will be modified, subject to FERC approval, so that the terms and conditions set forth herein remain consistent with the corresponding terms and conditions of Schedule 6 of the RAA. Capitalized terms used herein that are not otherwise defined in Attachment DD or elsewhere in this Tariff have the meaning set forth in the RAA.

### **PROCEDURES FOR DEMAND RESOURCES AND ENERGY EFFICIENCY**

Notwithstanding any other provision of this Attachment DD-1, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

A. Parties can partially or wholly offset the amounts payable for the Locational Reliability Charge with Demand Resources that are operated under the direction of the Office of the Interconnection. FRR Entities may reduce their capacity obligations with Demand Resources that are operated under the direction of the Office of the Interconnection and detailed in such entity's FRR Capacity Plan. Demand Resources qualifying under the criteria set forth below may be offered for sale or designated as Self-Supply in the Base Residual Auction, included in an FRR Capacity Plan, or offered for sale in any Incremental Auction, for any Delivery Year for which such resource qualifies. Qualified Demand Resources generally fall in one of three categories, i.e., Guaranteed Load Drop, Firm Service Level, or Direct Load Control, as further specified in section G and the PJM Manuals. Qualified Demand Resources may be provided by a Curtailment Service Provider, notwithstanding that such Curtailment Service Provider is not a Party to this Agreement. Such Curtailment Service Providers must satisfy the requirements hereof and the PJM Manuals.

1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and section F hereof, as applicable, the Office of the Interconnection of the Demand Resource that it is placing under the direction of the Office of the Interconnection. A Party must further notify the Office of the Interconnection whether the resource is a Limited Demand Resource, an Extended Summer Demand Resource, or an Annual Demand Resource.

2. A Demand Resource must achieve its full load reduction within the following time period:

(a) For the 2014/2015 Delivery Year, Curtailment Service Providers may elect a notification time period from the Office of the Interconnection of 30, 60 or 120 minutes prior to their Demand Resources being required to fully respond to a Load Management Event.

(b) For the 2015/2016 Delivery Year and subsequent Delivery Years, a Demand Resource must be able to fully respond to a Load Management Event within 30 minutes of notification from the Office of the Interconnection. This default 30 minute prior notification shall apply unless a Curtailment Service Provider obtains an exception from the Office of the Interconnection due to physical operational limitations that prevent the Demand Resource from reducing load within that timeframe. In such case, the Curtailment Service Provider shall submit a request for an exception to the 30 minute prior notification requirement to the Office of the Interconnection, at the time the Registration Form for that resource is submitted in accordance with Attachment K-Appendix of this Tariff. The only alternative notification times that the Office of Interconnection will permit, upon approval of an exception request, are 60 minutes and 120 minutes prior to a Load Management Event. The Curtailment Service Provider shall indicate in writing, in the appropriate application, that it seeks an exception to permit a prior notification time of 60 minutes or 120 minutes, and the reason(s) for the requested exception. A Curtailment Service Provider shall not submit a request for an exception to the default 30 minute notification period unless it has done its due diligence to confirm that the Demand Resource is physically incapable of responding within that timeframe based on one or more of the reasons set forth below and as may be further defined in the PJM Manuals and has obtained detailed data and documentation to support this determination.

In order to establish that a Demand Resource is reasonably expected to be physically unable to reduce load in that timeframe, the Curtailment Service Provider that registered the resource must demonstrate that:

- 1) The manufacturing processes for the Demand Resource require gradual reduction to avoid damaging major industrial equipment used in the manufacturing process, or damage to the product generated or feedstock used in the manufacturing process;
- 2) Transfer of load to back-up generation requires time-intensive manual process taking more than 30 minutes;
- 3) On-site safety concerns prevent location from implementing reduction plan in less than 30 minutes; or,
- 4) The Demand Resource is comprised of mass market residential customers or Small Commercial Customers which collectively cannot be notified of a Load Management Event within a 30-minute timeframe due to unavoidable communications latency, in which case the requested notification time shall be no longer than 120 minutes.

The Office of the Interconnection may request data and documentation from the Curtailment Service Provider and such Curtailment Service Provider shall provide to the Office of the Interconnection within three (3) business days of a request therefor, a copy of all of the data and documentation supporting the exception request. Failure to provide a timely response to such request shall cause the exception to terminate the following Operating Day.

At its sole option and discretion, the Office of the Interconnection may review the data and documentation provided by the Curtailment Service Provider to determine if the Demand Resource has met one or more of the criteria above. The Office of the Interconnection will notify

the Curtailment Service Provider in writing of its determination by no later than ten (10) business days after receipt of the data and documentation.

The Curtailment Service Provider shall provide written notification to the Office of the Interconnection of a material change to the facts that supported its exception request within three (3) business days of becoming aware of such material change in facts, and, if the Office of Interconnection determines that the physical limitation criteria above are no longer being met, the Demand Resource shall be subject to the default notification period of 30 minutes immediately upon such determination.

3. The initiation of load reduction, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.

4. The initiation of load reduction upon the request of the Office of the Interconnection is considered a pre-emergency or emergency action and must be implementable prior to a voltage reduction.

5. A Curtailment Service Provider intending to offer for sale or designate for self-supply, a Demand Resource in any RPM Auction, or intending to include a Demand Resource in any FRR Capacity Plan must demonstrate, to PJM's satisfaction, that such resource shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such resource is committed. As part of such demonstration, each such Curtailment Service Provider shall submit a Demand Resource Sell Offer Plan in accordance with the standards and procedures set forth in section A-1 of Schedule 6, Schedule 8.1 (as to FRR Capacity Plans) and the PJM Manuals, no later than 15 business days prior to, as applicable, the RPM Auction in which such resource is to be offered, or the deadline for submission of the FRR Capacity Plan in which such resource is to be included. PJM may verify the Curtailment Service Provider's adherence to the Demand Resource Sell Offer Plan at any time. A Curtailment Service Provider with a PJM-approved Demand Resource Sell Offer Plan will be permitted to offer up to the approved Demand Resource quantity into the subject RPM Auction or include such resource in its FRR Capacity Plan.

6. Selection of a Demand Resource in an RPM Auction results in commitment of capacity to the PJM Region. Demand Resources that are so committed must be registered to participate in the Full Program Option or as a Capacity Only resource of the Emergency Load Response and Pre-Emergency Load Response Program and thus available for dispatch during PJM-declared pre-emergency events and emergency events.

A-1. A Demand Resource Sell Offer Plan shall consist of a completed template document in the form posted on the PJM website, requiring the information set forth below and in the PJM Manuals, and a Demand Resource Officer Certification Form signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification. The Demand Resource Sell Offer Plan must provide information that supports the Demand Resource Provider's intended Demand Resource Sell Offers and demonstrates that the Demand Resources are being offered with the intention that the MW quantity that clears the auction is reasonably

expected to be physically delivered through Demand Resource registrations for the relevant Delivery Year. The Demand Resource Sell Offer Plan shall include all Existing Demand Resources and all Planned Demand Resources that the Demand Resource Provider intends to offer into an RPM Auction or include in an FRR Capacity Plan.

1. Demand Resource Sell Offer Plan Template. The Demand Resource Sell Offer Plan template, in the form provided on the PJM website, shall require the Demand Resource Provider to provide the following information and such other information as specified in the PJM Manuals:

(a) Summary Information. The completed template shall include the Demand Resource Provider's company name, contact information, and the Nominated DR Value in ICAP MWs by Zone/sub-Zone that the Demand Resource Provider intends to offer, stated separately for Existing Demand Resources and Planned Demand Resources. The total Nominated DR Value in MWs for each Zone/sub-Zone shall be the sum of the Nominated DR Value of Existing Demand Resources and the Nominated DR Value of Planned Demand Resources, and shall be the maximum MW amount the Provider intends to offer in the RPM Auction for the indicated Zone/sub-Zone, provided that nothing herein shall preclude the Demand Resource Provider from offering in the auction a lesser amount than the total Nominated DR Value shown in its Demand Resource Sell Offer Plan.

(b) Existing Demand Resources. The Demand Resource Provider shall identify all Existing Demand Resources by identifying end-use customer sites that are currently registered with PJM (even if not registered by such Demand Resource Provider) and that the Demand Resource Provider reasonably expects to have under a contract to reduce load based on PJM dispatch instructions by the start of the auction Delivery Year.

(c) Planned Demand Resources. The Demand Resource Provider shall provide the details of, and key assumptions underlying, the Planned Demand Resource quantities (i.e., all Demand Resource quantities in excess of Existing Demand Resource quantities) contained in the Demand Resource Sell Offer Plan, including:

- (i) key program attributes and assumptions used to develop the Planned Demand Resource quantities, including, but not limited to, discussion of:
- method(s) of achieving load reduction at customer site(s);
  - equipment to be controlled or installed at customer site(s), if any;
  - plan and ability to acquire customers;
  - types of customer targeted;
  - support of market potential and market share for the target customer base, with adjustments for Existing Demand Resource customers within this market and the potential for other Demand Resource Providers targeting the same customers;
  - assumptions regarding regulatory approval of program(s), if applicable; and

- if applicable, Direct Load Control (DLC) program details such as: a description of the cycling control strategy, any assumptions regarding switch operability rate, and a list (and copy) of all load research studies used to develop the estimated nominated ICAP value per customer (i.e., the per-participant impact).

(ii) Zone/sub-Zone information by end-use customer segment for all Nominated DR Values for which an end-use customer site is not identified, to include the number in each segment of end-use customers expected to be registered for the subject Delivery Year, the average Peak Load Contribution per end-use customer for such segment, and the average Nominated DR Value per customer for such segment. End-use customer segments may include residential, commercial, small industrial, medium industrial, and large industrial, as identified and defined in the PJM Manuals, provided that nothing herein or in the Manuals shall preclude the Provider from identifying more specific customer segments within the commercial and industrial categories, if known.

(iii) Information by end-use customer site to the extent required by subsection A-1(1)(c)(iv) or, if not required by such subsection, to the extent known at the time of the submittal of the Demand Resource Sell Offer Plan, to include: customer EDC account number (if known), customer name, customer premise address, Zone/sub-Zone in which the customer is located, end-use customer segment, current Peak Load Contribution value (or an estimate if actual value not known) and an estimate of expected Peak Load Contribution for the subject Delivery Year, and an estimated Nominated DR Value.

(iv) End-use customer site-specific information shall be required for any Zones or sub-Zones identified by PJM pursuant to this subsection for the portion, if any, of a Demand Resource Provider's intended offer in such Zones or sub-Zones that exceeds a Sell Offer threshold determined pursuant to this subsection, as any such excess quantity under such conditions should reflect Planned Demand Resources from end-use customer sites that the Provider has a high degree of certainty it will physically deliver for the subject Delivery Year. In accordance with the procedures in subsection A-1(3) below, PJM shall identify, as requiring site-specific information, all Zones and sub-Zones that comprise any LDA group (from a list of LDA groups stated in the PJM Manuals) in which [the quantity of cleared Demand Resources from the most recent Base Residual Auction] plus [the quantity of Demand Resources included in FRR Capacity Plans for the Delivery Year addressed by the most recent Base Residual Auction] in any Zone or sub-Zone of such LDA group exceeds the greater of:

- the maximum Demand Resources quantity registered with PJM for such Zone for any Delivery Year from the current (at time of plan submission) Delivery Year and the two preceding Delivery Years; and
- the potential Demand Resource quantity for such Zone estimated by PJM based on an independent published assessment of demand response potential that is reasonably applicable to such Zone, as identified in the PJM Manuals.

For each such Zone and sub-Zone, the Sell Offer threshold for each Demand Resource Provider shall be the higher of:

- the Demand Resource Provider's maximum Demand Resource quantity registered with PJM for such Zone/sub-Zone over the current Delivery Year (at the time of plan submission) and two preceding Delivery Years;
- the Demand Resource Provider's maximum for any single Delivery Year of [such provider's cleared Demand Resource quantity] plus [such provider's quantity of Demand Resources included in FRR Capacity Plans] from the three forward Delivery Years addressed by the three most recent Base Residual Auctions for such Zone/sub-Zone; and
- 10 MW.

(d) Schedule. The Demand Resource Provider shall provide an approximate timeline for procuring end-use customer sites as needed to physically deliver the total Nominated DR Value (for both Existing Demand Resources and Planned Demand Resources) by Zone/sub-Zone in the Demand Resource Sell Offer Plan. The Demand Resource Provider must specify the cumulative number of customers and the cumulative Nominated DR Value associated with each end-use customer segment within each Zone/sub-Zone that the Demand Resource Provider expects (at the time of plan submission) to have under contract as of June 1 each year between the time of the auction and the subject Delivery Year.

2. Demand Resource Officer Certification Form. Each Demand Resource Sell Offer Plan must include a Demand Resource Officer Certification, signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification, in the form shown in the PJM Manuals, which form shall include the following certifications:

(a) that the signing officer has reviewed the Demand Resource Sell Offer Plan and the information supplied to PJM in support of the Plan is true and correct as of the date of the certification; and

(b) that the Demand Resource Provider is submitting the Plan with the reasonable expectation, based upon its analyses as of the date of the certification, to physically deliver all megawatts that clear the RPM Auction through Demand Resource registrations by the specified Delivery Year.

As set forth in the form provided in the PJM manuals, the certification shall specify that it does not in any way abridge, expand, or otherwise modify the current provisions of the PJM Tariff, Operating Agreement and/or RAA, or the Demand Resource Provider's rights and obligations thereunder, including the Demand Resource Provider's ability to adjust capacity obligations through participation in PJM incremental auctions and bilateral transactions.

3. Procedures. No later than December 1 prior to the Base Residual Auction for a Delivery Year, PJM shall post to the PJM website a list of Zones and sub-Zones, if any, for which end-use customer site-specific information shall be required under the conditions specified in subsection A-1(1)(c)(iv) above for all RPM Auctions conducted for such Delivery Year. Once so identified, a Zone or sub-Zone shall remain on the list for future Delivery Years until the threshold determined under subsection A-1(1)(c)(iv) above is not exceeded for three consecutive Delivery Years. No later than 15 business days prior to the RPM Auction in which a Demand Resource Provider intends to offer a Demand Resource, the Demand Resource Provider shall submit to PJM a completed Demand Resource Sell Offer Plan template and a Demand Resource Officer Certification Form signed by a duly authorized officer of the Provider. PJM will review all submitted DR Sell Offer Plans. No later than 10 business days prior to the subject RPM Auction, PJM shall notify any Demand Resource Providers that have identified the same end-use customer site(s) in their respective DR Sell Offer Plans for the same Delivery Year. In such event, the MWs associated with such site(s) will not be approved for inclusion in a Sell Offer in an RPM Auction by any of the Demand Resource Providers, unless a Demand Resource Provider provides a letter of support from the end-use customer indicating that it is likely to execute a contract with that Demand Resource Provider for the relevant Delivery Year, or provides other comparable evidence of likely commitment. Such letter of support or other supporting evidence must be provided to PJM no later than 7 business days prior to the subject RPM Auction. If an end-use customer provides letters of support for the same site for the same Delivery Year to multiple Demand Resource Providers, the MWs associated with such end-use customer site shall not be approved as a Demand Resource for any of the Demand Resource Providers. No later than 5 business days prior to the subject RPM Auction, PJM will notify each Demand Resource Provider of the approved Demand Resource quantity, by Zone/sub-Zone, that such Demand Resource Provider is permitted to offer into such RPM Auction.

B. The Unforced Capacity value of a Demand Resource will be determined as:

the product of the Nominated Value of the Demand Resource times the DR Factor, times the Forecast Pool Requirement. Nominated Values shall be determined and reviewed in accordance with sections I and J, respectively, and the PJM Manuals. The DR Factor is a factor established by the PJM Board with the advice of the Members Committee to reflect the increase in the peak load carrying capability in the PJM Region due to Demand Resources. Peak load carrying capability is defined to be the peak load that the PJM Region is able to serve at the loss of load expectation defined in the Reliability Principles and Standards. The DR Factor is the increase in



the peak load carrying capability in the PJM Region due to Demand Resources, divided by the total Nominated Value of Demand Resources in the PJM Region. The DR Factor will be determined using an analytical program that uses a probabilistic approach to determine reliability. The determination of the DR Factor will consider the reliability of Demand Resources, the number of interruptions, and the total amount of load reduction.

C. Demand Resources offered and cleared in a Base Residual or Incremental Auction shall receive the corresponding Capacity Resource Clearing Price as determined in such auction, in accordance with Attachment DD of the PJM Tariff. For Delivery Years beginning with the Delivery Year that commences on June 1, 2013, any Demand Resources located in a Zone with multiple LDAs shall receive the Capacity Resource Clearing Price applicable to the location of such resource within such Zone, as identified in such resource's offer. Further, the Curtailment Service Provider shall register its resource in the same location within the Zone as specified in its cleared sell offer, and shall be subject to deficiency charges under Attachment DD of this Tariff to the extent it fails to provide the resource in such location consistent with its cleared offer. For either of the Delivery Year commencing on June 1, 2010 or commencing on June 1, 2012, if the location of a Demand Resource is not specified by a Seller in the Sell Offer on an individual LDA basis in a Zone with multiple LDAs, then Demand Resources cleared by such Seller will be paid a DR Weighted Zonal Resource Clearing Price, determined as follows: (i) for a Zone that includes non-overlapping LDAs, calculated as the weighted average of the Resource Clearing Prices for such LDAs, weighted by the cleared Demand Resources registered by such Seller in each such LDA; or (ii) for a Zone that contains a smaller LDA within a larger LDA, calculated treating the smaller LDA and the remaining portion of the larger LDA as if they were separate LDAs, and weight-averaging in the same manner as (i) above.

D. The Party, Electric Distributor, or Curtailment Service Provider that establishes a contractual relationship (by contract or tariff rate) with a customer for load reductions is entitled to receive the compensation specified in section C for a committed Demand Resource, notwithstanding that such provider is not the customer's energy supplier.

E. Any Party hereto shall demonstrate that its Demand Resources performed during periods when load management procedures were invoked by the Office of the Interconnection. The Office of the Interconnection shall adopt and maintain rules and procedures for verifying the performance of such resources, as set forth in section K hereof and the PJM Manuals. In addition, committed Demand Resources that do not comply with the directions of the Office of the Interconnection to reduce load during an emergency shall be subject to the penalty charge set forth in Attachment DD to the PJM Tariff.

F. Parties may elect to place Demand Resources associated with Behind The Meter Generation under the direction of the Office of the Interconnection for a Delivery Year by submitting a Sell Offer for such resource (as Self Supply, or with an offer price) in the Base Residual Auction for such Delivery Year. This election shall remain in effect for the entirety of such Delivery Year. In the event such an election is made, such Behind The Meter Generation will not be netted from load for the purposes of calculating the Daily Unforced Capacity Obligations under this Agreement.

G. PJM measures Demand Resources in the following three ways:

Direct Load Control (DLC) – Load management that is initiated directly by the Curtailment Service Provider’s market operations center or its agent, employing a communication signal to cycle equipment (typically water heaters or central air conditioners). DLC programs are qualified based on load research and customer subscription data. Curtailment Service Providers may rely on the results of load research studies identified in the PJM Manuals to set the per-participant load reduction for DLC programs. Each Curtailment Service Provider relying on DLC load management must periodically update its DLC switch operability rates, in accordance with the PJM Manuals.

Firm Service Level (FSL) – Load management achieved by an end-use customer reducing its load to a pre-determined level (the Firm Service Level), upon notification from the Curtailment Service Provider’s market operations center or its agent.

Guaranteed Load Drop (GLD) – Load management achieved by an end-use customer reducing its load by a pre-determined amount (the Guaranteed Load Drop), upon notification from the Curtailment Service Provider’s market operations center or its agent. Typically, the load reduction is achieved through running customer-owned backup generators, or by shutting down process equipment.

H. Each Curtailment Service Provider must satisfy (or contract with another LSE, Curtailment Service Provider, or electric distribution company to provide) the following requirements:

- A point of contact with appropriate backup to ensure single call notification from PJM and timely execution of the notification process;
- Supplemental status reports, detailing Demand Resources available, as requested by PJM;
- Entry of customer-specific Demand Resource credit information, for planning and verification purposes, into the designated PJM electronic system.
- Customer-specific compliance and verification information for each PJM-initiated Demand Resource event, as well as aggregated Provider load drop data for Provider-initiated events, in accordance with established reporting guidelines.
- Load drop estimates for all Demand Resource events, prepared in accordance with the PJM Manuals.

I. The Nominated Value of each Demand Resource shall be determined consistent with the process for determination of the capacity obligation for the customer.

The Nominated Value for a Firm Service Level customer will be based on the peak load contribution for the customer, as determined by the 5CP methodology utilized to determine other

ICAP obligation values. The maximum Demand Resource load reduction value for a Firm Service Level customer will be equal to Peak Load Contribution – Firm Contract Level adjusted for system losses.

The Nominated Value for a Guaranteed Load Drop customer will be the guaranteed load drop amount, adjusted for system losses, as established by the customer's contract with the Curtailment Service Provider. The maximum credit nominated shall not exceed the customer's Peak Load Contribution.

The Nominated Value for a Direct Load Control program will be based on load research and customer subscription. The maximum value of the program is equal to the approved per-participant load reduction multiplied by the number of active participants, adjusted for system losses. The per-participant impact is to be estimated at long-term average local weather conditions at the time of the summer peak.

Customer-specific Demand Resource information (EDC account number, peak load, notification period, etc.) will be entered into the designated PJM electronic system to establish credit values. Additional data may be required, as defined in sections J and K.

J. Nominated Values shall be reviewed based on documentation of customer-specific data and Demand Resource information, to verify the amount of load management available and to set a maximum allowable Nominated Value. Data is provided by both the zone EDC and the Curtailment Service Provider on templates supplied by PJM, and must include the EDC meter number or other unique customer identifier, Peak Load Contribution (5CP), contract firm service level or guaranteed load drop values, applicable loss factor, zone/area location of the load drop, LSE contact information, number of active participants, etc. Such data must be uploaded and approved prior to the first day of the Delivery Year for such resource as a Demand Resource. Curtailment Service Providers must provide this information concurrently to host EDCs.

For Firm Service Level and Guaranteed Load Drop customers, the 5CP values, for the zone and affected customers, will be adjusted to reflect an "unrestricted" peak for a zone, based on information provided by the Curtailment Service Provider. Load drop levels shall be estimated in accordance with guidelines in the PJM Manuals.

For Direct Load Control programs, the Curtailment Service Provider must provide information detailing the number of active participants in each program. Other information on approved DLC programs will be provided by PJM.

K. Compliance is the process utilized to review Provider performance during PJM-initiated Demand Resource events. Compliance will be established for each Provider on an event specific basis for the Curtailment Service Provider's Demand Resources dispatched by the Office of the Interconnection during such event. PJM will establish and communicate reasonable deadlines for the timely submittal of event data to expedite compliance reviews. Compliance reviews will be completed as soon after the event as possible, with the expectation that reviews of a single event will be completed within two months of the end of the month in which the event

took place. Curtailment Service Providers are responsible for the submittal of compliance information to PJM for each PJM-initiated event during the compliance period. Compliance for Direct Load Control programs will consider only the transmission of the control signal. Curtailment Service Providers are required to report the time period (during the Demand Resource event) that the control signal was actually sent.

Compliance is checked on an individual customer basis for FSL, by comparing actual load during the event to the firm service level. Curtailment Service Providers must submit actual customer load levels (for the event period) for the compliance report. Compliance for FSL will be based on:

End use customer's current Delivery Year peak load contribution ("PLC") minus the metered load ("Load") multiplied by the loss factor ("LF"). The calculation is represented by:

$$(PLC) - (Load * LF)$$

Compliance is checked on an individual customer basis for GLD, and will be based on:

- (i) the lesser of (a) comparison load used to best represent what the load would have been if PJM did not declare a Load Management Event or the CSP did not initiate a test as outlined in the PJM Manuals, minus the Load and then multiplied by the LF, or (b) the PLC minus the Load multiplied by the LF. A load reduction will only be recognized for capacity compliance if the Load multiplied by the LF is less than the PLC.
- (iii) Curtailment Service Providers must submit actual loads and comparison loads for all hours during the day of the Load Management Event or the Load Management performance test, and for all hours during any other days as required by the Office of the Interconnection to calculate the load reduction. Comparison loads must be developed from the guidelines in the PJM Manuals, and note which method was employed.

Compliance is averaged over the Load Management Event for non-interval metered DLC programs. Compliance is averaged over the Load Management Event, for each FSL and GLD customer dispatched by the Office of the Interconnection, for at least 30 minutes of the clock hour (i.e., "partial dispatch compliance hour"). The registered capacity commitment for the partial dispatch compliance hour will be prorated based on the number of minutes dispatched during the clock hour and as defined in the Manuals. Curtailment Service Provider may submit 1 minute load data for use in capacity compliance calculations for partial dispatch compliance hours subject to PJM approval and in accordance with the PJM Manuals where: (a) metering meets all Tariff and Manual requirements, (b) 1 minute load data shall be submitted to PJM for all locations on the registration, and (c) 1 minute load data measures energy consumption over the minute.

Demand Resources may not reduce their load below zero (i.e., export energy into the system). No compliance credit will be given for an incremental load drop below zero. Compliance will be

totaled over all FSL and GLD customers and DLC programs to determine a net compliance position for the event for each Provider by Zone, for all Demand Resources committed by such Provider and dispatched by the Office of the Interconnection in the zone. Deficiencies shall be as further determined in accordance with section 11 of Schedule DD to the PJM Tariff.

#### L. Energy Efficiency Resources

1. An Energy Efficiency Resource is a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak periods as described herein) reduction in electric energy consumption at the End-Use Customer's retail site that is not reflected in the peak load forecast prepared for the Delivery Year for which the Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.

2. An Energy Efficiency Resource may be offered as a Capacity Resource in the Base Residual or Incremental Auctions for any Delivery Year beginning on or after June 1, 2012. No later than 30 days prior to the auction in which the resource is to be offered, the Capacity Market Seller shall submit to the Office of the Interconnection a notice of intent to offer the resource into such auction and a measurement and verification plan. The notice of intent shall include all pertinent project design data, including but not limited to the peak-load contribution of affected customers, a full description of the equipment, device, system or process intended to achieve the load reduction, the load reduction pattern, the project location, the project development timeline, and any other relevant data. Such notice also shall state the seller's proposed Nominated Energy Efficiency Value, which shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday. The measurement and verification plan shall describe the methods and procedures, consistent with the PJM Manuals, for determining the amount of the load reduction and confirming that such reduction is achieved. The Office of the Interconnection shall determine, upon review of such notice, the Nominated Energy Efficiency Value that may be offered in the Reliability Pricing Model Auction.

3. An Energy Efficiency Resource may be offered with a price offer or as Self-Supply. If an Energy Efficiency Resource clears the auction, it shall receive the applicable Capacity Resource Clearing Price, subject to section 5 below. A Capacity Market Seller offering an Energy Efficiency Resource must comply with all applicable credit requirements as set forth in Attachment Q to the PJM Tariff. The Unforced Capacity value of an Energy Efficiency Resource offered into an RPM Auction shall be the Nominated Energy Efficiency value times the DR Factor and the Forecast Pool Requirement.

4. An Energy Efficiency Resource that clears an auction for a Delivery Year may be offered in auctions for up to three additional consecutive Delivery Years, but shall not be assured of clearing in any such auction; provided, however, an Energy Efficiency Resource may not be offered for any Delivery Year in which any part of the peak season is beyond the expected

life of the equipment, device, system, or process providing the expected load reduction; and provided further that a Capacity Market Seller that offers and clears an Energy Efficiency Resource in a BRA may elect a New Entry Price Adjustment on the same terms as set forth in section 5.14(c) of this Attachment DD.

5. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than 30 days prior to each Auction an updated project status and measurement and verification plan subject to the criteria set forth in the PJM Manuals.

6. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than the start of such Delivery Year, an updated project status and detailed measurement and verification data meeting the standards for precision and accuracy set forth in the PJM Manuals. The final value of the Energy Efficiency Resource during such Delivery Year shall be as determined by the Office of the Interconnection based on the submitted data.

7. The Office of the Interconnection may audit, at the Capacity Market Seller's expense, any Energy Efficiency Resource committed to the PJM Region. The audit may be conducted any time including the Performance Hours of the Delivery Year.

Sections of the  
Reliability Assurance Agreement  
Option B  
(Marked/Redline Format)

## ARTICLE 1 – DEFINITIONS

Unless the context otherwise specifies or requires, capitalized terms used herein shall have the respective meanings assigned herein or in the Schedules hereto for all purposes of this Agreement (such definitions to be equally applicable to both the singular and the plural forms of the terms defined). Unless otherwise specified, all references herein to Articles, Sections or Schedules, are to Articles, Sections or Schedules of this Agreement. As used in this Agreement:

### 1.1 Agreement

Agreement shall mean this Reliability Assurance Agreement, together with all Schedules hereto, as amended from time to time.

### 1.1A Annual Demand Resource

Annual Demand Resource shall mean a resource that is placed under the direction of the Office of the Interconnection during the Delivery Year, and will be available for an unlimited number of interruptions during such Delivery Year by the Office of the Interconnection, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time for the months of June through October and the following May, and 6:00AM through 9:00PM Eastern Prevailing Time for the months of November through April unless there is an Office of the Interconnection approved maintenance outage during October through April. The Annual Demand Resource must be available in the corresponding Delivery year to be offered for sale or Self-Supplied in an RPM Auction, or included as an Annual Demand Resource in an FRR Capacity Plan for the corresponding Delivery Year. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### 1.1B Annual WRL Load

Annual WRL Load shall mean load that is placed by the WLR Provider under the direction of the Office of the Interconnection during the Delivery Year, and will be available for an unlimited number of interruptions during such Delivery Year by the Office of the Interconnection, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time for the months of June through October and the following May, and 6:00AM through 9:00PM Eastern Prevailing Time for the months of November through April unless there is an Office of the Interconnection approved maintenance outage during October through April. The Annual WRL Load must be available in the corresponding Delivery Year to be bid in an RPM Auction.

### 1.2 Applicable Regional Entity



Applicable Regional Entity shall have the same meaning as in the PJM Tariff.

### **1.3 Base Residual Auction**

Base Residual Auction shall have the same meaning as in Attachment DD to the PJM Tariff.

### **1.4 Behind The Meter Generation**

Behind The Meter Generation shall mean a generating unit that delivers energy to load without using the Transmission System or any distribution facilities (unless the entity that owns or leases the distribution facilities consented to such use of the distribution facilities and such consent has been demonstrated to the satisfaction of the Office of the Interconnection; provided, however, that Behind The Meter Generation does not include (i) at any time, any portion of such generating unit's capacity that is designated as a Capacity Resource or (ii) in any hour, any portion of the output of such generating unit that is sold to another entity for consumption at another electrical location or into the PJM Interchange Energy Market.

### **1.5 Black Start Capability**

Black Start Capability shall mean the ability of a generating unit or station to go from a shutdown condition to an operating condition and start delivering power without assistance from the power system.

### **1.6 Capacity Emergency Transfer Objective ("CETO")**

Capacity Emergency Transfer Objective ("CETO") shall mean the amount of electric energy that a given area must be able to import in order to remain within a loss of load expectation of one event in 25 years when the area is experiencing a localized capacity emergency, as determined in accordance with the PJM Manuals. Without limiting the foregoing, CETO shall be calculated based in part on EFORD determined in accordance with Paragraph C of Schedule 5.

### **1.7 Capacity Emergency Transmission Limit ("CETL")**

Capacity Emergency Transmission Limit ("CETL") shall mean the capability of the transmission system to support deliveries of electric energy to a given area experiencing a localized capacity emergency as determined in accordance with the PJM Manuals.

#### **1.7A Capacity Import Limit**

Capacity Import Limit shall mean, (a) for the PJM Region, (1) the maximum megawatt quantity of external Generation Capacity Resources that PJM determines for each Delivery Year, through appropriate modeling and the application of engineering judgment, the transmission system can receive, in aggregate at the interface of the PJM Region with all external balancing authority areas and deliver to load in the PJM Region under capacity emergency conditions

without violating applicable reliability criteria on any bulk electric system facility of 100kV or greater, internal or external to the PJM Region, that has an electrically significant response to transfers on such interface, minus (2) the then-applicable Capacity Benefit Margin; and (b) for certain source zones identified in the PJM manuals as groupings of one or more balancing authority areas, (1) the maximum megawatt quantity of external Generation Capacity Resources that PJM determines the transmission system can receive at the interface of the PJM Region with each such source zone and deliver to load in the PJM Region under capacity emergency conditions without violating applicable reliability criteria on any bulk electric system facility of 100kV or greater, internal or external to the PJM Region, that has an electrically significant response to transfers on such interface, minus the then-applicable Capacity Benefit Margin times (2) the ratio of the maximum import quantity from each such source zone divided by the PJM total maximum import quantity. As more fully set forth in the PJM Manuals, PJM shall make such determination based on the latest peak load forecast for the studied period, the same computer simulation model of loads, generation and transmission topography employed in the determination of Capacity Emergency Transmission Limit for such Delivery Year, including external facilities from an industry standard model of the loads, generation, and transmission topography of the Eastern Interconnection under peak conditions. PJM shall specify in the PJM Manuals the areas and minimum distribution factors for identifying monitored bulk electric system facilities that have an electrically significant response to such transfers on the PJM interface. Employing such tools, PJM shall model increased power transfers from external areas into PJM to determine the transfer level at which one or more reliability criteria is violated on any monitored bulk electric system facilities that have an electrically significant response to such transfers. For the PJM Region Capacity Import Limit, PJM shall optimize transfers from other source areas not experiencing any reliability criteria violations as appropriate to increase the Capacity Import Limit. The aggregate megawatt quantity of transfers into PJM at the point where any increase in transfers on the interface would violate reliability criteria will establish the Capacity Import Limit. Notwithstanding the foregoing, a Capacity Resource located outside the PJM Region shall not be subject to the Capacity Import Limit if the Capacity Market Seller seeks an exception thereto by demonstrating to PJM, by no later than five (5) business days prior to the commencement of the offer period for the relevant RPM Auction, that such resource meets all of the following requirements:

- (i) it has, at the time such exception is requested, met all applicable requirements to be treated as equivalent to PJM Region internal generation that is not subject to NERC tagging as an interchange transaction, or the Capacity Market Seller has committed in writing that it will meet such requirements, unless prevented from doing so by circumstances beyond the control of the Capacity Market Seller, prior to the relevant Delivery Year;
- (ii) at the time such exception is requested, it has long-term firm transmission service confirmed on the complete transmission path from such resource into PJM; and
- (iii) it is, by written commitment of the Capacity Market Seller, subject to the same obligations imposed on Generation Capacity Resources located in the PJM Region by section 6.6 of Attachment DD of the PJM Tariff to offer their capacity into RPM Auctions;

provided, however, that (a) the total megawatt quantity of all exceptions granted hereunder for a Delivery Year, plus the Capacity Import Limit for the applicable interface determined for such Delivery Year, may not exceed the total megawatt quantity of Network External Designated Transmission Service on such interface that PJM has confirmed for such Delivery Year; and (b) if granting a qualified exception would result in a violation of the rule in clause (a), PJM shall grant the requested exception but reduce the Capacity Import Limit by the quantity necessary to ensure that the total quantity of Network External Designated Transmission Service is not exceeded.

## **1.8 Capacity Resources**

Capacity Resources shall mean megawatts of (i) net capacity from existing or Planned Generation Capacity Resources meeting the requirements of Schedules 9 and 10 that are or will be owned by or contracted to a Party and that are or will be committed to satisfy that Party's obligations under this Agreement, or to satisfy the reliability requirements of the PJM Region, for a Delivery Year; (ii) net capacity from existing or Planned Generation Capacity Resources within the PJM Region not owned or contracted for by a Party which are accredited to the PJM Region pursuant to the procedures set forth in Schedules 9 and 10; and (iii) load reduction capability provided by Demand Resources or Energy Efficiency Resources that are accredited to the PJM Region pursuant to the procedures set forth in Schedule 6. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **1.9 Capacity Transfer Right**

Capacity Transfer Right shall have the meaning specified in Attachment DD to the PJM Tariff.

### **1.9.1 Compliance Aggregation Area (CAA)**

“Compliance Aggregation Area” or “CAA” shall have the same meaning as in the PJM Tariff.

### **1.10 Control Area**

Control Area shall mean an electric power system or combination of electric power systems bounded by interconnection metering and telemetry to which a common generation control scheme is applied in order to:

(a) match the power output of the generators within the electric power system(s) and energy purchased from entities outside the electric power system(s), with the load within the electric power system(s);

(b) maintain scheduled interchange with other Control Areas, within the limits of Good Utility Practice;

(c) maintain the frequency of the electric power system(s) within reasonable limits in accordance with Good Utility Practice and the criteria of NERC and each Applicable Regional Entity;

(d) maintain power flows on transmission facilities within appropriate limits to preserve reliability; and

(e) provide sufficient generating capacity to maintain operating reserves in accordance with Good Utility Practice.

### **1.11 Daily Unforced Capacity Obligation**

Daily Unforced Capacity Obligation shall have the meaning set forth in Schedule 8 or, as to an FRR Entity, in Schedule 8.1.

### **1.12 Delivery Year**

Delivery Year shall mean a Planning Period for which a Capacity Resource is committed pursuant to the auction procedures specified in Attachment DD to the Tariff or pursuant to an FRR Capacity Plan.

### **1.13 Demand Resource**

Demand Resource or “DR” shall mean a Limited Demand Resource, Extended Summer Demand Resource, or Annual Demand Resource with a demonstrated capability to provide a reduction in demand or otherwise control load in accordance with the requirements of Schedule 6 that offers and that clears load reduction capability in a Base Residual Auction or Incremental Auction or that is committed through an FRR Capacity Plan. As set forth in Schedule 6, a Limited Demand Resource, Extended Summer Demand Resource or Annual Demand Resource may be an existing demand response resource or a Planned Demand Resource. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### **1.13A Demand Resource Officer Certification Form**

Demand Resource Officer Certification Form shall mean a certification as to an intended Demand Resource Sell Offer, in accordance with Schedules 6 and 8.1 of this Agreement and the PJM Manuals.

#### **1.14 [Reserved for Future Use]**

##### **1.14A Demand Resource Sell Offer Plan**

Demand Resource Sell Offer Plan shall mean the plan required by Schedules 6 and 8.1 of this Agreement in support of an intended offer of Demand Resources in an RPM Auction, or an intended inclusion of Demand Resources in an FRR Capacity Plan.

#### **1.15 DR Factor**

DR Factor shall mean that factor approved from time to time by the PJM Board used to determine the unforced capacity value of a Demand Resource in accordance with Schedule 6.

#### **1.16 [Reserved for Future Use]**

##### **1.17 Electric Cooperative**

Electric Cooperative shall mean an entity owned in cooperative form by its customers that is engaged in the generation, transmission, and/or distribution of electric energy.

##### **1.18 Electric Distributor**

Electric Distributor shall mean an entity that owns or leases with rights equivalent to ownership electric distribution facilities that are providing electric distribution service to electric load within the PJM Region.

##### **1.19 Emergency**

Emergency shall mean (i) an abnormal system condition requiring manual or automatic action to maintain system frequency, or to prevent loss of firm load, equipment damage, or tripping of system elements that could adversely affect the reliability of an electric system or the safety of persons or property; or (ii) a fuel shortage requiring departure from normal operating procedures in order to minimize the use of such scarce fuel; or (iii) a condition that requires implementation of emergency procedures as defined in the PJM Manuals.

##### **1.20 End-Use Customer**

End-Use Customer shall mean a Member that is a retail end-user of electricity within the PJM Region.

##### **1.20A Energy Efficiency Resource**

Energy Efficiency Resource shall mean a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak

periods as described in Schedule 6 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **1.20A.1 Existing Demand Resource**

Existing Demand Resource shall mean a Demand Resource for which the Demand Resource Provider has identified existing end-use customer sites that are registered for the current Delivery Year with PJM (even if not registered by such Demand Resource Provider) and that the Demand Resource Provider reasonably expects to have under a contract to reduce load based on PJM dispatch instructions by the start of the Delivery Year for which such resource is offered.

#### **1.20B Existing Generation Capacity Resource**

Existing Generation Capacity Resource shall mean, for purposes of the must-offer requirement and mitigation of offers for any RPM Auction for a Delivery Year, a Generation Capacity Resource that, as of the date on which bidding commences for such auction: (a) is in service; or (b) is not yet in service, but has cleared any RPM Auction for any prior Delivery Year. Notwithstanding the foregoing, a Generation Capacity Resource for which construction has not commenced and which would otherwise have been treated as a Planned Generation Capacity Resource but for the fact that it was bid into RPM Auctions for at least two consecutive Delivery Years, and cleared the last such auction only because it was considered existing and its mitigated offer cap was accepted when its price offer would not have otherwise been accepted, shall be deemed to be a Planned Generation Capacity Resource. A Generation Capacity Resource shall be deemed to be in service if interconnection service has ever commenced (for resources located in the PJM Region), or if it is physically and electrically interconnected to an external Control Area and is in full commercial operation (for resources not located in the PJM Region). The additional megawatts of a Generation Capacity Resource that is being, or has been, modified to increase the number of megawatts of available installed capacity thereof shall not be deemed to be an Existing Generation Capacity Resource until such time as those megawatts (a) are in service; or (b) are not yet in service, but have cleared any RPM Auction for any prior Delivery Year.

##### **1.20B.01 Existing WLR Load**

Existing WLR Load shall mean WLR Load for which the WLR Provider has identified existing end-use customer sites that are registered for the current Delivery Year with PJM (even if not registered by such WLR Provider) and that the WLR Provider reasonably expects to serve

as the Load Serving Entity and have under a contract to reduce load based on PJM dispatch instructions by the Delivery Year for which such load is bid.

### **1.20C Extended Summer Demand Resource**

Extended Summer Demand Resource shall mean a resource that is placed under the direction of the Office of the Interconnection and that will be available June through October and the following May, and will be available for an unlimited number of interruptions during such months by the Office of the Interconnection, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time. The Extended Summer Demand Resource must be available June through October and the following May in the corresponding Delivery Year to be offered for sale or Self-Supplied in an RPM Auction, or included as an Extended Summer Demand Resource in an FRR Capacity Plan for the corresponding Delivery Year. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### **1.20D Extended Summer WLR Load**

Extended Summer WLR Load shall mean a load that is placed by the WLR Provider under the direction of the Office of the Interconnection and that will be available June through October and the following May, and will be available for an unlimited number of interruptions during such months by the Office of the Interconnection, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time. The Extended Summer WLR Load must be available June through October and the following May in the corresponding Delivery Year to be bid in an RPM Auction.

### **1.21 Facilities Study Agreement**

Facilities Study Agreement shall have the same meaning as in the PJM Tariff

### **1.22 FERC**

FERC shall mean the Federal Energy Regulatory Commission or any successor federal agency, commission or department.

### **1.23 Firm Point-To-Point Transmission Service**

Firm Point-To-Point Transmission Service shall mean Firm Transmission Service provided pursuant to the rates, terms and conditions set forth in Part II of the PJM Tariff.

### **1.24 Firm Transmission Service**

Firm Transmission Service shall mean transmission service that is intended to be available at all times to the maximum extent practicable, subject to an Emergency, an unanticipated failure of a facility, or other event beyond the control of the owner or operator of the facility or the Office of the Interconnection.

#### **1.25 Fixed Resource Requirement Alternative or FRR Alternative**

Fixed Resource Requirement Alternative or FRR Alternative shall mean an alternative method for a Party to satisfy its obligation to provide Unforced Capacity hereunder, as set forth in Schedule 8.1 to this Agreement.

#### **1.26 Forecast Pool Requirement**

Forecast Pool Requirement or FPR shall mean the amount equal to one plus the unforced reserve margin (stated as a decimal number) for the PJM Region required pursuant to this Agreement, as approved by the PJM Board pursuant to Schedule 4.1.

#### **1.27 [Reserved]**

#### **1.28 [Reserved]**

#### **1.29 FRR Capacity Plan**

FRR Capacity Plan shall mean a long-term plan for the commitment of Capacity Resources to satisfy the capacity obligations of a Party that has elected the FRR Alternative, as more fully set forth in Schedule 8.1 to this Agreement.

#### **1.30 FRR Entity**

FRR Entity shall mean, for the duration of such election, a Party that has elected the FRR Alternative hereunder.

#### **1.31 FRR Service Area**

FRR Service Area shall mean (a) the service territory of an IOU as recognized by state law, rule or order; (b) the service area of a Public Power Entity or Electric Cooperative as recognized by franchise or other state law, rule, or order; or (c) a separately identifiable geographic area that is: (i) bounded by wholesale metering, or similar appropriate multi-site aggregate metering, that is visible to, and regularly reported to, the Office of the Interconnection, or that is visible to, and regularly reported to an Electric Distributor and such Electric Distributor agrees to aggregate the load data from such meters for such FRR Service Area and regularly report such aggregated information, by FRR Service Area, to the Office of the Interconnection; and (ii) for which the FRR Entity has or assumes the obligation to provide capacity for all load (including load growth) within such area. In the event that the service obligations of an Electric Cooperative or Public Power Entity are not defined by geographic boundaries but by physical



connections to a defined set of customers, the FRR Service Area in such circumstances shall be defined as all customers physically connected to transmission or distribution facilities of such Electric Cooperative or Public Power Entity within an area bounded by appropriate wholesale aggregate metering as described above.

### **1.32 Full Requirements Service**

Full Requirements Service shall mean wholesale service to supply all of the power needs of a Load Serving Entity to serve end-users within the PJM Region that are not satisfied by its own generating facilities.

### **1.33 Generation Capacity Resource**

Generation Capacity Resource shall mean a generation unit, or the right to capacity from a specified generation unit, that meets the requirements of Schedules 9 and 10 of this Agreement. A Generation Capacity Resource may be an Existing Generation Capacity Resource or a Planned Generation Capacity Resource.

### **1.34 Generation Owner**

Generation Owner shall mean a Member that owns or leases with rights equivalent to ownership facilities for the generation of electric energy that are located within the PJM Region. Purchasing all or a portion of the output of a generation facility shall not be sufficient to qualify a Member as a Generation Owner.

### **1.35 Generator Forced Outage**

Generator Forced Outage shall mean an immediate reduction in output or capacity or removal from service, in whole or in part, of a generating unit by reason of an Emergency or threatened Emergency, unanticipated failure, or other cause beyond the control of the owner or operator of the facility, as specified in the relevant portions of the PJM Manuals. A reduction in output or removal from service of a generating unit in response to changes in market conditions shall not constitute a Generator Forced Outage.

### **1.36 Generator Maintenance Outage**

Generator Maintenance Outage shall mean the scheduled removal from service, in whole or in part, of a generating unit in order to perform repairs on specific components of the facility, if removal of the facility qualifies as a maintenance outage pursuant to the PJM Manuals.

### **1.37 Generator Planned Outage**

Generator Planned Outage shall mean the scheduled removal from service, in whole or in part, of a generating unit for inspection, maintenance or repair with the approval of the Office of the Interconnection in accordance with the PJM Manuals.

### **1.38 Good Utility Practice**

Good Utility Practice shall mean any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather is intended to include acceptable practices, methods, or acts generally accepted in the region.

### **1.39 [Reserved]**

### **1.40 Incremental Auction**

Incremental Auction shall mean the First Incremental Auction, the Second Incremental Auction, the Third Incremental Auction, or the Conditional Incremental Auction, each as defined in Attachment DD to the PJM Tariff.

### **1.41 Interconnection Agreement**

Interconnection Agreement shall have the same meaning as in the PJM Tariff.

### **1.42 [Reserved]**

### **1.43 IOU**

IOU shall mean an investor-owned utility with substantial business interest in owning and/or operating electric facilities in any two or more of the following three asset categories: generation, transmission, distribution.

### **1.43A Limited Demand Resource**

Limited Demand Resource shall mean a resource that is placed under the direction of the Office of the Interconnection and that will, at a minimum, be available for interruption for at least 10 Load Management Events during the summer period of June through September in the Delivery Year, and will be capable of maintaining each such interruption for at least a 6-hour duration. At a minimum, the Limited Demand Resource shall be available for such interruptions on weekdays, other than NERC holidays, from 12:00PM (noon) to 8:00PM Eastern Prevailing Time. The Limited Demand Resource must be available during the summer period of June through September in the corresponding Delivery Year to be offered for sale or Self-Supplied in an RPM Auction, or included as a Limited Demand Resource in an FRR Capacity Plan for the corresponding Delivery Year. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years

unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **1.43B Limited WLR Load**

Limited WLR Load shall mean a load that is placed by the WLR Provider under the direction of the Office of the Interconnection and that will, at a minimum, be available for interruption for at least 10 pre-emergency or emergency actions during the summer period of June through September in the Delivery Year, and will be capable of maintaining each such interruption for at least a 6-hour duration. At a minimum, the Limited WLR Load shall be available for such interruptions on weekdays, other than NERC holidays, from 12:00PM (noon) to 8:00PM Eastern Prevailing Time. The Limited WLR Load must be available during the summer period of June through September in the corresponding Delivery Year to be bid in an RPM Auction.

#### **1.43C Limited WLR Load Constraint**

Limited WLR Load Constraint shall have the same meaning as in Attachment DD to the PJM Tariff.

### **1.44 Load Serving Entity or LSE**

Load Serving Entity or LSE shall mean any entity (or the duly designated agent of such an entity), including a load aggregator or power marketer, (i) serving end-users within the PJM Region, and (ii) that has been granted the authority or has an obligation pursuant to state or local law, regulation or franchise to sell electric energy to end-users located within the PJM Region. Load Serving Entity shall include any end-use customer that qualifies under state rules or a utility retail tariff to manage directly its own supply of electric power and energy and use of transmission and ancillary services.

### **1.45 Locational Reliability Charge**

Locational Reliability Charge shall mean the charge determined pursuant to Schedule 8.

### **1.46 Markets and Reliability Committee**

Markets and Reliability Committee shall mean the committee established pursuant to the Operating Agreement as a Standing Committee of the Members Committee.

### **1.46A Maximum Emergency Service Level**

Maximum Emergency Service Level or MESL of Price Responsive Demand shall mean the level, determined at a PRD Substation level, to which Price Responsive Demand shall be reduced during the Delivery Year when a Maximum Generation Emergency is declared and the Locational Marginal Price exceeds the price associated with such Price Responsive Demand identified by the PRD Provider in its PRD Plan.

#### **1.47 Member**

Member shall mean an entity that satisfies the requirements of Sections 1.24 and 11.6 of the PJM Operating Agreement. In accordance with Article 4 of this Agreement, each Party to this Agreement also is a Member.

#### **1.48 Members Committee**

Members Committee shall mean the committee specified in Section 8 of the PJM Operating Agreement composed of the representatives of all the Members.

#### **1.49 NERC**

NERC shall mean the North American Electric Reliability Council or any successor thereto.

#### **1.49A Network External Designated Transmission Service**

Network External Designated Transmission Service shall mean the quantity of network transmission service confirmed by PJM for use by a market participant to import power and energy from an identified Generation Capacity Resource located outside the PJM Region, upon demonstration by such market participant that it owns such Generation Capacity Resource, has an executed contract to purchase power and energy from such Generation Capacity Resource, or has a contract to purchase power and energy from such Generation Capacity Resource contingent upon securing firm transmission service from such resource.

#### **1.50 Network Resources**

Network Resources shall have the meaning set forth in the PJM Tariff.

#### **1.51 Network Transmission Service**

Network Transmission Service shall mean transmission service provided pursuant to the rates, terms and conditions set forth in Part III of the PJM Tariff or transmission service comparable to such service that is provided to a Load Serving Entity that is also a Transmission Owner (as that term is defined in the PJM Tariff).

#### **1.51A Nominal PRD Value**

Nominal PRD Value shall mean, as to any PRD Provider, an adjustment, determined in accordance with Schedule 6.1 of this Agreement, to the peak-load forecast used to determine the quantity of capacity sought through an RPM Auction, reflecting the aggregate effect of Price Responsive Demand on peak load resulting from the Price Responsive Demand to be provided by such PRD Provider.

## **1.52 Nominated Demand Resource Value**

Nominated Demand Resource Value shall have the meaning specified in Attachment DD to the PJM Tariff.

### **1.52A Nominated WEEL Quantity**

Nominated WEEL Quantity shall mean the MW quantity of load reduction committed by a WEEL Provider in a WLR Bid.

### **1.53 ~~[Reserved]~~ Nominated WLR Quantity**

Nominated WLR Quantity shall mean the MW quantity of load reduction committed by a WLR Provider in a WLR Bid.

## **1.54 Non-Retail Behind the Meter Generation**

Non-Retail Behind the Meter Generation shall mean Behind the Meter Generation that is used by municipal electric systems, electric cooperatives, and electric distribution companies to serve load.

## **1.55 Obligation Peak Load**

Obligation Peak Load shall have the meaning specified in Schedule 8 of this Agreement.

## **1.56 Office of the Interconnection**

Office of the Interconnection shall mean the employees and agents of PJM Interconnection, L.L.C., subject to the supervision and oversight of the PJM Board, acting pursuant to the Operating Agreement.

## **1.57 Operating Agreement of PJM Interconnection, L.L.C. or Operating Agreement**

Operating Agreement of PJM Interconnection, L.L.C. or Operating Agreement shall mean that certain agreement, dated April 1, 1997 and as amended and restated June 2, 1997 and as amended from time to time thereafter, among the members of the PJM Interconnection, L.L.C.

### **1.57A Operating Day**

Operating Day shall have the same meaning as provided in the Operating Agreement.

## **1.58 Operating Reserve**

Operating Reserve shall mean the amount of generating capacity scheduled to be available for a specified period of an Operating Day to ensure the reliable operation of the PJM Region, as specified in the PJM Manuals.

#### **1.59 Other Supplier**

Other Supplier shall mean a Member that is (i) a seller, buyer or transmitter of electric capacity or energy in, from or through the PJM Region, and (ii) is not a Generation Owner, Electric Distributor, Transmission Owner or End-Use Customer.

#### **1.60 Partial Requirements Service**

Partial Requirements Service shall mean wholesale service to supply a specified portion, but not all, of the power needs of a Load Serving Entity to serve end-users within the PJM Region that are not satisfied by its own generating facilities.

#### **1.61 Percentage Internal Resources Required**

Percentage Internal Resources Required shall mean, for purposes of an FRR Capacity Plan, the percentage of the LDA Reliability Requirement for an LDA that must be satisfied with Capacity Resources located in such LDA.

#### **1.62 Party**

Party shall mean an entity bound by the terms of this Agreement.

#### **1.63 PJM**

PJM shall mean the PJM Board and the Office of the Interconnection.

#### **1.64 PJM Board**

PJM Board shall mean the Board of Managers of the PJM Interconnection, L.L.C., acting pursuant to the Operating Agreement.

#### **1.65 PJM Manuals**

PJM Manuals shall mean the instructions, rules, procedures and guidelines established by the Office of the Interconnection for the operation, planning and accounting requirements of the PJM Region.

#### **1.66 PJM Open Access Transmission Tariff or PJM Tariff**

PJM Open Access Transmission Tariff or PJM Tariff shall mean the tariff for transmission service within the PJM Region, as in effect from time to time, including any schedules, appendices, or exhibits attached thereto.

### **1.67 PJM Region**

PJM Region shall have the same meaning as provided in the Operating Agreement.

### **1.68 PJM Region Installed Reserve Margin**

PJM Region Installed Reserve Margin shall mean the percent installed reserve margin for the PJM Region required pursuant to this Agreement, as approved by the PJM Board pursuant to Schedule 4.1.

### **1.69 Planned Demand Resource**

Planned Demand Resource shall mean any Demand Resource that does not currently have the capability to provide a reduction in demand or to otherwise control load, but that is scheduled to be capable of providing such reduction or control on or before the start of the Delivery Year for which such resource is to be committed, as determined in accordance with the requirements of Schedule 6. As set forth in Schedules 6 and 8.1 of this Agreement, a Demand Resource Provider submitting a DR Sell Offer Plan shall identify as Planned Demand Resources in such plan all Demand Resources in excess of those that qualify as Existing Demand Resources.

#### **1.69A Planned External Generation Capacity Resource**

Planned External Generation Capacity Resource shall mean a proposed Generation Capacity Resource, or a proposed increase in the capability of a Generation Capacity Resource, that (a) is to be located outside the PJM Region, (b) participates in the generation interconnection process of a Control Area external to PJM, (c) is scheduled to be physically and electrically interconnected to the transmission facilities of such Control Area on or before the first day of the Delivery Year for which such resource is to be committed to satisfy the reliability requirements of the PJM Region, and (d) is in full commercial operation prior to the first day of such Delivery Year, such that it is sufficient to provide the Installed Capacity set forth in the Sell Offer forming the basis of such resource's commitment to the PJM Region. Prior to participation in any Reliability Pricing Model Auction for such Delivery Year, the Capacity Market Seller must demonstrate that it has executed an interconnection agreement (functionally equivalent to a System Impact Study Agreement under the PJM Tariff for Base Residual Auction and an Interconnection Service Agreement under the PJM Tariff for Incremental Auction) with the transmission owner to whose transmission facilities or distribution facilities the resource is being directly connected, and if applicable the transmission provider. A Planned External Generation Capacity Resource must provide evidence to PJM that it has been studied as a Network Resource, or such other similar interconnection product in such external Control Area, must provide contractual evidence that it has applied for or purchased transmission service to be deliverable to the PJM border, and must provide contractual evidence that it has applied for transmission service to be deliverable to the bus at which energy is to be delivered, the agreements for which must have been executed prior to participation in any Reliability Pricing Model Auction for such Delivery Year. An External Generation Capacity Resource shall cease to be

considered a Planned External Generation Capacity Resource as of the earlier of (i) the date that interconnection service commences as to such resource; or (ii) the resource has cleared an RPM Auction, in which case it shall become an Existing Generation Capacity Resource for purposes of the mitigation of offers for any RPM Auction for all subsequent Delivery Years.

### **1.70 Planned Generation Capacity Resource**

Planned Generation Capacity Resource shall mean a Generation Capacity Resource participating in the generation interconnection process under Part IV, Subpart A of the PJM Tariff, for which: (i) Interconnection Service is scheduled to commence on or before the first day of the Delivery Year for which such resource is to be committed to RPM or to an FRR Plan; (ii) a System Impact Study Agreement has been executed prior to the Base Residual Auction for such Delivery Year; (iii) an Interconnection Service Agreement has been executed prior to any Incremental Auction for such Delivery Year in which such resource plans to participate; and (iv) no megawatts of capacity have cleared an RPM Auction for any prior Delivery Year. For purposes of the must-offer requirement and mitigation of offers for any RPM Auction for a Delivery Year, a Generation Capacity Resource shall cease to be considered a Planned Generation Capacity Resource as of the earlier of (i) the date that Interconnection Service commences as to such resource; or (ii) the resource has cleared an RPM Auction for any Delivery Year, in which case it shall become an Existing Generation Capacity Resource for any RPM Auction for all subsequent Delivery Years. Notwithstanding the foregoing, a Generation Capacity Resource for which construction has not commenced and which would otherwise have been treated as a Planned Generation Capacity Resource but for the fact that it was bid into RPM Auctions for at least two consecutive Delivery Years, and cleared the last such auction only because it was considered existing and its mitigated offer cap was accepted when its price offer would not have otherwise been accepted, shall be deemed to be a Planned Generation Capacity Resource.

#### **1.70A Planned WLR Load**

Planned WLR Load shall mean any WLR Load that does not currently have the capability to provide a reduction in load or to otherwise control load, but that is scheduled to be capable of providing such reduction or control on or before the start of the Delivery Year for which such load is to be committed, as determined in accordance with the requirements of Schedule 6.2 of this Agreement. As set forth in Schedule 6.2, a WLR Provider shall identify in its WLR Plan as Planned WLR Loads all WLR Loads in excess of those that qualify as Existing WLR Loads.

### **1.71 Planning Period**

Planning Period shall mean the 12 months beginning June 1 and extending through May 31 of the following year, or such other period approved by the Members Committee.

#### **1.71A PRD Curve**



PRD Curve shall mean a price-consumption curve at a PRD Substation level, if available, and otherwise at a Zonal (or sub-Zonal LDA, if applicable) level, that details the base consumption level of Price Responsive Demand and the decreasing consumption levels at increasing prices.

#### **1.71B PRD Provider**

PRD Provider shall mean (i) a Load Serving Entity that provides PRD; or (ii) an entity without direct load serving responsibilities that has entered contractual arrangements with end-use customers served by a Load Serving Entity that satisfy the eligibility criteria for Price Responsive Demand.

#### **1.71C PRD Provider's Zonal Expected Peak Load Value of PRD**

PRD Provider's Zonal Expected Peak Load Value of PRD shall mean the expected contribution to Delivery Year peak load of a PRD Provider's Price Responsive Demand, were such demand not to be reduced in response to price, based on the contribution of the end-use customers comprising such Price Responsive Demand to the most recent prior Delivery Year's peak demand, escalated to the Delivery Year in question, as determined in a manner consistent with the Office of the Interconnection's load forecasts used for purposes of the RPM Auctions.

#### **1.71D PRD Reservation Price**

PRD Reservation Price shall mean an RPM Auction clearing price identified in a PRD Plan for Price Responsive Demand load below which the PRD Provider desires not to commit the identified load as Price Responsive Demand.

#### **1.71E PRD Substation**

PRD Substation shall mean an electrical substation that is located in the same Zone or in the same sub-Zonal LDA as the end-use customers identified in a PRD Plan or PRD registration and that, in terms of the electrical topography of the Transmission Facilities comprising the PJM Region, is as close as practicable to such loads.

#### **1.71F Price Responsive Demand**

Price Responsive Demand or PRD shall mean end-use customer load registered by a PRD Provider pursuant to Schedule 6.1 of the PJM Reliability Assurance Agreement that have, as set forth in more detail in the PJM Manuals, the metering capability to record electricity consumption at an interval of one hour or less, Supervisory Control capable of curtailing such load (consistent with applicable RERRA requirements) at each PRD Substation identified in the relevant PRD Plan or PRD registration in response to a Maximum Generation Emergency declared by the Office of the Interconnection, and a retail rate structure, or equivalent contractual arrangement, capable of changing retail rates as frequently as an hourly basis, that is linked to or based upon changes in real-time Locational Marginal Prices at a PRD Substation level and that results in a predictable automated response to varying wholesale electricity prices.

### **1.71G Price Responsive Demand Credit**

Price Responsive Demand Credit shall mean a credit, based on committed Price Responsive Demand, as determined under Schedule 6.1 of this Agreement.

### **1.71H Price Responsive Demand Plan or PRD Plan**

Price Responsive Demand Plan or PRD Plan shall mean a plan, submitted by a PRD Provider and received by the Office of the Interconnection in accordance with Schedule 6.1 of this Agreement and procedures specified in the PJM Manuals, claiming a peak demand limitation due to Price Responsive Demand to support the determination of such PRD Provider's Nominal PRD Value.

### **1.72 Public Power Entity**

Public Power Entity shall mean any agency, authority, or instrumentality of a state or of a political subdivision of a state, or any corporation wholly owned by any one or more of the foregoing, that is engaged in the generation, transmission, and/or distribution of electric energy.

### **1.73 Qualifying Transmission Upgrades**

Qualifying Transmission Upgrades shall have the meaning specified in Attachment DD to the PJM Tariff.

### **1.74 [Reserved for Future Use]**

### **1.74A Relevant Electric Retail Regulatory Authority**

Relevant Electric Retail Regulatory Authority or RERRA shall have the meaning specified in the PJM Operating Agreement.

### **1.75 Reliability Principles and Standards**

Reliability Principles and Standards shall mean the principles and standards established by NERC or an Applicable Regional Entity to define, among other things, an acceptable probability of loss of load due to inadequate generation or transmission capability, as amended from time to time.

### **1.76 Required Approvals**

Required Approvals shall mean all of the approvals required for this Agreement to be modified or to be terminated, in whole or in part, including the acceptance for filing by FERC and every other regulatory authority with jurisdiction over all or any part of this Agreement.

### **1.77 Self-Supply**

Self Supply shall have the meaning provided in Attachment DD to the PJM Tariff.

#### **1.77A Small Commercial Customer**

“Small Commercial Customer” shall have the same meaning as in the PJM Tariff.

#### **1.78 [Reserved for Future Use]**

#### **1.79 [Reserved for Future Use]**

#### **1.80 State Consumer Advocate**

State Consumer Advocate shall mean a legislatively created office from any State, all or any part of the territory of which is within the PJM Region, and the District of Columbia established, inter alia, for the purpose of representing the interests of energy consumers before the utility regulatory commissions of such states and the District of Columbia and the FERC.

#### **1.81 State Regulatory Structural Change**

State Regulatory Structural Change shall mean as to any Party, a state law, rule, or order that, after September 30, 2006, initiates a program that allows retail electric consumers served by such Party to choose from among alternative suppliers on a competitive basis, terminates such a program, expands such a program to include classes of customers or localities served by such Party that were not previously permitted to participate in such a program, or that modifies retail electric market structure or market design rules in a manner that materially increases the likelihood that a substantial proportion of the customers of such Party that are eligible for retail choice under such a program (a) that have not exercised such choice will exercise such choice; or (b) that have exercised such choice will no longer exercise such choice, including for example, without limitation, mandating divestiture of utility-owned generation or structural changes to such Party’s default service rules that materially affect whether retail choice is economically viable.

##### **1.81.01 Sub-Annual WLR Load Constraint**

Sub-Annual WLR Load Constraint shall have the same meaning as in Attachment DD to the PJM Tariff.

#### **1.81A Supervisory Control**

Supervisory Control shall mean the capability to curtail, in accordance with applicable RERRA requirements, load registered as Price Responsive Demand at each PRD Substation identified in the relevant PRD Plan or PRD registration in response to a Maximum Generation Emergency declared by the Office of the Interconnection. Except to the extent automation is not required by the provisions of this Agreement, the curtailment shall be automated, meaning that load shall be

reduced automatically in response to control signals sent by the PRD Provider or its designated agent directly to the control equipment where the load is located without the requirement for any action by the end-use customer.

### **1.82 Threshold Quantity**

Threshold Quantity shall mean, as to any FRR Entity for any Delivery Year, the sum of (a) the Unforced Capacity equivalent (determined using the Pool-Wide Average EFORD) of the Installed Reserve Margin for such Delivery Year multiplied by the Preliminary Forecast Peak Load for which such FRR Entity is responsible under its FRR Capacity Plan for such Delivery Year, plus (b) the lesser of (i) 3% of the Unforced Capacity amount determined in (a) above or (ii) 450 MW. If the FRR Entity is not responsible for all load within a Zone, the Preliminary Forecast Peak Load for such entity shall be the FRR Entity's Obligation Peak Load last determined prior to the Base Residual Auction for such Delivery Year, times the Base FRR Scaling Factor (as determined in accordance with Schedule 8.1).

### **1.83 Transmission Facilities**

Transmission Facilities shall mean facilities that: (i) are within the PJM Region; (ii) meet the definition of transmission facilities pursuant to FERC's Uniform System of Accounts or have been classified as transmission facilities in a ruling by FERC addressing such facilities; and (iii) have been demonstrated to the satisfaction of the Office of the Interconnection to be integrated with the PJM Region transmission system and integrated into the planning and operation of the PJM Region to serve all of the power and transmission customers within the PJM Region.

### **1.84 Transmission Owner**

Transmission Owner shall mean a Member that owns or leases with rights equivalent to ownership Transmission Facilities. Taking transmission service shall not be sufficient to qualify a Member as a Transmission Owner.

### **1.85 Transmission Owners Agreement**

Transmission Owners Agreement shall mean that certain Consolidated Transmission Owners Agreement, dated as of December 15, 2005 and as amended from time to time, among transmission owners within the PJM Region.

### **1.86 Unforced Capacity**

Unforced Capacity shall mean installed capacity rated at summer conditions that is not on average experiencing a forced outage or forced derating, calculated for each Capacity Resource on the 12-month period from October to September without regard to the ownership of or the contractual rights to the capacity of the unit.

### **1.87 ~~[Reserved for Future Use]~~WEEL Provider**

WEEL Provider shall mean a Wholesale Entity that commits to provide, or provides, a Wholesale Energy Efficiency Load for a Delivery Year.

#### **1.87A Wholesale Energy Efficiency Load or WEEL**

Wholesale Energy Efficiency Load or WEEL shall mean a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6.2 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak periods as described in Schedule 6.2 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the WEEL is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.

#### **1.87B Wholesale Entity**

Wholesale Entity shall mean: (i) a Party; or, (ii) an entity that shall become a Party before or during the Delivery Year for which WLR is identified.

#### **1.87C Wholesale Load Reduction or WLR**

Wholesale Load Reduction or WLR shall mean a commitment by a Load Serving Entity to reduce the load served or to be served by such Load Serving Entity during a pre-emergency or emergency action at the request of the Office of the Interconnection.

#### **1.87D WLR Bid**

WLR Bid shall mean a bid submitted in a Base Residual Auction to provide a Wholesale Load Reduction or a Wholesale Energy Efficiency Load.

#### **1.87E WLR Bid Price**

WLR Bid Price shall mean a specified minimum clearing price in an RPM Auction at which a WLR Provider or WEEL Provider is willing to commit a Wholesale Load Reduction or a Wholesale Energy Efficiency Load.

#### **1.87F WLR Load**

WLR Load shall mean identified load served or to be served by a Load Serving Entity that provides the basis for a Wholesale Load Reduction reflected in a WLR Bid by such Load Serving Entity.

#### **1.87G WLR Provider**

WLR Provider shall mean a Wholesale Entity that commits to provide, or provides, a Wholesale Load Reduction by any WLR Load.

### **1.87H WLR Value**

WLR Value shall mean the value assigned to a Wholesale Load Reduction or to a Wholesale Energy Efficiency Load in the auction in which it is committed, as determined in accordance with Schedule 6.2 of this Agreement.

### **1.88 Zonal Capacity Price**

Zonal Capacity Price shall mean the price of Unforced Capacity in a Zone that an LSE that has not elected the FRR Alternative is obligated to pay for a Delivery Year as determined pursuant to Attachment DD to the PJM Tariff.

### **1.89 Zone or Zonal**

Zone or Zonal shall refer to an area within the PJM Region, as set forth in Schedule 15, or as such areas may be (i) combined as a result of mergers or acquisitions or (ii) added as a result of the expansion of the boundaries of the PJM Region. A Zone shall include any Non-Zone Network Load (as defined in the PJM Tariff) located outside the PJM Region that is served from such Zone under Schedule H-A of the PJM Tariff.

## SCHEDULE 6

### **PROCEDURES FOR DEMAND RESOURCES AND ENERGY EFFICIENCY**

Notwithstanding any other provision of this Schedule 6, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

A. Parties can partially or wholly offset the amounts payable for the Locational Reliability Charge with Demand Resources that are operated under the direction of the Office of the Interconnection. FRR Entities may reduce their capacity obligations with Demand Resources that are operated under the direction of the Office of the Interconnection and detailed in such entity's FRR Capacity Plan. Demand Resources qualifying under the criteria set forth below may be offered for sale or designated as Self-Supply in the Base Residual Auction, included in an FRR Capacity Plan, or offered for sale in any Incremental Auction, for any Delivery Year for which such resource qualifies. Qualified Demand Resources generally fall in one of three categories, i.e., Guaranteed Load Drop, Firm Service Level, or Direct Load Control, as further specified in section G and the PJM Manuals. Qualified Demand Resources may be provided by a Curtailment Service Provider, notwithstanding that such Curtailment Service Provider is not a Party to this Agreement. Such Curtailment Service Providers must satisfy the requirements hereof and the PJM Manuals.

1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and section F hereof, as applicable, the Office of the Interconnection of the Demand Resource that it is placing under the direction of the Office of the Interconnection. A Party must further notify the Office of the Interconnection whether the resource is a Limited Demand Resource, an Extended Summer Demand Resource or an Annual Demand Resource.

2. A Demand Resource must achieve its full load reduction within the following time period:

(a) For the 2014/2015 Delivery Year, Curtailment Service Providers may elect a notification time period from the Office of the Interconnection of 30, 60 or 120 minutes prior to their Demand Resources being required to fully respond to a Load Management Event.

(b) For the 2015/2016 Delivery Year and subsequent Delivery Years, a Demand Resource must be able to fully respond to a Load Management Event within 30 minutes of notification from the Office of the Interconnection. This default 30 minute prior notification shall apply unless a Curtailment Service Provider obtains an exception from the Office of the Interconnection due to physical operational limitations that prevent the Demand Resource from reducing load within that timeframe. In such case, the Curtailment Service Provider shall submit a request for an exception to the 30 minute prior notification requirement to the Office of the Interconnection, at the time the Registration Form for that resource is submitted in accordance with Attachment K-Appendix of this Tariff. The only alternative notification times that the Office of

Interconnection will permit, upon approval of an exception request, are 60 minutes and 120 minutes prior to a Load Management Event. The Curtailment Service Provider shall indicate in writing, in the appropriate application, that it seeks an exception to permit a prior notification time of 60 minutes or 120 minutes, and the reason(s) for the requested exception. A Curtailment Service Provider shall not submit a request for an exception to the default 30 minute notification period unless it has done its due diligence to confirm that the Demand Resource is physically incapable of responding within that timeframe based on one or more of the reasons set forth below and as may be further defined in the PJM Manuals and has obtained detailed data and documentation to support this determination.

In order to establish that a Demand Resource is reasonably expected to be physically unable to reduce load in that timeframe, the Curtailment Service Provider that registered the resource must demonstrate that:

1) The manufacturing processes for the Demand Resource require gradual reduction to avoid damaging major industrial equipment used in the manufacturing process, or damage to the product generated or feedstock used in the manufacturing process;

2) Transfer of load to back-up generation requires time-intensive manual process taking more than 30 minutes;

3) On-site safety concerns prevent location from implementing reduction plan in less than 30 minutes; or,

4) The Demand Resource is comprised of mass market residential customers or Small Commercial Customers which collectively cannot be notified of a Load Management Event within a 30-minute timeframe due to unavoidable communications latency, in which case the requested notification time shall be no longer than 120 minutes.

The Office of the Interconnection may request data and documentation from the Curtailment Service Provider and such Curtailment Service Provider shall provide to the Office of the Interconnection within three (3) business days of a request therefor, a copy of all of the data and documentation supporting the exception request. Failure to provide a timely response to such request shall cause the exception to terminate the following Operating Day.

At its sole option and discretion, the Office of the Interconnection may review the data and documentation provided by the Curtailment Service Provider to determine if the Demand Resource has met one or more of the criteria above. The Office of the Interconnection will notify the Curtailment Service Provider in writing of its determination by no later than ten (10) business days after receipt of the data and documentation.

The Curtailment Service Provider shall provide written notification to the Office of the Interconnection of a material change to the facts that supported its exception request within three (3) business days of becoming aware of such material change in facts, and, if the Office of Interconnection determines that the physical limitation criteria above are no longer being met, the Demand Resource shall be subject to the default notification period of 30 minutes immediately upon such determination.



3. The initiation of load reduction, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.

4. The initiation of load reduction upon the request of the Office of the Interconnection is considered a pre-emergency or emergency action and must be implementable prior to a voltage reduction.

5. A Curtailment Service Provider intending to offer for sale or designate for self-supply, a Demand Resource in any RPM Auction, or intending to include a Demand Resource in any FRR Capacity Plan must demonstrate, to PJM's satisfaction, that such resource shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such resource is committed. As part of such demonstration, each such Curtailment Service Provider shall submit a Demand Resource Sell Offer Plan in accordance with the standards and procedures set forth in section A-1 of Schedule 6, Schedule 8.1 (as to FRR Capacity Plans) and the PJM Manuals, no later than 15 business days prior to, as applicable, the RPM Auction in which such resource is to be offered, or the deadline for submission of the FRR Capacity Plan in which such resource is to be included. PJM may verify the Curtailment Service Provider's adherence to the Demand Resource Sell Offer Plan at any time. A Curtailment Service Provider with a PJM-approved Demand Resource Sell Offer Plan will be permitted to offer up to the approved Demand Resource quantity into the subject RPM Auction or include such resource in its FRR Capacity Plan.

6. Selection of a Demand Resource in an RPM Auction results in commitment of capacity to the PJM Region. Demand Resources that are so committed must be registered to participate in the Full Program Option or as a Capacity Only resource of the Emergency Load Response and Pre-Emergency Load Response Program and thus available for dispatch during PJM-declared pre-emergency events and emergency events.

A-1. A Demand Resource Sell Offer Plan shall consist of a completed template document in the form posted on the PJM website, requiring the information set forth below and in the PJM Manuals, and a Demand Resource Officer Certification Form signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification. The Demand Resource Sell Offer Plan must provide information that supports the Demand Resource Provider's intended Demand Resource Sell Offers and demonstrates that the Demand Resources are being offered with the intention that the MW quantity that clears the auction is reasonably expected to be physically delivered through Demand Resource registrations for the relevant Delivery Year. The Demand Resource Sell Offer Plan shall include all Existing Demand Resources and all Planned Demand Resources that the Demand Resource Provider intends to offer into an RPM Auction or include in an FRR Capacity Plan.

1. Demand Resource Sell Offer Plan Template. The Demand Resource Sell Offer Plan template, in the form provided on the PJM website, shall require the Demand Resource Provider to provide the following information and such other information as specified in the PJM Manuals:

(a) Summary Information. The completed template shall include the Demand Resource Provider's company name, contact information, and the Nominated DR Value in ICAP MWs by Zone/sub-Zone that the Demand Resource Provider intends to offer, stated separately for Existing Demand Resources and Planned Demand Resources. The total Nominated DR Value in MWs for each Zone/sub-Zone shall be the sum of the Nominated DR Value of Existing Demand Resources and the Nominated DR Value of Planned Demand Resources, and shall be the maximum MW amount the Provider intends to offer in the RPM Auction for the indicated Zone/sub-Zone, provided that nothing herein shall preclude the Demand Resource Provider from offering in the auction a lesser amount than the total Nominated DR Value shown in its Demand Resource Sell Offer Plan.

(b) Existing Demand Resources. The Demand Resource Provider shall identify all Existing Demand Resources by identifying end-use customer sites that are currently registered with PJM (even if not registered by such Demand Resource Provider) and that the Demand Resource Provider reasonably expects to have under a contract to reduce load based on PJM dispatch instructions by the start of the auction Delivery Year.

(c) Planned Demand Resources. The Demand Resource Provider shall provide the details of, and key assumptions underlying, the Planned Demand Resource quantities (i.e., all Demand Resource quantities in excess of Existing Demand Resource quantities) contained in the Demand Resource Sell Offer Plan, including:

(i) key program attributes and assumptions used to develop the Planned Demand Resource quantities, including, but not limited to, discussion of:

- method(s) of achieving load reduction at customer site(s);
- equipment to be controlled or installed at customer site(s), if any;
- plan and ability to acquire customers;
- types of customer targeted;
- support of market potential and market share for the target customer base, with adjustments for Existing Demand Resource customers within this market and the potential for other Demand Resource Providers targeting the same customers;
- assumptions regarding regulatory approval of program(s), if applicable; and
- if applicable, Direct Load Control (DLC) program details such as: a description of the cycling control strategy, any assumptions regarding switch operability rate, and a list (and copy) of all load research studies used to develop the estimated nominated ICAP value per customer (i.e., the per-participant impact).

(ii) Zone/sub-Zone information by end-use customer segment for all Nominated DR Values for which an end-use customer site is not identified, to include the number in each segment of end-use customers expected to be registered for the subject Delivery Year, the average Peak

Load Contribution per end-use customer for such segment, and the average Nominated DR Value per customer for such segment. End-use customer segments may include residential, commercial, small industrial, medium industrial, and large industrial, as identified and defined in the PJM Manuals, provided that nothing herein or in the Manuals shall preclude the Provider from identifying more specific customer segments within the commercial and industrial categories, if known.

(iii) Information by end-use customer site to the extent required by subsection A-1(1)(c)(iv) or, if not required by such subsection, to the extent known at the time of the submittal of the Demand Resource Sell Offer Plan, to include: customer EDC account number (if known), customer name, customer premise address, Zone/sub-Zone in which the customer is located, end-use customer segment, current Peak Load Contribution value (or an estimate if actual value not known) and an estimate of expected Peak Load Contribution for the subject Delivery Year, and an estimated Nominated DR Value.

(iv) End-use customer site-specific information shall be required for any Zones or sub-Zones identified by PJM pursuant to this subsection for the portion, if any, of a Demand Resource Provider's intended offer in such Zones or sub-Zones that exceeds a Sell Offer threshold determined pursuant to this subsection, as any such excess quantity under such conditions should reflect Planned Demand Resources from end-use customer sites that the Provider has a high degree of certainty it will physically deliver for the subject Delivery Year. In accordance with the procedures in subsection A-1(3) below, PJM shall identify, as requiring site-specific information, all Zones and sub-Zones that comprise any LDA group (from a list of LDA groups stated in the PJM Manuals) in which [the quantity of cleared Demand Resources from the most recent Base Residual Auction] plus [the quantity of Demand Resources included in FRR Capacity Plans for the Delivery Year addressed by the most recent Base Residual Auction] in any Zone or sub-Zone of such LDA group exceeds the greater of:

- the maximum Demand Resources quantity registered with PJM for such Zone for any Delivery Year from the current (at time of plan submission) Delivery Year and the two preceding Delivery Years; and
- the potential Demand Resource quantity for such Zone estimated by PJM based on an independent published assessment of demand response potential that is reasonably applicable to such Zone, as identified in the PJM Manuals.

For each such Zone and sub-Zone, the Sell Offer threshold for each Demand Resource Provider shall be the higher of:

- the Demand Resource Provider's maximum Demand Resource quantity registered with PJM for such Zone/sub-Zone over the current Delivery Year (at the time of plan submission) and two preceding Delivery Years;
- the Demand Resource Provider's maximum for any single Delivery Year of [such provider's cleared Demand Resource quantity] plus [such provider's quantity of Demand Resources included in FRR Capacity Plans] from the three forward Delivery Years addressed by the three most recent Base Residual Auctions for such Zone/sub-Zone; and
- 10 MW.

(d) Schedule. The Demand Resource Provider shall provide an approximate timeline for procuring end-use customer sites as needed to physically deliver the total Nominated DR Value (for both Existing Demand Resources and Planned Demand Resources) by Zone/sub-Zone in the Demand Resource Sell Offer Plan. The Demand Resource Provider must specify the cumulative number of customers and the cumulative Nominated DR Value associated with each end-use customer segment within each Zone/sub-Zone that the Demand Resource Provider expects (at the time of plan submission) to have under contract as of June 1 each year between the time of the auction and the subject Delivery Year.

2. Demand Resource Officer Certification Form. Each Demand Resource Sell Offer Plan must include a Demand Resource Officer Certification, signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification, in the form shown in the PJM Manuals, which form shall include the following certifications:

(a) that the signing officer has reviewed the Demand Resource Sell Offer Plan and the information supplied to PJM in support of the Plan is true and correct as of the date of the certification; and

(b) that the Demand Resource Provider is submitting the Plan with the reasonable expectation, based upon its analyses as of the date of the certification, to physically deliver all megawatts that clear the RPM Auction through Demand Resource registrations by the specified Delivery Year.

As set forth in the form provided in the PJM manuals, the certification shall specify that it does not in any way abridge, expand, or otherwise modify the current provisions of the PJM Tariff, Operating Agreement and/or RAA, or the Demand Resource Provider's rights and obligations thereunder, including the Demand Resource Provider's ability to adjust capacity obligations through participation in PJM incremental auctions and bilateral transactions.

3. Procedures. No later than December 1 prior to the Base Residual Auction for a Delivery Year, PJM shall post to the PJM website a list of Zones and sub-Zones, if any, for which end-use customer site-specific information shall be required under the conditions specified in subsection A-1(1)(c)(iv) above for all RPM Auctions conducted for such Delivery Year. Once so identified, a Zone or sub-Zone shall remain on the list for future Delivery Years until the threshold determined under subsection A-1(1)(c)(iv) above is not exceeded for three consecutive Delivery Years. No later than 15 business days prior to the RPM Auction in which a Demand Resource Provider intends to offer a Demand Resource, the Demand Resource Provider shall submit to PJM a completed Demand Resource Sell Offer Plan template and a Demand Resource Officer Certification Form signed by a duly authorized officer of the Provider. PJM will review all submitted DR Sell Offer Plans. No later than 10 business days prior to the subject RPM Auction, PJM shall notify any Demand Resource Providers that have identified the same end-use customer site(s) in their respective DR Sell Offer Plans for the same Delivery Year. In such event, the MWs associated with such site(s) will not be approved for inclusion in a Sell Offer in an RPM Auction by any of the Demand Resource Providers, unless a Demand Resource Provider provides a letter of support from the end-use customer indicating that it is likely to execute a contract with that Demand Resource Provider for the relevant Delivery Year, or provides other comparable evidence of likely commitment. Such letter of support or other supporting evidence must be provided to PJM no later than 7 business days prior to the subject RPM Auction. If an end-use customer provides letters of support for the same site for the same Delivery Year to multiple Demand Resource Providers, the MWs associated with such end-use customer site shall not be approved as a Demand Resource for any of the Demand Resource Providers. No later than 5 business days prior to the subject RPM Auction, PJM will notify each Demand Resource Provider of the approved Demand Resource quantity, by Zone/sub-Zone, that such Demand Resource Provider is permitted to offer into such RPM Auction.

B. The Unforced Capacity value of a Demand Resource will be determined as:

the product of the Nominated Value of the Demand Resource, times the DR Factor, times the Forecast Pool Requirement. Nominated Values shall be determined and reviewed in accordance with sections I and J, respectively, and the PJM Manuals. The DR Factor is a factor established by the PJM Board with the advice of the Members Committee to reflect the increase in the peak load carrying capability in the PJM Region due to Demand Resources. Peak load carrying capability is defined to be the peak load that the PJM Region is able to serve at the loss of load expectation defined in the Reliability Principles and Standards. The DR Factor is the increase in the peak load carrying capability in the PJM Region due to Demand Resources, divided by the total Nominated Value of Demand Resources in the PJM Region. The DR Factor will be determined using an analytical program that uses a probabilistic approach to determine reliability. The determination of the DR Factor will consider the reliability of Demand Resources, the number of interruptions, and the total amount of load reduction.

C. Demand Resources offered and cleared in a Base Residual or Incremental Auction shall receive the corresponding Capacity Resource Clearing Price as determined in such auction, in accordance with Attachment DD of the PJM Tariff. For Delivery Years beginning with the Delivery Year that commences on June 1, 2013, any Demand

Resources located in a Zone with multiple LDAs shall receive the Capacity Resource Clearing Price applicable to the location of such resource within such Zone, as identified in such resource's offer. Further, the Curtailment Service Provider shall register its resource in the same location within the Zone as specified in its cleared sell offer, and shall be subject to deficiency charges under Attachment DD of this Tariff to the extent it fails to provide the resource in such location consistent with its cleared offer. For either of the Delivery Year commencing on June 1, 2010 or commencing on June 1, 2012, if the location of a Demand Resource is not specified by a Seller in the Sell Offer on an individual LDA basis in a Zone with multiple LDAs, then Demand Resources cleared by such Seller will be paid a DR Weighted Zonal Resource Clearing Price, determined as follows: (i) for a Zone that includes non-overlapping LDAs, calculated as the weighted average of the Resource Clearing Prices for such LDAs, weighted by the cleared Demand Resources registered by such Seller in each such LDA; or (ii) for a Zone that contains a smaller LDA within a larger LDA, calculated treating the smaller LDA and the remaining portion of the larger LDA as if they were separate LDAs, and weight-averaging in the same manner as (i) above.

- D. The Party, Electric Distributor, or Curtailment Service Provider that establishes a contractual relationship (by contract or tariff rate) with a customer for load reductions is entitled to receive the compensation specified in section C for a committed Demand Resource, notwithstanding that such provider is not the customer's energy supplier.
- E. Any Party hereto shall demonstrate that its Demand Resources performed during periods when load management procedures were invoked by the Office of the Interconnection. The Office of the Interconnection shall adopt and maintain rules and procedures for verifying the performance of such resources, as set forth in section K hereof and the PJM Manuals. In addition, committed Demand Resources that do not comply with the directions of the Office of the Interconnection to reduce load during an emergency shall be subject to the penalty charge set forth in Attachment DD to the PJM Tariff.
- F. Parties may elect to place Demand Resources associated with Behind The Meter Generation under the direction of the Office of the Interconnection for a Delivery Year by submitting a Sell Offer for such resource (as Self Supply, or with an offer price) in the Base Residual Auction for such Delivery Year. This election shall remain in effect for the entirety of such Delivery Year. In the event such an election is made, such Behind The Meter Generation will not be netted from load for the purposes of calculating the Daily Unforced Capacity Obligations under this Agreement.
- G. PJM measures Demand Resources in the following three ways:

Direct Load Control (DLC) – Load management that is initiated directly by the Curtailment Service Provider's market operations center or its agent, employing a communication signal to cycle equipment (typically water heaters or central air conditioners). DLC programs are qualified based on load research and customer subscription data. Curtailment Service Providers may rely on the results of load research studies identified in the PJM Manuals to set the per-participant load reduction for DLC

programs. Each Curtailment Service Provider relying on DLC load management must periodically update its DLC switch operability rates, in accordance with the PJM Manuals.

Firm Service Level (FSL) – Load management achieved by an end-use customer reducing its load to a pre-determined level (the Firm Service Level), upon notification from the Curtailment Service Provider’s market operations center or its agent.

Guaranteed Load Drop (GLD) – Load management achieved by an end-use customer reducing its load by a pre-determined amount (the Guaranteed Load Drop), upon notification from the Curtailment Service Provider’s market operations center or its agent. Typically, the load reduction is achieved through running customer-owned backup generators, or by shutting down process equipment.

- H. Each Curtailment Service Provider must satisfy (or contract with another LSE, Curtailment Service Provider, or electric distribution company to provide) the following requirements:
- A point of contact with appropriate backup to ensure single call notification from PJM and timely execution of the notification process;
  - Supplemental status reports, detailing Demand Resources available, as requested by PJM;
  - Entry of customer-specific Demand Resource credit information, for planning and verification purposes, into the designated PJM electronic system.
  - Customer-specific compliance and verification information for each PJM-initiated Demand Resource event, as well as aggregated Provider load drop data for Provider-initiated events, in accordance with established reporting guidelines.
  - Load drop estimates for all Demand Resource events, prepared in accordance with the PJM Manuals.
- I. The Nominated Value of each Demand Resource shall be determined consistent with the process for determination of the capacity obligation for the customer.

The Nominated Value for a Firm Service Level customer will be based on the peak load contribution for the customer, as determined by the 5CP methodology utilized to determine other ICAP obligation values. The maximum Demand Resource load reduction value for a Firm Service Level customer will be equal to Peak Load Contribution – Firm Contract Level adjusted for system losses.

The Nominated Value for a Guaranteed Load Drop customer will be the guaranteed load drop amount, adjusted for system losses, as established by the customer’s contract with the Curtailment Service Provider. The maximum credit nominated shall not exceed the customer’s Peak Load Contribution.

The Nominated Value for a Direct Load Control program will be based on load research and customer subscription. The maximum value of the program is equal to the approved per-participant load reduction multiplied by the number of active participants, adjusted for system losses. The per-participant impact is to be estimated at long-term average local weather conditions at the time of the summer peak.

Customer-specific Demand Resource information (EDC account number, peak load, notification period, etc.) will be entered into the designated PJM electronic system to establish credit values. Additional data may be required, as defined in sections J and K.

- J. Nominated Values shall be reviewed based on documentation of customer-specific data and Demand Resource information, to verify the amount of load management available and to set a maximum allowable Nominated Value. Data is provided by both the zone EDC and the Curtailment Service Provider on templates supplied by PJM, and must include the EDC meter number or other unique customer identifier, Peak Load Contribution (5CP), contract firm service level or guaranteed load drop values, applicable loss factor, zone/area location of the load drop, LSE contact information, number of active participants, etc. Such data must be uploaded and approved prior to the first day of the Delivery Year for such resource as a Demand Resource. Curtailment Service Providers must provide this information concurrently to host EDCs.

For Firm Service Level and Guaranteed Load Drop customers, the 5CP values, for the zone and affected customers, will be adjusted to reflect an “unrestricted” peak for a zone, based on information provided by the Curtailment Service Provider. Load drop levels shall be estimated in accordance with guidelines in the PJM Manuals.

For Direct Load Control programs, the Curtailment Service Provider must provide information detailing the number of active participants in each program. Other information on approved DLC programs will be provided by PJM.

- K. Compliance is the process utilized to review Provider performance during PJM-initiated Demand Resource events. Compliance will be established for each Provider on an event specific basis for the Curtailment Service Provider’s Demand Resources dispatched by the Office of the Interconnection during such event. PJM will establish and communicate reasonable deadlines for the timely submittal of event data to expedite compliance reviews. Compliance reviews will be completed as soon after the event as possible, with the expectation that reviews of a single event will be completed within two months of the end of the month in which the event took place. Curtailment Service Providers are responsible for the submittal of compliance information to PJM for each PJM-initiated event during the compliance period.

Compliance for Direct Load Control programs will consider only the transmission of the control signal. Curtailment Service Providers are required to report the time period (during the Demand Resource event) that the control signal was actually sent.



Compliance is checked on an individual customer basis for FSL, by comparing actual load during the event to the firm service level. Curtailment Service Providers must submit actual customer load levels (for the event period) for the compliance report. Compliance for FSL will be based on:

End use customer's current Delivery Year peak load contribution ("PLC") minus the metered load ("Load") multiplied by the loss factor ("LF"). The calculation is represented by:

$$(PLC) - (Load * LF)$$

Compliance is checked on an individual customer basis for GLD, and will be based on:

- (i) the lesser of (a) comparison load used to best represent what the load would have been if PJM did not declare a Load Management Event or the CSP did not initiate a test as outlined in the PJM Manuals, minus the Load and then multiplied by the LF, or (b) the PLC minus the Load multiplied by the LF. A load reduction will only be recognized for capacity compliance if the Load multiplied by the LF is less than the PLC.
- (iii) Curtailment Service Providers must submit actual loads and comparison loads for all hours during the day of the Load Management Event or the Load Management performance test, and for all hours during any other days as required by the Office of the Interconnection to calculate the load reduction. Comparison loads must be developed from the guidelines in the PJM Manuals, and note which method was employed.

Compliance is averaged over the Load Management Event for non-interval metered DLC programs. Compliance is averaged over the Load Management Event, for each FSL and GLD customer dispatched by the Office of the Interconnection for at least 30 minutes of the clock hour (i.e., "partial dispatch compliance hour". The registered capacity commitment for the partial dispatch compliance hour will be prorated based on the number of minutes dispatched during the clock hour and as defined in the Manual. Curtailment Service Provider may submit 1 minute load data for use in capacity compliance calculations for partial dispatch compliance hours subject to PJM approval and in accordance with the PJM Manuals where: (a) metering meets all Tariff and Manual requirements, (b) 1 minute load data shall be submitted to PJM for all locations on the registration, and (c) 1 minute load data measures energy consumption over the minute.

Demand Resources may not reduce their load below zero (i.e., export energy into the system). No compliance credit will be given for an incremental load drop below zero. Compliance will be totaled over all FSL and GLD customers and DLC programs to determine a net compliance position for the event for each Provider by Zone, for all Demand Resources committed by such Provider and dispatched by the Office of the Interconnection in the zone. Deficiencies shall be as further determined in accordance with section 11 of Schedule DD to the PJM Tariff.

L. Energy Efficiency Resources

1. An Energy Efficiency Resource is a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak periods as described herein) reduction in electric energy consumption at the End-Use Customer's retail site that is not reflected in the peak load forecast prepared for the Delivery Year for which the Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.
2. An Energy Efficiency Resource may be offered as a Capacity Resource in the Base Residual or Incremental Auctions for any Delivery Year beginning on or after June 1, 2011. No later than 30 days prior to the auction in which the resource is to be offered, the Capacity Market Seller shall submit to the Office of the Interconnection a notice of intent to offer the resource into such auction and a measurement and verification plan. The notice of intent shall include all pertinent project design data, including but not limited to the peak-load contribution of affected customers, a full description of the equipment, device, system or process intended to achieve the load reduction, the load reduction pattern, the project location, the project development timeline, and any other relevant data. Such notice also shall state the seller's proposed Nominated Energy Efficiency Value, which shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday. The measurement and verification plan shall describe the methods and procedures, consistent with the PJM Manuals, for determining the amount of the load reduction and confirming that such reduction is achieved. The Office of the Interconnection shall determine, upon review of such notice, the Nominated Energy Efficiency Value that may be offered in the Reliability Pricing Model Auction.
3. An Energy Efficiency Resource may be offered with a price offer or as Self-Supply. If an Energy Efficiency Resource clears the auction, it shall receive the applicable Capacity Resource Clearing Price, subject to section 5 below. A Capacity Market Seller offering an Energy Efficiency Resource must comply with all applicable credit requirements as set forth in Attachment Q to the PJM Tariff. The Unforced Capacity value of an Energy Efficiency Resource offered into an RPM Auction shall be the Nominated Energy Efficiency value times the DR Factor and the Forecast Pool Requirement.
4. An Energy Efficiency Resource that clears an auction for a Delivery Year may be offered in auctions for up to three additional consecutive Delivery Years, but shall not be assured of clearing in any such auction; provided, however, an Energy Efficiency Resource may not be offered for any Delivery Year in which any part

of the peak season is beyond the expected life of the equipment, device, system, or process providing the expected load reduction; and provided further that a Capacity Market Seller that offers and clears an Energy Efficiency Resource in a BRA may elect a New Entry Price Adjustment on the same terms as set forth in section 5.14(c) of this Attachment DD.

5. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than 30 days prior to each Auction an updated project status and measurement and verification plan subject to the criteria set forth in the PJM Manuals.
6. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than the start of such Delivery Year, an updated project status and detailed measurement and verification data meeting the standards for precision and accuracy set forth in the PJM Manuals. The final value of the Energy Efficiency Resource during such Delivery Year shall be as determined by the Office of the Interconnection based on the submitted data.
7. The Office of the Interconnection may audit, at the Capacity Market Seller's expense, any Energy Efficiency Resource committed to the PJM Region. The audit may be conducted any time including the Performance Hours of the Delivery Year.

## SCHEDULE 6.2

### WHOLESALE LOAD REDUCTION COMMITMENT

A. Overview. As more fully set forth in this Schedule 6.2 and the PJM Manuals, for the 2018/2019 Delivery Year and subsequent Delivery Years, any Wholesale Entity may submit one or more WLR Bids in a Base Residual Auction to reduce WLR Load by a specified quantity during pre-emergency or emergency actions or to provide a specific quantity of continuous reduction in electric energy consumption during peak periods through a Wholesale Energy Efficiency Load. A Wholesale Entity intending to submit a WLR Bid into an RPM Auction shall provide a WLR Plan to calculate and support the Nominated WLR Quantity, by Zone or sub-Zonal LDA, it proposes to specify in its WLR Bid. WLR Load may only be bid into a Base Residual Auction. In any such Base Residual Auction, the Office of the Interconnection shall shift to the left the Variable Resource Requirement Curve for the PJM Region or a Locational Deliverability Area, as applicable, to reflect the Nominated WLR Quantity, Nominated WEEL Quantity, and WLR Bid Price of any WLR Bids for the PJM Region or such LDA, as applicable, in such RPM Auction. Each such leftward shift shall begin at the price point on the VRR Curve corresponding to the WLR Bid Price of the WLR Bid, and shall uniformly shift the VRR Curve to the left in the amount of the combined sum of the Nominated WLR Quantity and Nominated WEEL Quantity times FPR at that price point and all higher price points. All WLR Bids with WLR Bid Prices at or below the Capacity Resource Clearing Price will clear in a Base Residual Auction, subject to applicable WLR Load Constraints. WLR commitments of qualified WLR Load shall be measured by Firm Service Level or Direct Load Control, as further specified below and the PJM Manuals. Any WLR Provider that commits such WLR Load in an RPM Auction, but fails fully to honor its WLR commitments for a Delivery Year shall be assessed compliance charges as more fully set forth in sections Q, R, and S below.

B. WLR Obligations. WLR Load qualifying under the criteria set forth in this Schedule 6.2 may be bid into the Base Residual Auction, for any Delivery Year for which such WLR Load qualifies.

1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and section G hereof, as applicable, the Office of the Interconnection of the WLR Load that it is placing under the direction of the Office of the Interconnection. A Party must further notify the Office of the Interconnection whether the WLR Load is a Limited WLR Load, an Extended Summer WLR Load, or an Annual WLR Load.

2. WLR Load must be able to fully respond to a pre-emergency or emergency action within 30 minutes of notification from the Office of the Interconnection. This default 30 minute prior notification shall apply unless a WLR Provider obtains an exception from the Office of the Interconnection due to physical operational limitations that prevent any identified portion of the WLR Load from reducing load within that timeframe. In such case, the WLR Provider shall submit a request for an exception to the 30 minute prior notification requirement to the Office of the Interconnection, in accordance with deadlines specified in the PJM Manuals. The only alternative notification times that the Office of Interconnection will permit, upon approval of an exception request, are 60 minutes and 120 minutes prior to a pre-emergency or emergency action. The WLR Provider shall indicate in writing, in the appropriate

application, that it seeks an exception to permit a prior notification time of 60 minutes or 120 minutes, and the reason(s) for the requested exception. A WLR Provider shall not submit a request for an exception to the default 30 minute notification period unless it has done its due diligence to confirm that the identified portion of the WLR Load is physically incapable of responding within that timeframe based on one or more of the reasons set forth below and as may be further defined in the PJM Manuals and has obtained detailed data and documentation to support this determination.

In order to establish that any identified portion of a WLR Load is reasonably expected to be physically unable to reduce load in that timeframe, the WLR Provider that registered the load must demonstrate that:

1) The manufacturing processes for such load require gradual reduction to avoid damaging major industrial equipment used in the manufacturing process, or damage to the product generated or feedstock used in the manufacturing process;

2) Transfer of load to back-up generation requires time-intensive manual process taking more than 30 minutes;

3) On-site safety concerns prevent location from implementing reduction plan in less than 30 minutes; or,

4) The load is comprised of mass market residential customers or Small Commercial Customers which collectively cannot be notified of a pre-emergency or emergency action within a 30-minute timeframe due to unavoidable communications latency, in which case the requested notification time shall be no longer than 120 minutes.

The Office of the Interconnection may request data and documentation from the WLR Provider and such WLR Provider shall provide to the Office of the Interconnection within three (3) business days of a request therefor, a copy of all of the data and documentation supporting the exception request. Failure to provide a timely response to such request shall cause the exception to terminate the following Operating Day.

At its sole option and discretion, the Office of the Interconnection may review the data and documentation provided by the WLR Provider to determine if the identified portion of the WLR Load has met one or more of the criteria above. The Office of the Interconnection will notify the WLR Provider in writing of its determination by no later than ten (10) business days after receipt of the data and documentation.

The WLR Provider shall provide written notification to the Office of the Interconnection of a material change to the facts that supported its exception request within three (3) business days of becoming aware of such material change in facts, and, if the Office of Interconnection determines that the physical limitation criteria above are no longer being met, the identified portion of the WLR Load shall be subject to the default notification period of 30 minutes immediately upon such determination.

3. The initiation of load reduction, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.

4. The initiation of load reduction upon the request of the Office of the Interconnection is considered a pre-emergency or emergency action and must be implementable prior to a voltage reduction.

5. A WLR Provider intending to bid a WLR Load in a Base Residual Auction must demonstrate, to PJM's satisfaction, that such load shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such load is committed. As part of such demonstration, each such WLR Provider shall submit a WLR Plan in accordance with the standards and procedures set forth in section D of this Schedule 6.2 and the PJM Manuals, no later than 30 calendar days prior to the RPM Auction in which such load is to be bid. PJM may verify the WLR Provider's adherence to the WLR Plan at any time. A WLR Provider with a PJM-approved WLR Plan will be permitted to bid up to the approved WLR quantity into the subject RPM Auction.

6. Clearing a WLR Bid in an RPM Auction shall establish a firm commitment by the WLR Provider to the Nominated WLR Quantity specified in such WLR Bid at each Zone or sub-Zonal LDA during the relevant Delivery Year, but may be transferred or replaced in accordance with section J below. WLR Loads that are so committed must be available at PJM's request during PJM-declared pre-emergency events and emergency events.

C. Agents. A Wholesale Entity may authorize one or more agents to perform any act authorized or required of the Wholesale Entity under this Schedule 6.2, provided that (1) the Wholesale Entity must provide written notification to the Office of the Interconnection, prior to any act of the agent on behalf of the Wholesale Entity, identifying each such agent and the scope of the agent's authority; and (2) as between the Wholesale Entity and the Office of the Interconnection, the Wholesale Entity shall remain solely responsible for all of the duties and obligations of a Wholesale Entity under this Schedule 6.2. Any written instrument establishing the authority of such agent shall provide that any such agent shall comply with the requirements of this Attachment, the Reliability Assurance Agreement, and the Operating Agreement, as applicable.

D. WLR Plan. Any Wholesale Entity seeking to submit a WLR Bid in any Base Residual Auction for a Delivery Year must submit to the Office of the Interconnection a WLR Plan identifying and supporting the Nominated WLR Quantity (calculated in the manner described in section L below) for each Zone or sub-Zonal LDA for which such WLR is committed. Although the WLR Plan may include reasonably supported forecasts and expectations, fulfillment of the WLR Provider's commitment to a Nominated WLR Quantity shall not depend upon, or be conditioned upon, realization of such forecasts or expectations.

A WLR Plan shall consist of a completed template document in the form posted on the PJM website, requiring the information set forth below and in the PJM Manuals. The WLR Plan must provide information that supports the WLR Provider's intended WLR Bids and demonstrates that the WLR Loads are being bid with the intention that the MW quantity that is cleared in the

auction is reasonably expected to be physically delivered through WLR Load registrations for the relevant Delivery Year. The WLR Plan shall include all Existing WLR Loads and all Planned WLR Loads that the WLR Provider intends to bid into an RPM Auction.

1. WLR Plan Template. The WLR Plan template, in the form provided on the PJM website, shall require the WLR Provider to provide the following information and such other information as specified in the PJM Manuals:

(a) Summary Information. The completed template shall include the WLR Provider's company name, contact information, and the Nominated WLR Quantity in ICAP MWs by Zone/sub-Zone that the WLR Provider intends to bid, stated separately for Existing WLR Loads and Planned WLR Loads. The total Nominated WLR Quantity in MWs for each Zone/sub-Zone shall be the sum of the Nominated WLR Quantity of Existing WLR Loads and the Nominated WLR Quantity of Planned WLR Loads, and shall be the maximum MW amount the Provider intends to bid in the RPM Auction for the indicated Zone/sub-Zone, provided that nothing herein shall preclude the WLR Provider from bidding in the auction a lesser amount than the total Nominated WLR Quantity shown in its WLR Plan.

(b) Existing WLR Loads. The WLR Provider shall identify all Existing WLR Loads by identifying end-use customer sites that are currently registered with PJM (even if not registered by such WLR Provider) and that the WLR Provider reasonably expects to have under a contract to reduce load based on PJM instructions by the start of the auction Delivery Year.

(c) Planned WLR Loads. The WLR Provider shall provide the details of, and key assumptions underlying, the Planned WLR Load quantities (i.e., all WLR Load quantities in excess of Existing WLR Load quantities) contained in the WLR Plan, including:

(i) key program attributes and assumptions used to develop the Planned WLR Load quantities, including, but not limited to, discussion of:

- method(s) of achieving load reduction at customer site(s);
- equipment to be controlled or installed at customer site(s), if any;
- plan and ability to acquire customers;
- types of customer targeted;
- support of market potential and market share for the target customer base, with adjustments for Existing WLR Load customers within this market and the potential for other WLR Providers targeting the same customers;
- assumptions regarding regulatory approval of program(s), if applicable; and
- if applicable, Direct Load Control (DLC) program details such as: a description of the cycling control strategy, any assumptions regarding switch operability rate, and a list (and copy) of all load research studies used to develop the estimated nominated ICAP value per customer (i.e., the per-participant impact).

(ii) Zone/sub-Zone information by end-use customer segment for all Nominated WLR Quantities for which an end-use customer site is not identified, to include the number in each segment of end-use customers expected to be registered for the subject Delivery Year, the average Peak Load Contribution per end-use customer for such segment, and the average Nominated WLR Quantity per customer for such segment. End-use customer segments may include residential, commercial, small industrial, medium industrial, and large industrial, as identified and defined in the PJM Manuals, provided that nothing herein or in the Manuals shall preclude the Provider from identifying more specific customer segments within the commercial and industrial categories, if known.

(iii) Information by end-use customer site to the extent required by subsection D(1)(d)(iv) or, if not required by such subsection, to the extent known at the time of the submittal of the WLR Plan, to include: customer EDC account number (if known), customer name, customer premise address, Zone/sub-Zone in which the customer is located, end-use customer segment, current Peak Load Contribution value (or an estimate if actual value not known) and an estimate of expected Peak Load Contribution for the subject Delivery Year, and an estimated Nominated WLR Quantity.

(iv) Commencing with the Base Residual Auction for the 2022/2023 Delivery Year, end-use customer site-specific information shall be required for any Zones or sub-Zones identified by PJM pursuant to this subsection for the portion, if any, of a WLR Provider's intended bid in such Zones or sub-Zones that exceeds a WLR Bid threshold determined pursuant to this subsection, as any such excess quantity under such conditions should reflect Planned WLR Loads from end-use customer sites that the Provider has a high degree of certainty it will physically deliver for the subject Delivery Year. In accordance with the procedures in subsection D(2) below, PJM shall identify, as requiring site-specific information, all Zones and sub-Zones that comprise any LDA group (from a list of LDA groups stated in the PJM Manuals) in which [the quantity of cleared WLR Loads from the most recent Base Residual Auction] plus [the quantity of WLR Loads included in FRR Capacity Plans for the Delivery Year addressed by the most recent Base Residual Auction] in any Zone or sub-Zone of such LDA group exceeds the greater of:

- the maximum WLR Load quantity registered with PJM for such Zone for any Delivery Year from the current (at time of plan submission) Delivery Year and the two preceding Delivery Years; and
- the potential WLR Load quantity for such Zone estimated by PJM based on an independent published assessment of demand response



potential that is reasonably applicable to such Zone, as identified in the PJM Manuals.

For each such Zone and sub-Zone, the WLR Bid threshold for each WLR Provider shall be the higher of:

- the WLR Provider's maximum WLR Load quantity registered with PJM for such Zone/sub-Zone over the current Delivery Year (at the time of plan submission) and two preceding Delivery Years;
- the WLR Provider's maximum for any single Delivery Year of [such provider's cleared WLR Load quantity] plus [such provider's quantity of WLR Load included in FRR Capacity Plans] from the three forward Delivery Years addressed by the three most recent Base Residual Auctions for such Zone/sub-Zone; and
- 10 MW.

(d) Schedule. The WLR Provider shall provide an approximate timeline for completing its separate arrangements with retail customers in the aggregate amount needed to physically deliver the total Nominated WLR Quantity (for both Existing WLR Loads and Planned WLR Loads) by Zone/sub-Zone in the WLR Plan, including expected progress in completing such separate arrangements, by end-use customer segment within each Zone/sub-Zone, that the WLR Provider expects (at the time of plan submission) as of June 1 each year between the time of the auction and the subject Delivery Year.

2. Procedures. No later than December 1 prior to the Base Residual Auction for a Delivery Year, PJM shall post to the PJM website a list of Zones and sub-Zones, if any, for which end-use customer site-specific information shall be required under the conditions specified in subsection D(1)(c)(iv) above. Once so identified, a Zone or sub-Zone shall remain on the list for future Delivery Years until the threshold determined under subsection D(1)(c)(iv) above is not exceeded for three consecutive Delivery Years. No later than 30 calendar days prior to the RPM Auction in which a WLR Provider intends to bid a WLR Load, the WLR Provider shall submit to PJM a completed WLR Plan template. PJM will review all submitted WLR Plans. No later than 10 business days prior to the subject RPM Auction, PJM shall notify any WLR Providers that have identified the same end-use customer site(s) in their respective WLR Plans for the same Delivery Year. In such event, the MWs associated with such site(s) will not be approved for inclusion in a WLR Bid in an RPM Auction by any of the WLR Providers, unless a WLR Provider provides a letter of support from the end-use customer indicating that it is likely to execute a contract with that WLR Provider for the relevant Delivery Year, or provides other comparable evidence of likely commitment. Such letter of support or other supporting evidence must be provided to PJM no later than 7 business days prior to the subject RPM Auction. If an end-use customer provides letters of support for the same site for the same Delivery Year to multiple WLR Providers, the MWs associated with such end-use customer site shall not be approved as a WLR Load for any of the WLR Providers. No later than 5 business days prior to the subject RPM Auction, PJM will notify each WLR Provider of the approved WLR quantity, by Zone/sub-Zone, that such WLR Provider is permitted to bid into such RPM Auction.

E. No Duplicative Load Reduction Bids. WLR Load reflected in a WLR Bid, identified in a WLR Plan, or included in a WLR Load registration for a Delivery Year in support of a Wholesale Load Reduction commitment may not, for such Delivery Year be identified in a PRD Plan or PRD registration of a PRD Provider.

F. Valuation of WLR Load and WEEL. For purposes of determining obligation reductions, credit requirements, compliance charges, and certain other matters hereunder, all WLR Load and WEEL bid into and clears in a Base Residual Auction shall be assigned a WLR Value. For Annual WLR Loads and WEELs, the WLR Value shall be equal to the Capacity Resource Clearing Price for Annual Resources, as determined in such auction in accordance with Attachment DD of the PJM Tariff. For Extended Summer WLR Loads, the WLR Value shall be equal to the price determined by the auction-clearing algorithm as the optimum price at which to recognize the binding of the Sub-Annual WLR Load Constraint or, if such constraint does not bind, such WLR Value shall be the same as the WLR Value determined for Annual WLR Loads and WEELs. For Limited WLR Loads, the WLR Value shall be equal to the price determined by the auction-clearing algorithm as the optimum price at which to recognize the binding of the Limited WLR Load Constraint or, if such constraint does not bind, such WLR Value shall be the same as the WLR Value determined for Extended Summer WLR Loads. Any WLR Loads or WEELs located in a Zone with multiple LDAs shall be assigned the WLR Value for its category of WLR or WEEL applicable to the location of such load within such Zone, as identified in such load's WLR Bid. In such cases, the WLR Provider shall register its load in the same location within the Zone as specified in its cleared bid, and shall be subject to deficiency charges under section Q of this Schedule 6.2 to the extent it fails to provide the load in such location consistent with its cleared bid.

G. Registration. Each WLR Provider that commits Wholesale Load Reductions through a cleared WLR Bid must, no later than one day before the tenth business day prior to the start of the Delivery Year for which such WLR is committed, register with PJM, in the form and manner specified in the PJM Manuals and consistent with its WLR Plan, sufficient WLR Load to satisfy its Nominated WLR Quantity commitment. PJM shall provide notification of such WLR registrations to the applicable electric distribution company(ies). The WLR Provider must maintain its registration of WLR-eligible load at the level of its Zonal or sub-zonal LDA Nominated WLR Quantity commitment during each day of the Delivery Year for which such commitment was made. The WLR Provider may change the end-use customers registered to meet the WLR Provider's commitment during the Delivery Year, but such WLR Provider must always in the aggregate register sufficient WLR Load to meet or exceed the Zonal or sub-Zonal LDA committed Nominated WLR Quantity level. A WLR Provider must timely notify the Office of the Interconnection, in accordance with the PJM Manuals, of all changes in WLR registrations. Such notification must remove from the WLR Provider's registration(s) any end-use customer load that no longer meets the eligibility criteria for WLR, effective as of the first day that such end-use customer load is no longer WLR-eligible.

H. WLR Bids. Each WLR Bid supported by WLR Loads submitted in an RPM Auction must be consistent with the WLR Plan submitted by the WLR Provider for such WLR Bid. A WLR Bid may also be supported by one or more WEELs. Each WLR Bid must specify: the relevant Zone or sub-Zonal LDA, if applicable; a Nominated WLR Quantity or Nominated

WEEL Quantity; a WLR Bid Price, which may be comprised of a range of up to ten pairs of WLR commitment levels and associated Bid Prices; provided however that the Office of the Interconnection may interpolate WLR commitment levels based on clearing prices between prices specified by the WLR Provider.

A WLR Load with the potential to qualify as two or more of a Limited WLR Load, Extended Summer WLR Load, or Annual WLR Load may submit separate but coupled WLR Bids for each WLR Load type for which it qualifies at different bid prices and the auction clearing algorithm will select the WLR Bid that yields the least-cost solution. For such coupled WLR Load bids, the bid price of an Annual WLR Load bid must be at least \$.01 per MW-day greater than the bid price of a coupled Extended Summer WLR Load bid and the bid price of a Extended Summer WLR Load bid must be at least \$.01 per MW-day greater than the bid price of a coupled Limited WLR Load bid.

Each WLR Provider submitting a WLR Bid shall comply with any applicable RPM Credit requirements as specified in Attachment Q of this Tariff.

I. LSE Capacity Obligation Reduction. The Obligation Peak Load of a Load Serving Entity that serves WLR Load or Wholesale Energy Efficiency Load in any Zone or sub-Zonal LDA shall be as determined in Schedule 8 to this Agreement; provided, however, that such Load Serving Entity shall receive, for each day during a Delivery Year that a Wholesale Load Reduction and/or a Wholesale Energy Efficiency Load commitment is effective as to registered WLR Loads and Wholesale Energy Efficiency Loads approved by PJM consistent with a post-installation report provided in accordance with section U.7 below served by such Load Serving Entity a specified quantity of reduction in the Obligation Peak Load of such Load Serving Entity, determined for each such Zone in accordance with the procedures hereunder and as further detailed in the PJM Manuals.

The reduction to a Load Serving Entity's Obligation Peak Load associated with each WLR Load and WEEL committed for that day that has a WLR Value equal to the Capacity Resource Clearing Price for Annual Resources shall be based on the Nominated WLR Quantity or Nominated WEEL Quantity, respectively, determined based on the ratio of the WLR Value for such WLR Load and WEEL to the Final Zonal Capacity Price as further detailed in the PJM Manuals. The reduction to a Load Serving Entity's Obligation Peak Load associated with each WLR Load and WEEL committed for that day that has a WLR Value lower than the Capacity Resource Clearing Price for Annual Resources shall be based on a proportion of the Nominated WLR Quantity or Nominated WEEL Quantity, respectively, determined based on the ratio of the WLR Value for such WLR Load and WEEL to the Final Zonal Capacity Price, and as further detailed in the PJM Manuals. In no event shall the Obligation Peak Load of any Load Serving Entity be reduced to less than zero.

J. Transfers and Replacements of WLR Commitments.

(1) WLR Transfers Between Wholesale Entities. A WLR Provider may transfer all or part of its WLR commitment for a Delivery Year as to WLR Load in a Zone or sub-Zonal LDA to another Wholesale Entity acting as a WLR Provider in the same Zone or sub-Zonal LDA, provided that the transferee WLR Provider is the Load Serving Entity that shall serve such WLR Load, through notice of such transfer provided by both the transferor and transferee WLR Providers to the Office of the Interconnection in the form and manner specified in the PJM Manuals. From and after the effective date of such transfer, and to the extent of such transfer,

the transferor WLR Provider shall be relieved of its WLR commitment and credit requirements, shall not be liable for WLR compliance charges, and shall not be entitled to the capacity obligation reduction otherwise provided by section I hereof; and the transferee WLR Provider, to the extent of such transfer, shall assume such WLR commitment, credit requirements, and obligation for compliance charges and shall be entitled to the capacity obligation reduction provided by section I as to such WLR Load.

(2) Replacement of WLR or WEEL Commitment by Capacity Resource. A WLR Provider may replace all or part of its WLR commitment for a Delivery Year as to WLR Load in a Zone or sub-Zonal LDA by clearing a Buy Bid for replacement capacity in an Incremental Auction under the terms and conditions of Attachment DD to the Tariff, by entering a Locational UCAP transaction in accordance with the terms of Attachment DD to the Tariff, or through a bilateral transaction under section 4.6 of Attachment DD to the Tariff. A WEEL Provider may replace all or part of its WEEL commitment for a Delivery Year as to WEEL in a Zone or sub-Zonal LDA by clearing a Buy Bid for replacement capacity in an Incremental Auction under the terms and conditions of Attachment DD to the Tariff, by entering a Locational UCAP transaction in accordance with the terms of Attachment DD to the Tariff, or through a bilateral transaction under section 4.6 of Attachment DD to the Tariff. The Unforced Capacity required in such case shall equal the Nominated WLR Quantity, or Nominated WEEL Quantity, sought to be replaced, times the Forecast Pool Requirement. The rights and responsibilities, following such replacement, of the WLR Provider, or WEEL Provider, and the Capacity Market Seller providing replacement capacity shall be as specified in any required notice to the Office of the Interconnection or as otherwise prescribed by the Tariff for such replacements.

K. WLR Load Compliance Measurement. Based on information provided by the WLR Provider, in accordance with the requirements of this Schedule 6.2 and the PJM Manuals, with respect to the separate arrangements with end-use customers on which the WLR Provider intends to rely to fulfill its WLR commitment, PJM shall measure WLR Loads in the following ways:

Direct Load Control (“DLC”) – Load management that is initiated directly by the WLR Provider’s market operations center or its agent, employing a communication signal to cycle equipment (typically water heaters or central air conditioners). DLC programs are qualified based on load research and customer subscription data. WLR Providers may rely on the results of load research studies identified in the PJM Manuals to set the per-participant load reduction for DLC programs; provided, however, that load research studies supporting Annual WLR Loads must demonstrate such load reduction capability for non-summer months. Each WLR Provider relying on DLC load management must periodically update its DLC switch operability rates, in accordance with the PJM Manuals.

Firm Service Level (“FSL”) – Load management achieved by an end-use customer reducing its load to a pre-determined level (the Firm Service Level), upon notification from the WLR Provider’s market operations center or its agent.

Customer Baseline Load (“CBL”) – Load management achieved by an end-use customer as measured by comparing actual metered load to an end-use customer’s Customer Baseline Load or alternative CBL determined in accordance with the provisions of section O below.

Notwithstanding any such measurement of load management by any end-use customer identified by the WLR Provider, the WLR Provider shall remain solely and exclusively responsible for providing any Wholesale Load Reduction committed hereunder by such WLR Provider.

L. Nominated WLR Quantities.

(a) Any Nominated WLR Quantity committed by a WLR Provider hereunder shall comprise a commitment by such WLR Provider to an aggregate reduction of a specified quantity of the wholesale load to be served by the Load Serving Entity that is responsible for serving such loads.

The Nominated WLR Quantity that may be claimed from, or provided by, a Firm Service Level customer will be based on the peak load contribution for the customer, as determined by the methodology utilized to determine ICAP obligation values. The maximum contribution to a WLR Load reduction value that may be claimed from, or provided by, a Firm Service Level customer will be equal to the Peak Load Contribution minus the Firm Contract Level, adjusted for system losses.

The Nominated WLR Quantity that may be claimed from, or provided by, a Direct Load Control program must be demonstrated based on load research and customer subscription. The maximum value of such a program shall be equal to the approved per-participant load reduction multiplied by the number of active participants, adjusted for system losses. The per-participant impact is to be estimated at long-term average local weather conditions at the time of the summer peak.

Information specific to any end-user identified by the WLR Provider hereunder (EDC account number, peak load, notification period, etc.) shall be entered by such WLR Provider into the designated PJM electronic system to establish the portion of the Nominated WLR Quantity associated with such customer. Additional data may be required, as defined in the PJM Manuals.

(b) The maximum portion of any Nominated WLR Quantities that may be claimed from any given end-use customer shall be verified and established prior to the start of the Delivery Year through information provided by the WLR Provider and the EDC for the Zone in which such customer is located. As set forth in the PJM Manuals, WLR Providers shall provide, on templates supplied by PJM, the LSE serving the load at the site being registered, the EDC meter number, or other unique customer identifier, Peak Load Contribution ("PLC"), contract firm service level values, applicable loss factor, zone/area location of the load, contact information, number of active participants, etc. Such data must be uploaded and approved prior to the first day of the Delivery Year. For Direct Load Control programs, the WLR Provider must provide information detailing the number of active participants in each program. WLR Providers must provide such information concurrently to host EDCs.

M. WLR Performance Verification and Support. WLR Providers shall be responsible for verifying the performance of their WLR Loads during each pre-emergency or emergency action

declared by the Office of the Interconnection. Performance will be established for each WLR Provider on an event specific basis for the WLR Provider's WLR Loads, including any identified portion thereof, requested to reduce demand by PJM during such event. WLR Providers shall demonstrate that the identified WLR Loads reduced demand by the committed megawatt amount below the PLC assigned to such WLR Loads. Such compliance will be determined based on a comparison of the PLC assigned to the identified WLR Loads and the actual energy consumed of the identified WLR Loads. PJM will set forth in the PJM Manuals reasonable deadlines for the timely submittal of event data to expedite performance reviews. Performance reviews will be completed as soon after the event as possible, with the expectation that reviews of a single event will be completed within two months of the end of the month in which the event occurred. WLR Providers are responsible for the submittal of the actual energy usage for their registered WLR Loads to PJM for each PJM-initiated event during the compliance period. A WLR Provider must also provide load drop estimates for all pre-emergency or emergency actions, prepared in accordance with the PJM Manuals.

N. Compliance Measurement. A WLR Load may not in the aggregate reduce its load below zero (i.e., export energy into the system). No contribution toward satisfaction of a Nominated WLR Quantity shall be given for an incremental load drop below zero. Compliance will be totaled over all customers and programs identified by the WLR Provider to determine a net Wholesale Load Reduction for the event for each WLR Provider by Zone, for all WLR Loads committed by such WLR Provider and that were addressed in a request to reduce demand by the Office of the Interconnection in the zone. Performance shortfalls shall be as further determined in accordance with section S of this Schedule 6.2.

For pre-emergency or emergency actions occurring during the months of June through October and the following May of the 2018/2019 Delivery Year and subsequent Delivery Years:

The contribution to the Wholesale Load Reduction of any Direct Load Control programs identified by the WLR Provider shall consider only the transmission of the control signal. WLR Providers are required to report the time period (during the pre-emergency or emergency action) that the control signal was actually sent.

The contribution to the Wholesale Load Reduction of any individual FSL customer identified by the WLR Provider shall be determined by comparing such customer's actual load during the event to the customer's firm service level. WLR Providers must submit actual customer load levels (for the entire day on which the event occurred) for the compliance report. The contribution to the Wholesale Load Reduction for any identified FSL customer shall be based on such customer's current Delivery Year peak load contribution ("PLC") minus such customer's metered load ("Load") multiplied by the loss factor ("LF").

The contribution to the Wholesale Load Reduction from any identified non-interval metered DLC programs shall be averaged over the pre-emergency or emergency action. The contribution to the Wholesale Load Reduction from any identified FSL customers shall be averaged over the pre-emergency or emergency action by the Office of the Interconnection for at least 30 minutes of the clock hour (i.e., "partial dispatch compliance hour"). The registered load reduction commitment for the partial dispatch compliance hour will be prorated based on the number of

minutes for which load reduction was requested during the clock hour and as defined in the Manual. The WLR Provider may submit one-minute load data for use in capacity compliance calculations for partial dispatch compliance hours subject to PJM approval and in accordance with the PJM Manuals where: (a) metering meets all Tariff, RAA, and Manual requirements, (b) one-minute load data shall be submitted to PJM for all locations on the registration, and (c) one-minute load data measures energy consumption over the minute.

For pre-emergency or emergency action occurring during the months of November through April of the 2018/2019 Delivery Year and subsequent Delivery Years:

The contribution to the Wholesale Load Reduction of any Direct Load Control programs will consider only the transmission of the control signal. WLR Providers are required to report the time period (during the pre-emergency or emergency action) that the control signal was actually sent.

The contribution to the Wholesale Load Reduction of any individual FSL customer identified by the WLR Provider shall be determined by comparing such customer's actual metered load to such customer's Customer Baseline Load ("CBL") determined in accordance with subsection O(1) below or an alternative Customer Baseline methodology determined in accordance with subsection O(2) below. WLR Providers must submit actual customer load levels (for the entire day on which the pre-emergency or emergency action occurred and for all days needed to calculate the customer baseline) for the compliance report.

O. Customer Baseline Load.

(1) The CBL of any end-use customer identified by the WLR Provider shall be determined using the following formula for such customer's Non-Variable Loads:

(a) The CBL for weekdays shall be the average of the highest 4 out of the 5 most recent load weekdays in the 45 calendar day period preceding the relevant load reduction event.

i. For the purposes of calculating the CBL for weekdays, weekdays shall not include:

1. NERC holidays;

2. Weekend days;

3. Event days. For the purposes of this section an event day shall be any day in which a pre-emergency or emergency action is declared and PJM requests WLR Providers to reduce their wholesale loads.

4. Any weekday where the average daily event period usage is less than 25% of the average event period usage for the five days.



ii. If a 45-day period does not include 5 weekdays that meet the conditions in subsection (a)(i) of this section, provided there are 4 weekdays that meet the conditions in subsection (a)(i) of this section, the CBL shall be based on the average of those 4 weekdays. If there are not 4 eligible weekdays, the CBL shall be determined in accordance with subsection (iii) of this section.

iii. subsection (a)(i)(3) above notwithstanding, if a 45-day period does not include 4 weekdays that meet the conditions in subsection (a)(i) of this section, event days will be used as necessary to meet the 4 day requirement to calculate the CBL, provided that any such event days shall be the highest load event days within the relevant 45-day period.

(b) The CBL for weekend days and NERC holidays shall be determined in accordance with the following provisions:

i. The CBL for Saturdays and Sundays/NERC holidays shall be the average of the highest 2 load days out of the 3 most recent Saturdays or Sundays/NERC holidays, respectively, in the 45 calendar day period preceding the relevant load reduction event, provided that the following days shall not be used to calculate a Saturday or Sunday/NERC holiday CBL:

1. Event days. For the purposes of this section an event day shall be any day in which a pre-emergency or emergency action is declared and PJM requests WLR Providers to reduce their wholesale loads.

2. Any Saturday or Sunday/NERC holiday where the average daily event period usage is less than 25% of the average event period usage level for the three days;

3. Any Saturday or Sunday/NERC holiday that corresponds to the beginning or end of daylight savings.

ii. If a 45-day period does not include 3 Saturdays or 3 Sundays/NERC holidays, respectively, that meet the conditions in subsection (b)(i) of this section, provided there are 2 Saturdays or Sundays/NERC holidays that meet the conditions in subsection (b)(i) of this section, the CBL will be based on the average of those 2 Saturdays or Sundays/NERC holidays. If there are not 2 eligible Saturdays or Sundays/NERC holidays, the CBL shall be determined in accordance with subsection (iii) of this section.

iii. Subsection (b)(i)(1) above notwithstanding, if a 45-day period does not include 2 Saturdays or Sundays/NERC holidays, respectively, that meet the conditions in subsection (b)(i) of this section, event days will be used as necessary to meet the 2 day requirement to calculate the CBL, provided that any such event days shall be the highest load event days within the relevant 45-day period.



(c) CBLs established pursuant to this section for any end-use customer identified by a WLR Provider shall represent such customers' actual load patterns. If the Office of the Interconnection determines that a CBL or alternative CBL does not accurately represent a customer's actual load patterns, the CBL shall be revised accordingly pursuant to subsection (2) below. Consistent with this requirement, if a WLR Provider chooses to derive any part of its Wholesale Load Reduction from an end-use customer that is measured using a Customer Baseline Load, the WLR Provider shall inform the Office of the Interconnection of any change in the operations of such end-use customer that would result in the adjustment of more than half the hours in such customer's Customer Baseline Load by twenty percent or more for more than twenty days.

(2) Alternative CBL Methodologies.

(a) During the WLR registration process pursuant to section G of this Schedule, the relevant WLR Provider or PJM ("Interested Parties") may propose an alternative CBL calculation that more accurately reflects the relevant end-use customer's consumption pattern relative to the CBL determined pursuant to subsection (a) above. In support of such proposal, the Interested Party shall demonstrate that the alternative CBL method shall result in an hourly relative root mean square error of twenty percent or less compared to actual hourly values, as calculated in accordance with the technique specified in the PJM Manuals. Any proposal made pursuant to this section shall be provided to the other Interested Party.

(b) The Interested Parties shall have 30 days to agree on a proposal issued pursuant to subsection (a) of this section. The 30-day period shall start the day the proposal is provided to the other Interested Party. If both Interested Parties agree on a proposal issued pursuant to this section, that alternative CBL calculation methodology shall be effective consistent with the date of the relevant WLR registration.

(c) If agreement is not reached pursuant to subsection (2)(b) above, the Office of the Interconnection shall determine a CBL methodology that shall result, as nearly as practicable, in an hourly relative root mean square error of twenty percent or less compared to actual hourly values within 20 days from the expiration of the 30-day period established by subsection (b). A CBL established by the Office of the Interconnection pursuant to this subsection (c) shall be binding upon both Interested Parties unless the Interested Parties reach agreement on an alternative CBL methodology prior to the expiration of the 20-day period established by this subsection (c).

(d) The Office of the Interconnection shall periodically publish alternative CBL methodologies established pursuant to this section in the PJM Manuals.

(e) Customer Baseline Levels established pursuant to this subsection O.2 shall be adjusted by the Symmetric Additive Adjustment. Unless an alternative formula is approved by the Office of the Interconnection, the Symmetric Additive Adjustment shall be calculated using the following formula:

Step 1: Calculate the average usage over the 3 hour period ending 1 hour prior to the start of event.

Step 2: Calculate the average usage over the 3 hour period in the CBL that corresponds to the 3 hour period described in Step 1.

Step 3: Subtract the results of Step 2 from the results of Step 1 to determine the symmetric additive adjustment (this may be positive or negative).

Step 4: Add the symmetric additive adjustment (i.e. the results of Step 3) to each hour in the CBL that corresponds to each event hour.

Following a pre-emergency or emergency action, the Office of the Interconnection shall make available the metered data to the appropriate electric distribution company for optional review and will have ten business days to provide the Office of the Interconnection with notification of any issues related to the metered data or calculations.

P. Non-Hourly Metered Customer Pilot. Non-hourly metered customers may participate in the Wholesale Load Reduction program on a pilot basis under the following circumstances. The customer's WLR Provider must propose an alternate method for measuring hourly demand reductions. The Office of the Interconnection shall approve alternate measurement mechanisms on a case-by-case basis for a time period specified by the Office of the Interconnection ("Pilot Period"). Load reductions by non-hourly metered customers using alternate measurement mechanisms on a pilot basis shall be limited to a combined total of 500 MW of reductions in the Wholesale Load Reduction program. With the sole exception of the requirement for hourly metering, non-hourly metered customers shall be subject to the rules and procedures for participation in the Wholesale Load Reduction program. Following completion of a Pilot Period, the alternate method shall be evaluated by the Office of the Interconnection to determine whether such alternate method should be included in the PJM Manuals as an accepted measurement mechanism for load reductions in the Wholesale Load Reduction program.

Q. WLR Deficiency Charge. Any WLR Provider that does not register and maintain the sufficient WLR Load in a Zone or sub-Zonal LDA to satisfy in full its Nominated WLR Quantity commitment in such Zone or sub-Zonal LDA on each day of the Delivery Year for which such commitment is made shall be assessed a WLR Deficiency Charge for each day that the registered WLR Load is less than the committed Nominated WLR Quantity. Any WEEL Provider with a WEEL for which the post-installation measurement and verification report, submitted to PJM in accordance with section U.7 below, demonstrates a continuous reduction in electric energy consumption less than the committed Nominated WEEL Quantity for such WEEL shall be assessed a WLR Deficiency Charge for each day of the Delivery Year that the WEEL is less than the committed Nominated WEEL Quantity. Such daily WLR Deficiency Charge shall equal:

$$[\text{MW Shortfall}] * [\text{Forecast Pool Requirement}] * [(\text{applicable WLR Value in } \$/\text{MW-day}) \\ + \text{higher of } (0.2 * \text{applicable WLR Value}) \text{ or } (\$20/\text{MW-day})]$$

Where: MW Shortfall = for WLR Loads, Daily Nominated WLR Quantity committed in the Base Residual Auction, as adjusted for any replacement and/or transfers of WLR Load, for the

relevant Zone or sub-Zonal LDA – the Daily Nominated WLR Quantity supported by WLR Load registrations for such Zone or sub-Zonal LDA; for WEEL, Daily Nominated WEEL Quantity committed in the Base Residual Action, as adjusted for any replacement and/or transfers of WEEL, for the relevant Zone or sub-Zonal LDA – the Daily Nominated WEEL Quantity supported by the post-installation measurement and verification report; and

The applicable WLR Value is the WLR Value assigned to the committed Nominated WLR Quantity or Nominated WEEL Quantity pursuant to section F hereof. The MW Shortfall may be reduced through replacement of the WLR or WEEL by any Capacity Resource effected in accordance with the terms of this RAA or the Tariff. The WLR Provider also may register additional WLR Load to satisfy its WLR commitment.

However, WLR Load that is subject to a charge under this section that is also subject to a charge under section S of this Schedule 6.2 for failing to provide the committed quantity of load reduction during one or more pre-emergency or emergency actions occurring during the period of WLR Load deficiency addressed by this section shall be assessed a charge equal to the greater of the WLR Deficiency Charge determined under this section and the non-performance charge determined under section S hereof, but shall not be assessed a charge under both this section and section S for such simultaneous occurrence of a WLR Loads deficiency and under-compliance.

R. WLR Test Failure Charge. WLR Providers that registered WLR Load shall be subject to test at least once per year to demonstrate the ability of the registered WLR Load to reduce as committed, and such WLR Providers shall be assessed a WLR Test Failure Charge to the extent of failure by the registered WLR Load during such test to reduce, on an aggregate basis equal to the Nominated WLR Quantity, in accordance with the following:

- (i) If the Office of the Interconnection does not declare during the relevant Delivery Year a pre-emergency or emergency action that requires the registered WLR Load to reduce as committed, then the WLR Provider must demonstrate that its registered WLR Load was tested for a one-hour period during any hour when a pre-emergency or emergency action may be called during the months in which it is committed to reduce load upon request. If a pre-emergency or emergency action that requires PJM to request the WLR Load to reduce as committed is called during the relevant Delivery Year, then no WLR Test Failure Charges will be assessed hereunder.
- (ii) All WLR Load registered in a Zone must be tested simultaneously for each type of WLR Load except that, when less than 25 percent (by megawatts) of a WLR Provider's total WLR Load registered in a Zone fails a test, the WLR Provider may conduct a re-test limited to all registered WLR Load that failed the prior test, provided that such re-test must be at the same time of day and under approximately the same weather conditions as the prior test, and provided further that all affiliated registered WLR Load must test simultaneously, where affiliated means registered WLR Load that has any ability to shift load and that is owned or controlled by the same entity. If less than 25 percent of a WLR Provider's total registered WLR Load in a Zone fails the test and the WLR Provider chooses to conduct a re-test, the WLR Provider may elect to maintain the performance compliance result achieved during the test if the WLR Provider: (1) notifies the

Office of the Interconnection 48 hours prior to the re-test under this election; and (2) the WLR Provider retests affiliated registered WLR Load under this election as set forth in the PJM Manuals.

- (iii) A WLR Provider that registered WLR Load shall be assessed a WLR Test Failure Charge equal to the net WLR Load's capability testing shortfall in a Zone or sub-Zonal LDA during such test in the aggregate of all of such WLR Provider's registered WLR Load in such Zone times the WLR Test Failure Charge Rate. The net capability testing shortfall in such Zone shall be the following megawatt quantity, converted to an Unforced Capacity basis using the applicable Forecast Pool Requirement: [megawatts of committed load reduction minus the total megawatts of load reduction actually provided by the identified WLR Load in aggregate in such Zone during such test].

The net WLR Load capability testing shortfall in such Zone shall be reduced by the WLR Provider's summer daily average of the MW shortfalls determined for WLR Non-Performance Charge purposes under section S of this Schedule 6.2 in such Zone for such WLR Provider's registered WLR Loads.

The WLR Test Failure Charge Rate shall equal the applicable WLR Value for such WLR Load in such Zone plus the greater of (0.20 times the applicable WLR Value for such WLR Load in such Zone or \$20/MW-day) times the number of days in the Delivery Year.

Such charge shall be assessed daily and charged monthly (or otherwise in accordance with customary PJM billing practices in effect at the time); provided, however, that a lump sum payment may be required to reflect amounts due, as a result of a test failure, from the start of the Delivery Year to the day that charges are reflected in regular billing.

S. WLR Non-Performance Charge. A WLR Provider or a WEEL Provider that fails to provide the committed quantity of load reduction when requested by PJM during a PJM declared pre-emergency or emergency event will be subject to a WLR Non-Performance Charge.

(a) The Office of the Interconnection shall separately evaluate compliance of each WLR Provider's WLR Load that was committed for a Delivery Year, in accordance with procedures set forth in this Schedule 6.2 and the PJM Manuals. Such compliance shall be evaluated separately by pre-emergency or emergency action in each CAA for the WLR Load of a WLR Provider to the extent such provider was requested to perform by the Office of Interconnection. To the extent a WLR Load cannot respond, another WLR Load in the same geographic location defined by the PJM request instruction with the same designated lead time and comparable load reduction commitment may be substituted. Any WLR Load used as a substitute during a pre-emergency or emergency action will have the same obligation to respond to future pre-emergency or emergency action(s) as if it did not respond to such pre-emergency or emergency action. WLR Providers that committed WLR Loads that cannot demonstrate the hourly performance of such load in real-time based on the WLR commitment shall be assessed a WLR Non-Performance Charge; provided, however, that such under compliance shall be determined

on an aggregate basis for all WLR Loads committed by the same WLR Provider in a CAA that were the subject of a request to perform.

(b) For pre-emergency or emergency actions occurring in a Zone during the months of June through September, i.e., the “on-peak” period, the WLR Non-Performance Charge for a WLR Provider shall equal the lesser of (1/the number of pre-emergency or emergency actions during the on-peak period for which such WLR Provider was requested to provide WLR, or 0.50) times the applicable WLR Value, for the relevant WLR Loads of such WLR Provider, multiplied by the net under-compliance in such on-peak period, if any, for such WLR Provider resulting from all WLR Load it has committed for such Delivery Year for such Zone, that was the subject of a request to perform, for each pre-emergency or emergency action called by the Office of the Interconnection. Net CAA under compliance for the pre-emergency or emergency action will be prorated to individual under compliant registrations in the CAA based on performance of each registration in order to determine net under compliance. For pre-emergency or emergency actions occurring in a Zone or sub-Zonal LDA during the off-peak period, which includes all hours specified in the Reliability Assurance Agreement definitions of Extended Summer WLR Load or Annual WLR Load, as applicable, but does not include all hours in the on-peak period, the WLR Non-Performance Charge for a WLR Provider for the off-peak period shall equal 1/52 times the applicable WLR Value for the relevant WLR Loads of such WLR Provider that were the subject of a request to perform, multiplied by the net under-compliance in such off-peak period, if any, for such WLR Provider resulting from all WLR Loads it has committed for such Delivery Year for such Zone or sub-Zonal LDA, that were the subject of a request to perform, for each pre-emergency or emergency action called by the Office of the Interconnection.

(c) If a pre-emergency or emergency action is comprised of both an on-peak period and an off-peak period then such WLR Non-Performance Charge will be the higher of the charges calculated under the prior two subsections (a) and (b). The total WLR Non-Performance Charge for the Delivery Year is not to exceed the applicable WLR Value times the Nominated WLR Quantity associated with such WLR Loads.

(d) The net CAA undercompliance for each such pre-emergency or emergency action shall be the following megawatt quantity, converted to an Unforced Capacity basis using the applicable Forecast Pool Requirement: (i) the megawatts of load reduction capability committed by such WLR Provider on the day of the pre-emergency or emergency action for all WLR Load requested to reduce minus (ii) the megawatts of load reduction actually provided by all such WLR Load requested to reduce during such pre-emergency or emergency action. The WLR Non-Performance Charge for a WLR Load shall be based on the applicable WLR Value assigned to the load in the RPM Auction in which it was committed, including any adjustment pursuant to section F of this Schedule 6.2. The total charge per megawatt that may be assessed on a WLR Provider in a Delivery Year shall be capped at the applicable WLR Value for the WLR Load committed by such WLR Provider.

(e) WLR Non-Performance Charge Billing. The WLR Non-Performance Charges for a pre-emergency or emergency action for Limited WLR Loads are assessed daily and initially billed by the later of the month of October during such Delivery Year or the third billing month following the pre-emergency or emergency action that gave rise to such charge. The initial billing for a pre-emergency or emergency action for Limited WLR Loads will reflect the amounts due from

the start of the Delivery Year to the last day that is reflected in the initial billing. The remaining charges for such pre-emergency or emergency action will be assessed daily and billed monthly through the remainder of the Delivery Year. The WLR Non-Performance Charges for a pre-emergency or emergency action for Annual or Extended Summer WLR Loads are assessed daily and billed by the later of the month of June following such Delivery Year or the third billing month following the pre-emergency or emergency action that gave rise to such charge. The billing for the pre-emergency or emergency action for Annual or Extended Summer WLR Loads will be in a lump sum and reflect the accrued charges for the entire Delivery Year.

T. Distribution of Revenue Collected From WLR Charges. The revenue collected from assessment of the charges assessed under sections Q, R, and S of this Schedule 6.2 shall be distributed on a pro-rata basis to all entities that committed Capacity Resources in the RPM Auctions for the Delivery Year for which the compliance charge is assessed, pro rata based on each such entity's revenues from Capacity Market Clearing Prices in such auctions, net of any compliance charges incurred by such entity.

U. Wholesale Energy Efficiency Loads.

1. A Wholesale Energy Efficiency Load, or "WEEL," is a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak summer and winter periods as described herein) reduction in electric energy consumption at the End-Use Customer's retail site that is not reflected in the peak load forecast prepared for the Delivery Year for which the Wholesale Energy Efficiency Load is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, request to reduce, or operator intervention. Any Wholesale Entity may submit one or more WLR Bids supported by one or more WEELs in a Base Residual Auction to reduce load by a specified quantity during the specified Delivery Year.
2. A WEEL Provider may bid WEEL into the Base Residual Auction for any Delivery Year beginning on or after June 1, 2018. No later than 30 days prior to the auction in which the load reduction is to be bid, the WEEL Provider shall submit to the Office of the Interconnection a notice of intent to bid the load reduction into such auction and a measurement and verification plan. The notice of intent shall include all pertinent project design data, including but not limited to the peak-load contribution of affected customers, a full description of the equipment, device, system or process intended to achieve the load reduction, the load reduction pattern, the project location, the project development timeline, and any other relevant data. Such notice also shall state the seller's proposed Nominated WEEL Quantity, which shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday.

The measurement and verification plan shall describe the methods and procedures, consistent with the PJM Manuals, for determining the amount of the load reduction and confirming that such reduction is achieved. The Office of the Interconnection shall determine, upon review of such notice, the Nominated WEEL Quantity that may be bid in the Base Residual Auction.

3. WEEL may only be bid into a Base Residual Auction through a WLR Bid. In any such Base Residual Auction, the Office of the Interconnection shall shift to the left the Variable Resource Requirement Curve for the PJM Region or a Locational Deliverability Area, as applicable, to reflect the Nominated WEEL Quantity and WLR Bid Price of any WEEL bids for the PJM Region or such LDA, as applicable, in such RPM Auction. Each such leftward shift shall begin at the price point on the VRR Curve corresponding to the WLR Bid Price of the bid, and shall uniformly shift the VRR Curve to the left in the amount of the Nominated WEEL Quantity times FPR at that price point and all higher price points.
4. If a WEEL clears in the auction, it shall be assigned the applicable WLR Value as determined in accordance with section F above, subject to section U.7 below, for use in determining the LSE Capacity Obligation Reduction in section I above. A WEEL Provider bidding a WEEL must comply with all applicable credit requirements as set forth in Attachment Q to the PJM Tariff.
5. A WEEL cleared in an auction for a Delivery Year may be bid in Base Residual Auctions for up to three additional consecutive Delivery Years (if the reduction in electric energy consumption is not reflected in the peak load forecast prepared for the Delivery Year for which the WEEL is committed), but shall not be assured of clearing in any such auction; provided, however, a WEEL may not be bid for any Delivery Year in which any part of the peak season is beyond the expected life of the equipment, device, system, or process providing the expected load reduction.
6. For every WEEL Provider clearing one or more WEELs in an RPM Auction for a Delivery Year, the WEEL Provider shall submit to the Office of the Interconnection, by no later than 30 days prior to each Auction an updated project status and measurement and verification plan subject to the criteria set forth in the PJM Manuals.
7. For every WEEL Provider clearing one or more WEELs in an RPM Auction for a Delivery Year, the WEEL Provider shall submit to the Office of the Interconnection, by no later than the start of such Delivery Year, an updated project status and detailed measurement and verification data meeting the standards for precision and accuracy set forth in the PJM Manuals. The final value of the WEEL during such Delivery Year shall be as determined by the Office of the Interconnection based on the data submitted in such post-installation measurement and verification report.

8. The Office of the Interconnection may audit, at the WEEL Provider's expense, any WEEL committed to the PJM Region. The audit may be conducted any time including the Performance Hours of the Delivery Year.



# Attachment D

## Revisions to the PJM Open Access Transmission Tariff and Reliability Assurance Agreement Option B

(Identified by Additional Cover Pages)

(Clean Format)

Sections of the  
PJM Open Access Transmission Tariff  
Option B  
(Clean Format)

## **ATTACHMENT Q**

### **PJM CREDIT POLICY**

#### **POLICY STATEMENT:**

It is the policy of PJM Interconnection, LLC (“PJM”) that prior to an entity participating in the PJM Markets, or in order to take Transmission Service, the entity must demonstrate its ability to meet PJMSettlement’s credit requirements.

Prior to becoming a Market Participant, Transmission Customer, and/or Member of PJM, PJMSettlement must accept and approve a Credit Application (including Credit Agreement) from such entity and establish a Working Credit Limit with PJMSettlement. PJMSettlement shall approve or deny an accepted Credit Application on the basis of a complete credit evaluation including, but not be limited to, a review of financial statements, rating agency reports, and other pertinent indicators of credit strength.

#### **POLICY INTENT:**

This credit policy describes requirements for: (1) the establishment and maintenance of credit by Market Participants, Transmission Customers, and entities seeking either such status (collectively “Participants”), pursuant to one or more of the Agreements, and (2) forms of security that will be deemed acceptable (hereinafter the “Financial Security”) in the event that the Participant does not satisfy the financial or other requirements to establish Unsecured Credit.

This policy also sets forth the credit limitations that will be imposed on Participants in order to minimize the possibility of failure of payment for services rendered pursuant to the Agreements, and conditions that will be considered an event of default pursuant to this policy and the Agreements.

These credit rules may establish certain set-asides of credit for designated purposes (such as for FTR or RPM activity). Such set-asides shall be construed to be applicable to calculation of credit requirements only, and shall not restrict PJMSettlement’s ability to apply such designated credit to any obligation(s) in case of a default.

PJMSettlement may post on PJM’s web site, and may reference on OASIS, a supplementary document which contains additional business practices (such as algorithms for credit scoring) that are not included in this document. Changes to the supplementary document will be subject to stakeholder review and comment prior to implementation. PJMSettlement may specify a required compliance date, not less than 15 days from notification, by which time all Participants must comply with provisions that have been revised in the supplementary document.

#### **APPLICABILITY:**

This policy applies to all Participants.

## **IMPLEMENTATION:**

### **I. CREDIT EVALUATION**

Each Participant will be subject to a complete credit evaluation in order for PJMSettlement to determine creditworthiness and to establish an **Unsecured Credit Allowance**, if applicable; provided, however, that a Participant need not provide the information specified in section I.A or I.B if it notifies PJMSettlement in writing that it does not seek any Unsecured Credit Allowance. PJMSettlement will identify any necessary Financial Security requirements and establish a Working Credit Limit for each Participant. In addition, PJMSettlement will perform follow-up credit evaluations on at least an annual basis.

If a **Corporate Guaranty** is being utilized to establish credit for a Participant, the guarantor will be evaluated and the Unsecured Credit Allowance or Financial Security requirement will be based on the financial strength of the Guarantor.

PJMSettlement will provide a Participant, upon request, with a written explanation for any change in credit levels or collateral requirements. PJMSettlement will provide such explanation within ten Business Days.

If a Participant believes that either its level of unsecured credit or its collateral requirement has been incorrectly determined, according to this credit policy, then the Participant may send a request for reconsideration in writing to PJMSettlement. Such a request should include:

- A citation to the applicable section(s) of the PJMSettlement credit policy along with an explanation of how the respective provisions of the credit policy were not carried out in the determination as made
- A calculation of what the Participant believes should be the correct credit level or collateral requirement, according to terms of the credit policy

PJMSettlement will reconsider the determination and will provide a written response as promptly as practical, but no longer than ten Business Days of receipt of the request. If the Participant still feels that the determination is incorrect, then the Participant may contest that determination. Such contest should be in written form, addressed to PJMSettlement, and should contain:

- ◆ A complete copy of the Participant's earlier request for reconsideration, including citations and calculations
- ◆ A copy of PJMSettlement's written response to its request for reconsideration
- ◆ An explanation of why it believes that the determination still does not comply with the credit policy

PJMSettlement will investigate and will respond to the Participant with a final determination on the matter as promptly as practical, but no longer than 20 Business Days.

Neither requesting reconsideration nor contesting the determination following such request shall relieve or delay Participant's responsibility to comply with all provisions of this credit policy.

#### **A. Initial Credit Evaluation**

In completing the initial credit evaluation, PJMSettlement will consider:

##### **1) Rating Agency Reports**

In evaluating credit strength, PJMSettlement will review rating agency reports from Standard & Poor's, Moody's Investors Service, Fitch Ratings, or other nationally known rating agencies. The focus of the review will be on senior unsecured debt ratings; however, PJMSettlement will consider other ratings if senior unsecured debt ratings are not available.

##### **2) Financial Statements and Related Information**

Each Participant must submit with its application audited financial statements for the most recent fiscal quarter, as well as the most recent three fiscal years, or the period of existence of the Participant, if shorter. All financial and related information considered for a Credit Score must be audited by an outside entity, and must be accompanied by an unqualified audit letter acceptable to PJMSettlement.

The information should include, but not be limited to, the following:

- a. If publicly traded:
  - i. Annual and quarterly reports on Form 10-K and Form 10-Q, respectively.
  - ii. Form 8-K reports disclosing Material changes, if any.
- b. If privately held:
  - i. Management's Discussion & Analysis
  - ii. Report of Independent Accountants
  - iii. Financial Statements, including:
    - Balance Sheet
    - Income Statement
    - Statement of Cash Flows
    - Statement of Stockholder's Equity
  - iv. Notes to Financial Statements

If the above information is available on the Internet, the Participant may provide a letter stating where such statements may be located and retrieved by PJMSettlement. For certain Participants, some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJMSettlement.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness.

### **3) References**

PJMSettlement may request Participants to provide with their applications at least one (1) bank and three (3) utility credit references. In the case where a Participant does not have the required utility references, trade payable vendor references may be substituted.

### **4) Litigation, Commitments and Contingencies**

Each Participant is also required to provide with its application information as to any known Material litigation, commitments or contingencies as well as any prior bankruptcy declarations or Material defalcations by the Participant or its predecessors, subsidiaries or Affiliates, if any. These disclosures shall be made upon application, upon initiation or change, and at least annually thereafter, or as requested by PJMSettlement.

### **5) Other Disclosures**

Each Participant is required to disclose any Affiliates that are currently Members of PJMSettlement or are applying for membership with PJMSettlement. Each Participant is also required to disclose the existence of any ongoing investigations by the Securities and Exchange Commission ("SEC"), Federal Energy Regulatory Commission ("FERC"), Commodity Futures Trading Commission ("CFTC"), or any other governing, regulatory, or standards body. These disclosures shall be made upon application, upon initiation or change, and at least annually thereafter, or as requested by PJMSettlement.

## **B. Ongoing Credit Evaluation**

On at least an annual basis, PJMSettlement will perform follow-up credit evaluations on all Participants. In completing the credit evaluation, PJMSettlement will consider:

### **1) Rating Agency Reports**

In evaluating credit strength, PJMSettlement will review rating agency reports from Standard & Poor's, Moody's Investors Service, Fitch Ratings, or other nationally known rating agencies. The focus of the review will be on senior unsecured debt ratings; however, PJMSettlement will consider other ratings if senior unsecured debt ratings are not available.

### **2) Financial Statements and Related Information**

Each Participant must submit audited annual financial statements as soon as they become available and no later than 120 days after fiscal year end. Each Participant is also required to provide PJMSettlement with quarterly financial statements promptly upon their issuance, but no later than 60 days after the end of each quarter. All financial and related information considered

for a Credit Score must be audited by an outside entity, and must be accompanied by an unqualified audit letter acceptable to PJMSettlement. If financial statements are not provided within the timeframe required, the Participant may not be granted an Unsecured Credit Allowance.

The information should include, but not be limited to, the following:

- a. If publicly traded:
  - i. Annual and quarterly reports on Form 10-K and Form 10-Q, respectively.
  - ii. Form 8-K reports disclosing Material changes, if any, immediately upon issuance.
- b. If privately held:
  - i. Management's Discussion & Analysis
  - ii. Report of Independent Accountants
  - iii. Financial Statements, including:
    - Balance Sheet
    - Income Statement
    - Statement of Cash Flows
    - Statement of Stockholder's Equity
  - iv. Notes to Financial Statements

If the above information is available on the Internet, the Participant may provide a letter stating where such statements may be located and retrieved by PJMSettlement. For certain Participants, some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJMSettlement.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness.

### **3) Material Changes**

Each Participant is responsible for informing PJMSettlement immediately, in writing, of any Material change in its financial condition. However, PJMSettlement may also independently establish from available information that a Participant has experienced a Material change in its financial condition without regard to whether such Participant has informed PJMSettlement of the same.

For the purpose of this policy, a Material change in financial condition may include, but not be limited to, any of the following:

- a. a downgrade of any debt rating by any rating agency;
- b. being placed on a credit watch with negative implications by any rating agency;
- c. a bankruptcy filing;
- d. insolvency;

- e. a report of a quarterly or annual loss or a decline in earnings of ten percent or more compared to the prior period;
- f. restatement of prior financial statements;
- g. the resignation of key officer(s);
- h. the filing of a lawsuit that could adversely impact any current or future financial results by ten percent or more;
- i. financial default in another organized wholesale electric market futures exchange or clearing house;
- j. revocation of a license or other authority by any Federal or State regulatory agency; where such license or authority is necessary or important to the Participants continued business for example, FERC market-based rate authority, or State license to serve retail load; or
- k. a significant change in credit default spreads, market capitalization, or other market-based risk measurement criteria, such as a recent increase in Moody's KMV Expected Default Frequency (EDF<sup>tm</sup>) that is noticeably greater than the increase in its peers' EDF<sup>tm</sup> rates, or a collateral default swap (CDS) premium normally associated with an entity rated lower than investment grade.

If PJMSettlement determines that a Material change in the financial condition of the Participant has occurred, it may require the Participant to provide Financial Security within two Business Days, in an amount and form approved by PJMSettlement. If the Participant fails to provide the required Financial Security, the Participant shall be in default under this credit policy.

In the event that PJMSettlement determines that a Material change in the financial condition of a Participant warrants a requirement to provide Financial Security, PJMSettlement shall provide the Participant with a written explanation of why such determination was made. However, under no circumstances shall the requirement that a Participant provide the requisite Financial Security be deferred pending the issuance of such written explanation.

#### **4) Litigation, Commitments, and Contingencies**

Each Participant is also required to provide information as to any known Material litigation, commitments or contingencies as well as any prior bankruptcy declarations or Material defalcations by the Participant or its predecessors, subsidiaries or Affiliates, if any. These disclosures shall be made upon initiation or change or as requested by PJMSettlement.

#### **5) Other Disclosures**

Each Participant is required to disclose any Affiliates that are currently Members of PJM or are applying for membership within PJM. Each Participant is also required to disclose the existence of any ongoing investigations by the SEC, FERC, CFTC or any other governing, regulatory, or standards body. These disclosures shall be made upon initiation or change, or as requested by PJMSettlement.

### **C. Corporate Guaranty**



If a Corporate Guaranty is being utilized to establish credit for a Participant, the Guarantor will be evaluated and the Unsecured Credit Allowance or Financial Security requirement will be based on the financial strength of the Guarantor.

An irrevocable and unconditional Corporate Guaranty may be utilized as part of the credit evaluation process, but will not be considered a form of Financial Security. The Corporate Guaranty will be considered a transfer of credit from the Guarantor to the Participant. The Corporate Guaranty must guarantee the (i) full and prompt payment of all amounts payable by the Participant under the Agreements, and (ii) performance by the Participant under this policy.

The Corporate Guaranty should clearly state the identities of the “Guarantor,” “Beneficiary” (PJMSettlement) and “Obligor” (Participant). The Corporate Guaranty must be signed by an officer of the Guarantor, and must demonstrate that it is duly authorized in a manner acceptable to PJMSettlement. Such demonstration may include either a Corporate Seal on the Guaranty itself, or an accompanying executed and sealed Secretary’s Certificate noting that the Guarantor was duly authorized to provide such Corporate Guaranty and that the person signing the Corporate Guaranty is duly authorized, or other manner acceptable to PJMSettlement.

A Participant supplying a Corporate Guaranty must provide the same information regarding the Guarantor as is required in the “Initial Credit Evaluation” §I.A. and the “Ongoing Evaluation” §I.B. of this policy, including providing the Rating Agency Reports, Financial Statements and Related Information, References, Litigation Commitments and Contingencies, and Other Disclosures. A Participant supplying a Foreign or Canadian Guaranty must also satisfy the requirements of §I.C.1 or §I.C.2, as appropriate.

If there is a Material change in the financial condition of the Guarantor or if the Corporate Guaranty comes within 30 days of expiring without renewal, the Participant will be required to provide Financial Security either in the form of a cash deposit or a letter of credit. Failure to provide the required Financial Security within two Business Days after request by PJMSettlement will constitute an event of default under this credit policy. A Participant may request PJMSettlement to perform a credit evaluation in order to determine creditworthiness and to establish an Unsecured Credit Allowance, if applicable. If PJMSettlement determines that a Participant does qualify for a sufficient Unsecured Credit Allowance, then Financial Security will not be required.

The PJMSettlement Credit Application contains an acceptable form of Corporate Guaranty that should be utilized by a Participant choosing to establish its credit with a Corporate Guaranty. If the Corporate Guaranty varies in any way from the PJMSettlement format, it must first be reviewed and approved by PJMSettlement. All costs associated with obtaining and maintaining a Corporate Guaranty and meeting the policy provisions are the responsibility of the Participant.

## **1) Foreign Guaranties**

A Foreign Guaranty is a Corporate Guaranty that is provided by an Affiliate entity that is domiciled in a country other than the United States or Canada. The entity providing a Foreign Guaranty on behalf of a Participant is a Foreign Guarantor. A Participant may provide a Foreign

Guaranty in satisfaction of part of its credit obligations or voluntary credit provision at PJMSettlement provided that all of the following conditions are met:

PJMSettlement reserves the right to deny, reject, or terminate acceptance of any Foreign Guaranty at any time, including for material adverse circumstances or occurrences.

- a. A Foreign Guaranty:
  - i. Must contain provisions equivalent to those contained in PJMSettlement's standard form of Foreign Guaranty with any modifications subject to review and approval by PJMSettlement counsel.
  - ii. Must be denominated in US currency.
  - iii. Must be written and executed solely in English, including any duplicate originals.
  - iv. Will not be accepted towards a Participant's Unsecured Credit Allowance for more than the following limits, depending on the Foreign Guarantor's credit rating:

Rating of Foreign Guarantor	Maximum Accepted Guaranty if Country Rating is AAA	Maximum Accepted Guaranty if Country Rating is AA+
A- and above	USD50,000,000	USD30,000,000
BBB+	USD30,000,000	USD20,000,000
BBB	USD10,000,000	USD10,000,000
BBB- or below	USD 0	USD 0

- v. May not exceed 50% of the Participant's total credit, if the Foreign Grantor is rated less than BBB+.
- b. A Foreign Guarantor:
  - i. Must satisfy all provisions of the PJM credit policy applicable to domestic Guarantors.
  - ii. Must be an Affiliate of the Participant.
  - iii. Must maintain an agent for acceptance of service of process in the United States; such agent shall be situated in the Commonwealth of Pennsylvania, absent legal constraint.
  - iv. Must be rated by at least one Rating Agency acceptable to PJMSettlement; the credit strength of a Foreign Guarantor may not be determined based on an evaluation of its financials without an actual credit rating as well.
  - v. Must have a Senior Unsecured (or equivalent, in PJMSettlement's sole discretion) rating of BBB (one notch above BBB-) or greater by any and all agencies that provide rating coverage of the entity.
  - vi. Must provide financials in GAAP format or other format acceptable to PJMSettlement with clear representation of net worth, intangible assets, and any other information PJMSettlement may require in order to determine the entity's Unsecured Credit Allowance

- vii. Must provide a Secretary's Certificate certifying the adoption of Corporate Resolutions:
  - 1. Authorizing and approving the Guaranty; and
  - 2. Authorizing the Officers to execute and deliver the Guaranty on behalf of the Guarantor.
- viii. Must be domiciled in a country with a minimum long-term sovereign (or equivalent) rating of AA+/Aa1, with the following conditions:
  - 1. Sovereign ratings must be available from at least two rating agencies acceptable to PJMSettlement (e.g. S&P, Moody's, Fitch, DBRS).
  - 2. Each agency's sovereign rating for the domicile will be considered to be the lowest of: country ceiling, senior unsecured government debt, long-term foreign currency sovereign rating, long-term local currency sovereign rating, or other equivalent measures, at PJMSettlement's sole discretion.
  - 3. Whether ratings are available from two or three agencies, the lowest of the two or three will be used.
- ix. Must be domiciled in a country that recognizes and enforces judgments of US courts.
- x. Must demonstrate financial commitment to activity in the United States as evidenced by one of the following:
  - 1. American Depositary Receipts (ADR) are traded on the New York Stock Exchange, American Stock Exchange, or NASDAQ.
  - 2. Equity ownership worth over USD100,000,000 in the wholly-owned or majority owned subsidiaries in the United States.
- xi. Must satisfy all other applicable provisions of the PJM Tariff and/or Operating Agreement, including this credit policy.
- xii. Must pay for all expenses incurred by PJMSettlement related to reviewing and accepting a foreign guaranty beyond nominal in-house credit and legal review.
- xiii. Must, at its own cost, provide PJMSettlement with independent legal opinion from an attorney/solicitor of PJMSettlement's choosing and licensed to practice law in the United States and/or Guarantor's domicile, in form and substance acceptable to PJMSettlement in its sole discretion, confirming the enforceability of the Foreign Guaranty, the Guarantor's legal authorization to grant the Guaranty, the conformance of the Guaranty, Guarantor, and Guarantor's domicile to all of these requirements, and such other matters as PJMSettlement may require in its sole discretion.

## **2) Canadian Guaranties**

A Canadian Guaranty is a Corporate Guaranty that is provided by an Affiliate entity that is domiciled in Canada and satisfies all of the provisions below. The entity providing a Canadian Guaranty on behalf of a Participant is a Canadian Guarantor. A Participant may provide a Canadian Guaranty in satisfaction of part of its credit obligations or voluntary credit provision at PJMSettlement provided that all of the following conditions are met.

PJMSettlement reserves the right to deny, reject, or terminate acceptance of any Canadian Guaranty at any time for reasonable cause, including adverse material circumstances.

- a. A Canadian Guaranty:
  - i. Must contain provisions equivalent to those contained in PJMSettlement's standard form of Foreign Guaranty with any modifications subject to review and approval by PJMSettlement counsel.
  - ii. Must be denominated in US currency.
  - iii. Must be written and executed solely in English, including any duplicate originals.
- b. A Canadian Guarantor:
  - i. Must satisfy all provisions of the PJM credit policy applicable to domestic Guarantors.
  - ii. Must be an Affiliate of the Participant.
  - iii. Must maintain an agent for acceptance of service of process in the United States; such agent shall be situated in the Commonwealth of Pennsylvania, absent legal constraint.
  - iv. Must be rated by at least one Rating Agency acceptable to PJMSettlement; the credit strength of a Canadian Guarantor may not be determined based on an evaluation of its financials without an actual credit rating as well.
  - v. Must provide financials in GAAP format or other format acceptable to PJMSettlement with clear representation of net worth, intangible assets, and any other information PJMSettlement may require in order to determine the entity's Unsecured Credit Allowance.
  - vi. Must satisfy all other applicable provisions of the PJM Tariff and/or Operating Agreement, including this Credit Policy.

## **Ia. MINIMUM PARTICIPATION REQUIREMENTS**

### **A. PJM Market Participation Eligibility Requirements**

To be eligible to transact in PJM Markets, a Market Participant must demonstrate in accordance with the Risk Management and Verification processes set forth below that it qualifies in one of the following ways:

1. an "appropriate person," as that term is defined under Section 4(c)(3), or successor provision, of the Commodity Exchange Act, or;
2. an "eligible contract participant," as that term is defined in Section 1a(18), or successor provision, of the Commodity Exchange Act, or;
3. a business entity or person who is in the business of: (1) generating, transmitting, or distributing electric energy, or (2) providing electric energy services that are necessary to support the reliable operation of the transmission system, or;

4. a Market Participant seeking eligibility as an “appropriate person” providing an unlimited Corporate Guaranty in a form acceptable to PJMSettlement as described in Section I.C of Attachment Q from an issuer that has at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty, or;
5. a Market Participant providing a letter of credit of at least \$5 million to PJMSettlement in a form acceptable to PJMSettlement as described in Section VI.B of Attachment Q that the Market Participant acknowledges is separate from, and cannot be applied to meet, its credit requirements to PJMSettlement.

If, at any time, a Market Participant cannot meet the eligibility requirements set forth above, it shall immediately notify PJMSettlement and immediately cease conducting transactions in the PJM Markets. PJMSettlement shall terminate a Market Participant’s transaction rights in the PJM Markets if, at any time, it becomes aware that the Market Participant does not meet the minimum eligibility requirements set forth above.

In the event that a Market Participant is no longer able to demonstrate it meets the minimum eligibility requirements set forth above, and possesses, obtains or has rights to possess or obtain, any open or forward positions in PJM’s Markets, PJMSettlement may take any such action it deems necessary with respect to such open or forward positions, including, but not limited to, liquidation, transfer, assignment or sale; provided, however, that the Market Participant will, notwithstanding its ineligibility to participate in the PJM Markets, be entitled to any positive market value of those positions, net of any obligations due and owing to PJM and/or PJMSettlement.

## **B. Risk Management and Verification**

All Participants shall provide to PJMSettlement an executed copy of the annual certification set forth in Appendix 1 to this Attachment Q. This certification shall be provided before an entity is eligible to participate in the PJM Markets and shall be initially submitted to PJMSettlement together with the entity’s Credit Application. Thereafter, it shall be submitted each calendar year by all Participants during a period beginning on January 1 and ending April 30, except that new Participants who became eligible to participate in PJM markets during the period of January through April shall not be required to resubmit such certification until the following calendar year. Except for certain FTR Participants (discussed below) or in cases of manifest error, PJMSettlement will accept such certifications as a matter of course and Participants will not need further notice from PJMSettlement before commencing or maintaining their eligibility to participate in PJM markets. A Participant that fails to provide its annual certification by April 30 shall be ineligible to transact in the PJM markets and PJM will disable the Participant’s access to the PJM markets until such time as PJMSettlement receives the Participant’s certification.

Participants acknowledge and understand that the annual certification constitutes a representation upon which PJMSettlement will rely. Such representation is additionally made under the PJM Tariff, filed with and accepted by FERC, and any inaccurate or incomplete statement may subject the Participant to action by FERC. Failure to comply with any of the criteria or

requirements listed herein or in the certification may result in suspension of a Participant's transaction rights in the PJM markets.

Certain FTR Participants (those providing representations found in paragraph 3.b of the annual certification set forth in Appendix 1 to this Attachment Q) are additionally required to submit to PJMSettlement (at the time they make their annual certification) a copy of their current governing risk control policies, procedures and controls applicable to their FTR trading activities, except that if no substantive changes have been made to such policies, practices and/or controls applicable to their FTR trading activities, they may instead submit to PJMSettlement a certification stating that no changes have been made. PJMSettlement will review such documentation to verify that it appears generally to conform to prudent risk management practices for entities trading in FTR-type markets. If principles or best practices relating to risk management in FTR-type markets are published, as may be modified from time to time, by a third-party industry association, such as the Committee of Chief Risk Officers, PJMSettlement may, following stakeholder discussion and with no less than six months prior notice to stakeholders, apply such principles or best practices in determining the fundamental sufficiency of the FTR Participant's risk controls. Those FTR Participants subject to this provision shall make a one-time payment of \$1,000.00 to PJMSettlement to cover costs associated with review and verification. Thereafter, if such FTR Participant's risk policies, procedures and controls applicable to its FTR trading activities change substantively, it shall submit such modified documentation, without charge, to PJMSettlement for review and verification at the time it makes its annual certification. Such FTR Participant's continued eligibility to participate in the PJM FTR markets is conditioned on PJMSettlement notifying such FTR Participant that its annual certification, including the submission of its risk policies, procedures and controls, has been accepted by PJMSettlement. PJMSettlement may retain outside expertise to perform the review and verification function described in this paragraph, however, in all circumstances, PJMSettlement and any third-party it may retain will treat as confidential the documentation provided by an FTR Participant under this paragraph, consistent with the applicable provisions of PJM's Operating Agreement.

An FTR Participant that makes the representation in paragraph 3.a of the annual certification understand that PJMSettlement, given the visibility it has over a Participant's overall market activity in performing billing and settlement functions, may at any time request the FTR Participant provide additional information demonstrating that it is in fact eligible to make the representation in paragraph 3.a of the annual certification. If such additional information is not provided or does not, in PJMSettlement's judgment, demonstrate eligibility to make the representation in paragraph 3.a of the annual certification, PJMSettlement will require the FTR Participant to instead make the representations required in paragraph 3.b of the annual certification, including representing that it has submitted a copy of its current governing risk control policies, procedures and controls applicable to its FTR trading activities. If the FTR Participant cannot or does not make those representations as required in paragraph 3.b of the annual certification, then PJM will terminate the FTR Participant's rights to purchase FTRs in the FTR market and may terminate the FTR Participant's rights to sell FTRs in the PJM FTR market.

PJMSettlement shall also conduct a periodic compliance verification process to review and verify, as applicable, Participants' risk management policies, practices, and procedures pertaining to the Participants' activities in the PJM markets. Such review shall include verification that:

1. The risk management framework is documented in a risk policy addressing market, credit and liquidity risks.
2. The Participant maintains an organizational structure with clearly defined roles and responsibilities that clearly segregates trading and risk management functions.
3. There is clarity of authority specifying the types of transactions into which traders are allowed to enter.
4. The Participant has requirements that traders have adequate training relative to their authority in the systems and PJM markets in which they transact.
5. As appropriate, risk limits are in place to control risk exposures.
6. Reporting is in place to ensure that risks and exceptions are adequately communicated throughout the organization.
7. Processes are in place for qualified independent review of trading activities.
8. As appropriate, there is periodic valuation or mark-to-market of risk positions.

If principles or best practices relating to risk management in PJM-type markets are published, as may be modified from time to time, by a third-party industry association, PJMSettlement may, following stakeholder discussion and with no less than six months prior notice to stakeholders, apply such principles or best practices in determining the sufficiency of the Participant's risk controls. PJMSettlement may select Participants for review on a random basis and/or based on identified risk factors such as, but not limited to, the PJM markets in which the Participant is transacting, the magnitude of the Participant's transactions in the PJM markets, or the volume of the Participant's open positions in the PJM markets. Those Participants notified by PJMSettlement that they have been selected for review shall, upon 14 calendar days notice, provide a copy of their current governing risk control policies, procedures and controls applicable to their PJM market activities and shall also provide such further information or documentation pertaining to the Participants' activities in the PJM markets as PJMSettlement may reasonably request. Participants selected for risk management verification through a random process and satisfactorily verified by PJMSettlement shall be excluded from such verification process based on a random selection for the subsequent two years. PJMSettlement shall annually randomly select for review no more than 20% of the Participants in each member sector.

Each selected Participant's continued eligibility to participate in the PJM markets is conditioned upon PJMSettlement notifying the Participant of successful completion of PJMSettlement's verification of the Participant's risk management policies, practices and procedures, as discussed

herein. However, if PJMSettlement notifies the Participant in writing that it could not successfully complete the verification process, PJMSettlement shall allow such Participant 14 calendar days to provide sufficient evidence for verification prior to declaring the Participant as ineligible to continue to participate in PJM's markets, which declaration shall be in writing with an explanation of why PJMSettlement could not complete the verification. If, prior to the expiration of such 14 calendar days, the Participant demonstrates to PJMSettlement that it has filed with the Federal Energy Regulatory Commission an appeal of PJMSettlement's risk management verification determination, then the Participant shall retain its transaction rights, pending the Commission's determination on the Participant's appeal. PJMSettlement may retain outside expertise to perform the review and verification function described in this paragraph. PJMSettlement and any third party it may retain will treat as confidential the documentation provided by a Participant under this paragraph, consistent with the applicable provisions of the Operating Agreement. If PJMSettlement retains such outside expertise, a Participant may direct in writing that PJMSettlement perform the risk management review and verification for such Participant instead of utilizing a third party, provided however, that employees and contract employees of PJMSettlement and PJM shall not be considered to be such outside expertise or third parties.

Participants are solely responsible for the positions they take and the obligations they assume in PJM markets. PJMSettlement hereby disclaims any and all responsibility to any Participant or PJM Member associated with Participant's submitting or failure to submit its annual certification or PJMSettlement's review and verification of an FTR Participant's risk policies, procedures and controls. Such review and verification is limited to demonstrating basic compliance by an FTR Participant with the representation it makes under paragraph 3.b of its annual certification showing the existence of written policies, procedures and controls to limit its risk in PJM's FTR markets and does not constitute an endorsement of the efficacy of such policies, procedures or controls.

## **C. Capitalization**

In addition to the Annual Certification requirements in Appendix 1 to this Attachment Q, a Participant must demonstrate that it meets the minimum financial requirements appropriate for the PJM market(s) in which it transacts by satisfying either the Minimum Capitalization or the Provision of Collateral requirements listed below:

### **1. Minimum Capitalization**

FTR Participants must demonstrate a tangible net worth in excess of \$1 million or tangible assets in excess of \$10 million. Other Participants must demonstrate a tangible net worth in excess of \$500,000 or tangible assets in excess of \$5 million.

- a. In either case, consideration of "tangible" assets and net worth shall exclude assets (net of any matching liabilities, assuming the result is a positive value) which PJMSettlement reasonably believes to be restricted, highly risky, or potentially unavailable to settle a claim in the event of default. Examples include, but are not



limited to, restricted assets and Affiliate assets, derivative assets, goodwill, and other intangible assets.

- b. Demonstration of “tangible” assets and net worth may be satisfied through presentation of an acceptable Corporate Guaranty, provided that both:
  - (i) the guarantor is an affiliate company that satisfies the tangible net worth or tangible assets requirements herein, and;
  - (ii) the Corporate Guaranty is either unlimited or at least \$500,000.

If the Corporate Guaranty presented by the Participant to satisfy these Capitalization requirements is limited in value, then the Participant’s resulting Unsecured Credit Allowance shall be the lesser of:

- (1) the applicable Unsecured Credit Allowance available to the Participant by the Corporate Guaranty pursuant to the creditworthiness provisions of this Credit Policy, or:
- (2) the face value of the Corporate Guaranty, reduced by \$500,000 and further reduced by 10%. (For example, a \$10.5 million Corporate Guaranty would be reduced first by \$500,000 to \$10 million and then further reduced 10% more to \$9 million. The resulting \$9 million would be the Participant’s Unsecured Credit Allowance available through the Corporate Guaranty).

In the event that a Participant provides collateral in addition to a limited Corporate Guaranty to increase its available credit, the value of such collateral shall be reduced by 10%. This reduced value shall be deemed Financial Security and available to satisfy the requirements of this Credit Policy.

Demonstrations of capitalization must be presented in the form of audited financial statements for the Participant’s most recent fiscal year.

## **2. Provision of Collateral**

If a Participant does not demonstrate compliance with its applicable Minimum Capitalization Requirements above, it may still qualify to participate in PJM’s markets by posting additional collateral, subject to the terms and conditions set forth herein.

Any collateral provided by a Participant unable to satisfy the Minimum Capitalization Requirements above will be restricted in the following manner:

- i. Collateral provided by FTR Participants shall be reduced by \$500,000 and then further reduced by 10%. This reduced amount shall be considered the Financial Security provided by the Participant and available to satisfy requirements of this Credit Policy.
- ii. Collateral provided by other Participants that engage in Virtual Transactions or Export Transactions shall be reduced by \$200,000 and then further reduced by 10%. This reduced value shall be considered Financial Security available to satisfy requirements of this Credit Policy.
- iii. Collateral provided by other Participants that do not engage in Virtual Transactions or Export Transactions shall be reduced by 10%, and this reduced value shall be considered Financial Security available to satisfy requirements of this Credit Policy.

In the event a Participant that satisfies the Minimum Participation Requirements through provision of collateral also provides a Corporate Guaranty to increase its available credit, then the Participant's resulting Unsecured Credit Allowance conveyed through such Guaranty shall be the lesser of:

- (1) the applicable Unsecured Credit Allowance available to the Participant by the Corporate Guaranty pursuant to the creditworthiness provisions of this credit policy, or,
- (2) the face value of the Guaranty, reduced by 10%.

## **II. CREDIT ALLOWANCE AND WORKING CREDIT LIMIT**

PJMSettlement's credit evaluation process will include calculating a Credit Score for each Participant. The credit score will be utilized to determine a Participant's Unsecured Credit Allowance.

Participants who do not qualify for an Unsecured Credit Allowance will be required to provide Financial Security based on their Peak Market Activity, as provided below.

A corresponding Working Credit Limit will be established based on the Unsecured Credit Allowance and/or the Financial Security provided.

Where Participant of PJM are considered Affiliates, Unsecured Credit Allowances and Working Credit Limits will be established for each individual Participant, subject to an aggregate maximum amount for all Affiliates as provided for in §II.F of this policy.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness.

## A. Credit Score

For participants with credit ratings, a Credit Score will be assigned based on their senior unsecured credit rating and credit watch status as shown in the table below. If an explicit senior unsecured rating is not available, PJMSettlement may impute an equivalent rating from other ratings that are available. For Participants without a credit rating, but who wish to be considered for unsecured Credit, a Credit Score will be generated from PJMSettlement's review and analysis of various factors that are predictors of financial strength and creditworthiness. Key factors in the scoring process include, financial ratios, and years in business. PJMSettlement will consistently apply the measures it uses in determining Credit Scores. The credit scoring methodology details are included in a supplementary document available on OASIS.

### Rated Entities Credit Scores

Rating	Score	Score Modifier	
		Credit Watch Negative	Credit Watch Positive
AAA	100	-1.0	0.0
AA+	99	-1.0	0.0
AA	99	-1.0	0.0
AA-	98	-1.0	0.0
A+	97	-1.0	0.0
A	96	-2.0	0.0
A-	93	-3.0	1.0
BBB+	88	-4.0	2.0
BBB	78	-4.0	2.0
BBB-	65	-4.0	2.0
BB+ and below	0	0.0	0.0

## B. Unsecured Credit Allowance

PJMSettlement will determine a Participant's Unsecured Credit Allowance based on its Credit Score and the parameters in the table below. The maximum Unsecured Credit Allowance is the lower of:

- 1) A percentage of the Participant's Tangible Net Worth, as stated in the table below, with the percentage based on the Participant's credit score; and
- 2) A dollar cap based on the credit score, as stated in the table below:

<b>Credit Score</b>	<b>Tangible Net Worth Factor</b>	<b>Maximum Unsecured Credit Allowance</b>  <b>(\$ Million)</b>
91-100	2.125 – 2.50%	\$50
81-90	1.708 – 2.083%	\$42
71-80	1.292 – 1.667%	\$33
61-70	0.875 – 1.25%	\$7
51-60	0.458 – 0.833%	\$0-\$2
50 and Under	0%	\$0

If a Corporate Guaranty is utilized to establish an Unsecured Credit Allowance for a Participant, the value of a Corporate Guaranty will be the lesser of:

- The limit imposed in the Corporate Guaranty;
- The Unsecured Credit Allowance calculated for the Guarantor; and
- A portion of the Unsecured Credit Allowance calculated for the Guarantor in the case of Affiliated Participants.

PJMSettlement has the right at any time to modify any Unsecured Credit Allowance and/or require additional Financial Security as may be deemed reasonably necessary to support current market activity. Failure to pay the required amount of additional Financial Security within two Business Days shall be an event of default.

PJMSettlement will maintain a posting of each Participant's unsecured Credit Allowance, along with certain other credit related parameters, on the PJM web site in a secure, password-protected location. Such information will be updated at least weekly. Each Participant will be responsible for monitoring such information and recognizing changes that may occur.

### **C. Seller Credit**

Participants that have maintained a Net Sell Position for each of the prior 12 months are eligible for Seller Credit, which is an additional form of Unsecured Credit. A Participant's Seller Credit will be equal to sixty percent of the Participant's thirteenth smallest weekly Net Sell Position invoiced in the past 52 weeks.

Each Participant receiving Seller Credit must maintain both its Seller Credit and its Total Net Sell Position equal to or greater than the Participant's aggregate credit requirements, less any Financial Security or other sources of credit provided.

For Participants receiving Seller Credit, PJMSettlement may forecast the Participant's Total Net Sell Position considering the Participant's current Total Net Sell Position, recent trends in the Participant's Total Net Sell Position, and other information available to PJMSettlement, such as, but not limited to, known generator outages, changes in load responsibility, and bilateral

transactions impacting the Participant. If PJMSettlement's forecast ever indicates that the Participant's Total Net Sell Position may in the future be less than the Participant's aggregate credit requirements, less any Financial Security or other sources of credit provided, then PJMSettlement may require Financial Security as needed to cover the difference. Failure to pay the required amount of additional Financial Security within two Business Days shall be an event of default.

Any Financial Security required by PJMSettlement pursuant to these provisions for Seller Credit will be returned once the requirement for such Financial Security has ended. Seller Credit may not be conveyed to another entity through use of a guaranty. Seller Credit shall be subject to the cap on available Unsecured Credit set forth in Section II.F.

#### **D. Peak Market Activity and Financial Security Requirement**

A PJM Participant or Applicant that has an insufficient Unsecured Credit Allowance to satisfy its Peak Market Activity will be required to provide Financial Security such that its Unsecured Credit Allowance and Financial Security together are equal to its Peak Market Activity in order to secure its transactional activity in the PJM Market.

Peak Market Activity for Participants will be determined semi-annually beginning in the first complete billing week in the months of April and October. Peak Market Activity shall be the greater of the initial Peak Market Activity, as explained below, or the greatest amount invoiced for the Participant's transaction activity for all PJM markets and services in any rolling one, two, or three week period, ending within a respective semi-annual period. However, Peak Market Activity shall not exceed the greatest amount invoiced for the Participant's transaction activity for all PJM markets and services in any rolling one, two or three week period in the prior 52 weeks.

Peak Market Activity shall exclude FTR Net Activity, Virtual Transactions Net Activity, and Export Transactions Net Activity.

The initial Peak Market Activity for Applicants will be determined by PJMSettlement based on a review of an estimate of their transactional activity for all PJM markets and services over the next 52 weeks, which the Applicant shall provide to PJMSettlement.

The initial Peak Market Activity for Participants, calculated at the beginning of each respective semi-annual period, shall be the three-week average of all non-zero invoice totals over the previous 52 weeks. This calculation shall be performed and applied within three business days following the day the invoice is issued for the first full billing week in the current semi-annual period.

Prepayments shall not affect Peak Market Activity unless otherwise agreed to in writing pursuant to this Credit Policy.

All Peak Market Activity calculations shall take into account reductions of invoice values effectuated by early payments which are applied to reduce a Participant's Peak Market Activity

as contemplated by other terms of the Credit Policy; provided that the initial Peak Market Activity shall not be less than the average value calculated using the weeks for which no early payment was made.

A Participant may reduce its Financial Security Requirement by agreeing in writing (in a form acceptable to PJMSettlement) to make additional payments, including prepayments, as and when necessary to ensure that such Participant's Total Net Obligation at no time exceeds such reduced Financial Security Requirement.

PJMSettlement may, at its discretion, adjust a Participant's Financial Security Requirement if PJMSettlement determines that the Peak Market Activity is not representative of such Participant's expected activity, as a consequence of known, measurable, and sustained changes. Such changes may include the loss (without replacement) of short-term load contracts, when such contracts had terms of three months or more and were acquired through state-sponsored retail load programs, but shall not include short-term buying and selling activities.

PJMSettlement may waive the Financial Security Requirement for a Participant that agrees in writing that it shall not, after the date of such agreement, incur obligations under any of the Agreements. Such entity's access to all electronic transaction systems administered by PJM shall be terminated.

PJMSettlement will maintain a posting of each Participant's Financial Security Requirement on the PJM web site in a secure, password-protected location. Such information will be updated at least weekly. Each Participant will be responsible for monitoring such information and recognizing changes that may occur.

#### **E. Working Credit Limit**

PJMSettlement will establish a Working Credit Limit for each Participant against which its **Total Net Obligation** will be monitored. The Working Credit Limit is defined as 75% of the Financial Security provided to PJMSettlement and/or 75% of the Unsecured Credit Allowance determined by PJMSettlement based on a credit evaluation, as reduced by any applicable credit requirement determinants defined in this policy. A Participant's Total Net Obligation should not exceed its Working Credit Limit.

Example: After a credit evaluation by PJMSettlement, a Participant is deemed able to support an Unsecured Credit Allowance of \$10.0 million. The Participant will be assigned a Working Credit Limit of \$8.5 million. PJMSettlement will monitor the Participant's Total Net Obligations against the Working Credit Limit.

A Participant with an Unsecured Credit Allowance may choose to provide Financial Security in order to increase its Working Credit Limit. A Participant with no Unsecured Credit Allowance may also choose to increase its Working Credit Limit by providing Financial Security in an amount greater than its Peak Market Activity.

If a Participant's Total Net Obligation approaches its Working Credit Limit, PJMSettlement may require the Participant to make an advance payment or increase its Financial Security in order to maintain its Total Net Obligation below its Working Credit Limit. Except as explicitly provided

below, advance payments shall not serve to reduce the Participant's Peak Market Activity for the purpose of calculating credit requirements.

Example: After 10 days, and with 5 days remaining before the bill is due to be paid, a Participant approaches its \$4.0 million Working Credit Limit. PJMSettlement may require a prepayment of \$2.0 million in order that the Total Net Obligation will not exceed the Working Credit Limit.

If a Participant exceeds its Working Credit Limit or is required to make advance payments more than ten times during a 52-week period, PJMSettlement may require Financial Security in an amount as may be deemed reasonably necessary to support its Total Net Obligation.

A Participant receiving unsecured credit may make early payments up to ten times in a rolling 52-week period in order to reduce its Peak Market Activity for credit requirement purposes. Imputed Peak Market Activity reductions for credit purposes will be applied to the billing period for which the payment was received. Payments used as the basis for such reductions must be received prior to issuance or posting of the invoice for the relevant billing period. The imputed Peak Market Activity reduction attributed to any payment may not exceed the amount of Unsecured Credit for which the Participant is eligible.

#### **F. Credit Limit Setting For Affiliates**

If two or more Participants are Affiliates and each is being granted an Unsecured Credit Allowance and a corresponding Working Credit Limit, PJMSettlement will consider the overall creditworthiness of the Affiliated Participants when determining the Unsecured Credit Allowances and Working Credit Limits in order not to grant more Unsecured Credit than the overall corporation could support.

**Example:** Participants A and B each have a \$10.0 million Corporate Guaranty from their common parent, a holding company with an Unsecured Credit Allowance calculation of \$12.0 million. PJMSettlement may limit the Unsecured Credit Allowance for each Participant to \$6.0 million, so the total Unsecured Credit Allowance does not exceed the corporate total of \$12.0 million.

PJMSettlement will work with Affiliated Participants to allocate the total Unsecured Credit Allowance among the Affiliates while assuring that no individual Participant, nor common guarantor, exceeds the Unsecured Credit Allowance appropriate for its credit strength. The aggregate Unsecured Credit for a Participant, including Unsecured Credit Allowance granted based on its own creditworthiness and any Unsecured Credit Allowance conveyed through a Guaranty shall not exceed \$50 million. The aggregate Unsecured Credit for a group of Affiliates shall not exceed \$50 million. A group of Affiliates subject to this cap shall request PJMSettlement to allocate the maximum Unsecured Credit and Working Credit Limit amongst the group, assuring that no individual Participant or common guarantor, shall exceed the Unsecured Credit level appropriate for its credit strength and activity.

#### **G. Working Credit Limit Violations**

##### **1) Notification**

A Participant is subject to notification when its Total Net Obligation to PJMSettlement approaches the Participant's established Working Credit Limit.

## **2) Suspension**

A Participant that exceeds its Working Credit Limit is subject to suspension from participation in the PJM markets and from scheduling any future Transmission Service unless and until Participant's credit standing is brought within acceptable limits. A Participant will have two Business Days from notification to remedy the situation in a manner deemed acceptable by PJMSettlement. Additionally, PJMSettlement, in coordination with PJM, will take such actions as may be required or permitted under the Agreements, including but not limited to the termination of the Participant's ongoing Transmission Service and participation in PJM Markets. Failure to comply with this policy will be considered an event of default under this credit policy.

## **H. PJM Administrative Charges**

Financial Security held by PJMSettlement shall also secure obligations to PJM for PJM administrative charges.

## **I. Pre-existing Financial Security**

PJMSettlement's credit requirements are applicable as of the effective date of the filing on May 5, 2010 by PJM and PJMSettlement of amendments to Attachment Q. Financial Security held by PJM prior to the effective date of such amendments shall be held by PJM for the benefit of PJMSettlement.

## **III. VIRTUAL TRANSACTION SCREENING**

### **A. Credit and Financial Security**

PJMSettlement does not require a Market Participant to establish separate or additional credit for submitting Virtual Transactions. If a Market Participant chooses to establish additional Financial Security and/or Unsecured Credit Allowance in order to increase its Credit Available for Virtual Transactions, the Market Participant's Working Credit Limit for Virtual Transactions shall be increased in accordance with the definition thereof. The Financial Security and/or Unsecured Credit Allowance available to increase a Market Participant's Credit Available for Virtual Transactions shall be the amount of Financial Security and/or Unsecured Credit Allowance available after subtracting any credit required for Minimum Participation Requirements, FTR, Export Transactions, or other credit requirement determinants as defined in this policy, as applicable.

If a Market Participant chooses to provide additional Financial Security in order to increase its **Credit Available for Virtual Transactions PJMSettlement** may establish a reasonable timeframe, not to exceed three months, for which such Financial Security must be maintained. PJMSettlement will not impose such restriction on a deposit unless a Market Participant is



notified prior to making the deposit. Such restriction, if applied, shall be applied to all future deposits by all Market Participants engaging in Virtual Transactions.

A Market Participant wishing to increase its Credit Available for Virtual Transactions by providing additional Financial Security may make the appropriate arrangements with PJMSettlement. PJMSettlement will make a good faith effort to make new Financial Security available as Credit Available for Virtual Transactions as soon as practicable after confirmation of receipt. In any event, however, Financial Security received and confirmed by noon on a business day will be applied (as provided under this policy) to Credit Available for Virtual Transactions no later than 10:00 am on the following business day. Receipt and acceptance of wired funds for cash deposit shall mean actual receipt by PJMSettlement's bank, deposit into PJMSettlement's customer deposit account, and confirmation by PJMSettlement that such wire has been received and deposited. Receipt and acceptance of letters of credit shall mean receipt of the original letter of credit or amendment thereto, and confirmation from PJMSettlement's credit and legal staffs that such letter of credit or amendment thereto conforms to PJMSettlement's requirements, which confirmation shall be made in a reasonable and practicable timeframe. To facilitate this process, bidders wiring funds for the purpose of increasing their Credit Available for Virtual Transactions are advised to specifically notify PJMSettlement that a wire is being sent for such purpose.

## **B. Virtual Transaction Screening Process**

All Virtual Transactions submitted to PJM shall be subject to a credit screen prior to acceptance in the Day-ahead Energy Market auction. The credit screen process will automatically reject Virtual Transactions submitted by the PJM market participant if the participant's Credit Available for Virtual Transactions is exceeded by the **Virtual Credit Exposure** that is calculated based on the participant's submitted Virtual Transactions as described below.

A Participant's Virtual Credit Exposure will be calculated on a daily basis for all Virtual Transactions submitted by the market participant for the next market day using the following equation:

Virtual Credit Exposure = INC and DEC Exposure + Up-to Congestion Exposure

Where:

1) INC and DEC Exposure is calculated as:

(a) ((the total MWh bid or offered, whichever is greater, hourly at each node) x the Nodal Reference Price x 1 day) summed over all nodes and all hours; plus (b) ((the difference between the total bid MWh cleared and total offered MWh cleared hourly at each node) x Nodal Reference Price) summed over all nodes and all hours for the previous cleared Day-ahead Energy Market.

2) Up-to Congestion Exposure is calculated as:

(a) Total MWh bid hourly for each Up-to Congestion Transaction x (price bid – Up-to Congestion Reference Price) summed over all Up-to Congestion Transactions and all hours; plus (b) Total MWh cleared hourly for each Up-to Congestion Transaction x (cleared price – Up-to Congestion Reference Price) summed over all Up-to Congestion Transactions and all hours for the previous cleared Day-ahead Energy Market, provided that hours for which the calculation for an Up-to Congestion Transaction is negative, it shall be deemed to have a zero contribution to the sum.

If a Market Participant's Virtual Transactions are rejected as a result of the credit screen process, the Market Participant will be notified via an eMKT error message. A Market Participant whose Virtual Transactions are rejected may alter its Virtual Transactions so that its Virtual Credit Exposure does not exceed its Credit Available for Virtual Transactions, and may resubmit them. Virtual Transactions may be submitted in one or more groups during a day. If one or more groups of Virtual Transactions is submitted and accepted, and a subsequent group of submitted Virtual Transactions causes the total submitted Virtual Transactions to exceed the Virtual Credit Exposure, then only that subsequent set of Virtual Transactions will be rejected. Previously accepted Virtual Transactions will not be affected, though the Market Participant may choose to withdraw them voluntarily.

#### **IV. RELIABILITY PRICING MODEL AUCTION AND PRICE RESPONSIVE DEMAND CREDIT REQUIREMENTS**

Settlement during any Delivery Year of cleared positions resulting or expected to result from any Reliability Pricing Model Auction shall be included as appropriate in Peak Market Activity, and the provisions of this Attachment Q shall apply to any such activity and obligations arising therefrom. In addition, the provisions of this section shall apply to any entity seeking to participate in any RPM Auction, to address credit risks unique to such auctions. The provisions of this section also shall apply under certain circumstances to PRD Providers that seek to commit Price Responsive Demand pursuant to the provisions of the Reliability Assurance Agreement.

##### **A. Applicability**

A Market Seller seeking to submit a Sell Offer in any Reliability Pricing Model Auction based on any Capacity Resource for which there is a materially increased risk of non-performance must satisfy the credit requirement specified in section IV.B before submitting such Sell Offer. A PRD Provider seeking to commit Price Responsive Demand for which there is a materially increased risk of non-performance must satisfy the credit requirement specified in section IV.B before it may commit the Price Responsive Demand. A Wholesale Entity seeking to submit a WLR Bid based on any WLR Load or WEEL for which there is a materially increased risk of non-performance must satisfy the credit requirement in section IV.F for WLR Loads and section IV.G for WEELs before submitting such WLR Bid. Credit must be maintained until such risk of non-performance is substantially eliminated, but may be reduced commensurate with the reduction in such risk, as set forth in Section IV.C.

For purposes of this provision, a resource for which there is a materially increased risk of non-performance shall mean: (i) a Planned Generation Capacity Resource; (ii) a Planned Demand

Resource or an Energy Efficiency Resource; (iii) a Qualifying Transmission Upgrade; (iv) an existing or Planned Generation Capacity Resource located outside the PJM Region that at the time it is submitted in a Sell Offer has not secured firm transmission service to the border of the PJM Region sufficient to satisfy the deliverability requirements of the Reliability Assurance Agreement; (v) a Planned WLR Load; (vi) a Wholesale Energy Efficiency Load; or (vii) Price Responsive Demand to the extent the responsible PRD Provider has not registered PRD-eligible load at a PRD Substation level to satisfy its Nominal PRD Value commitment, in accordance with Schedule 6.1 of the Reliability Assurance Agreement.

## **B. Reliability Pricing Model Auction and Price Responsive Demand Credit Requirement**

Except as provided for Credit-Limited Offers below, for any resource specified in Section IV.A, other than WLR Load, Wholesale Energy Efficiency Load, and Price Responsive Demand, the credit requirement shall be the RPM Auction Credit Rate, as provided in Section IV.D, times the megawatts to be offered for sale from such resource in a Reliability Pricing Model Auction. The RPM Auction Credit Requirement for each Market Seller shall be the sum of the credit requirements for all such resources to be offered by such Market Seller in the auction or, as applicable, cleared by such Market Seller from the relevant auctions. For Price Responsive Demand specified in section IV.A, the credit requirement shall be based on the Nominal PRD Value (stated in Unforced Capacity terms) times the Price Responsive Demand Credit Rate as set forth in section IV.E. For WLR Load specified in Section IV.A, the credit requirement shall be based on the Nominal WLR Value (stated in Unforced Capacity terms) times the WLR Credit Rate as set forth in Section IV.F. For Wholesale Energy Efficiency Load specified in Section IV.A, the credit requirement shall be based on the Nominal WEEL Value (stated in Unforced Capacity terms) times the WEEL Credit Rate as set forth in Section IV.G.

Except for Credit-Limited Offers, the RPM Auction Credit Requirement for a Market Seller will be reduced for any Delivery Year to the extent less than all of such Market Seller's offers clear in the Base Residual Auction or any Incremental Auction for such Delivery Year. Such reduction shall be proportional to the quantity, in megawatts, that failed to clear in such Delivery Year.

A Sell Offer based on a Planned Generation Capacity Resource, Planned Demand Resource, or Energy Efficiency Resource or a WLR Bid based on a Planned WLR Load or a Wholesale Energy Efficiency Load may be submitted as a Credit-Limited Offer. An entity electing this option shall specify a maximum amount of Unforced Capacity or load reduction (in Unforced Capacity terms), in megawatts, and a maximum credit requirement, in dollars, applicable to the Sell Offer or WLR Bid. A Credit-Limited Offer or WLR Bid shall clear the RPM Auction in which it is submitted (to the extent it otherwise would clear based on the other offer parameters and the system's need for the offered capacity) only to the extent of the lesser of: (i) the quantity of Unforced Capacity or load reduction (in Unforced Capacity terms) that is the quotient of the division of the specified maximum credit requirement by the Auction Credit Rate resulting from section IV.D.b.; and (ii) the maximum amount of Unforced Capacity or load reduction (in Unforced Capacity terms) specified in the Sell Offer or WLR Bid. For an entity electing this alternative, the RPM Auction Credit Requirement applicable prior to the posting of results of the auction shall be the maximum credit requirement specified in its Credit-Limited Offer or WLR

Bid, and the RPM Auction Credit Requirement subsequent to posting of the results will be the Auction Credit Rate, as provided in Section IV.D.b, c, or d, or Sections IV.F or IV.G as applicable, times the amount of Unforced Capacity or load reduction (in Unforced Capacity terms) from such Sell Offer or WLR Bid that cleared or was accepted in the auction. The availability and operational details of Credit-Limited Offers and WLR Bids shall be as described in the PJM Manuals.

As set forth in Sections IV.D, IV.F, and IV.G, the Auction Credit Requirement for a Market Seller, a WLR Provider, or a WEEL Provider shall be determined separately for each Delivery Year.

### **C. Reduction in Credit Requirement**

As specified in Section IV.D for Capacity Resources, Section IV.E for Price Responsive Demand, and Section IV.F for WLR Loads, and Section IV.G for Wholesale Energy Efficiency Load, the RPM Auction Credit Rate may be reduced under certain circumstances after the auction has closed.

The Price Responsive Demand credit requirement shall be reduced as and to the extent the PRD Provider registers PRD-eligible load at a PRD Substation level to satisfy its Nominal PRD Value commitment, in accordance with Schedule 6.1 of the Reliability Assurance Agreement.

In addition, the RPM Auction Credit Requirement for a Participant for any given Delivery Year shall be reduced periodically, provided the Participant successfully meets progress milestones that reduce the risk of non-performance, as follows:

- a. For Planned Demand Resources and Energy Efficiency Resources, the RPM Auction Credit Requirement will be reduced in direct proportion to the megawatts of such Demand Resource that the Resource Provider qualifies as a Capacity Resource, in accordance with the procedures established under the Reliability Assurance Agreement.
- b. For Existing Generation Capacity Resources located outside the PJM Region that have not secured sufficient firm transmission to the border of the PJM Region prior to the auction in which such resource is first offered, the RPM Credit Requirement shall be reduced in direct proportion to the megawatts of firm transmission service secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement.
- c. For Planned Generation Capacity Resources, the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B beginning as of the effective date of an Interconnection Service Agreement, and shall be reduced to zero on the date of commencement of Interconnection Service.
- d. For Planned Generation Capacity Resources located outside the PJM Region, the RPM Credit Requirement shall be reduced once the conditions in both b and c above are met, i.e., the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B

when 1) beginning as of the effective date of the equivalent Interconnection Service Agreement, and 2) when 50% or more megawatts of firm transmission service have been secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement. The RPM Credit Requirement for a Planned Generation Capacity Resource located outside the PJM Region shall be reduced to zero when 1) the resource commences Interconnection Service and 2) 100% of the megawatts of firm transmission service have been secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement.

e. For Qualifying Transmission Upgrades, the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B beginning as of the effective date of the latest associated Interconnection Service Agreement (or, when a project will have no such agreement, an Upgrade Construction Service Agreement), and shall be reduced to zero on the date the Qualifying Transmission Upgrade is placed in service. In addition, a Qualifying Transmission Upgrade will be allowed a reduction in its RPM Credit Requirement equal to the amount of collateral currently posted with PJM for the facility construction when the Qualifying Transmission Upgrade meets the following requirements: the Upgrade Construction Service Agreement has been fully executed, the full estimated cost to complete as most recently determined or updated by PJM has been fully paid or collateralized, and all regulatory and other required approvals (except those that must await construction completion) have been obtained. Such reduction in RPM Credit Requirement may not be transferred across different projects.

f. For Planned WLR Load, the WLR Credit Requirement will be reduced in direct proportion to the megawatts of such WLR Load that the WLR Provider qualifies as a WLR Load, in accordance with the procedures established under the Reliability Assurance Agreement.

g. For Wholesale Energy Efficiency Load, the WEEL Credit Requirement will be reduced in direct proportion to the megawatts of such Wholesale Energy Efficiency Load that the WEEL Provider qualifies as a Wholesale Energy Efficiency Load, in accordance with the procedures established under the Reliability Assurance Agreement.

#### **D. RPM Auction Credit Rate**

As set forth in the PJM Manuals, a separate Auction Credit Rate shall be calculated for each Delivery year prior to each Reliability Pricing Model Auction for such Delivery Year, as follows:

For Delivery Years through the Delivery Year that ends on May 31, 2012, the Auction Credit Rate for any resource for a Delivery Year shall be (the greater of \$20/MW-day or 0.24 times the Capacity Resource Clearing Price in the Base Residual Auction for such Delivery Year for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year.

For Delivery Years beginning with the Delivery Year that commences on June 1, 2012:

a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the Auction Credit Rate shall be (the greater of ( ) times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or ( ) \$20 per MW-day) times the number of days in such Delivery Year.

b. Subsequent to the posting of the results from a Base Residual Auction, the Auction Credit Rate used for ongoing credit requirements for supply committed in such auction shall be (the greater of (i) \$20/MW-day or (ii) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year;

c. For any resource not previously committed for a Delivery Year that seeks to participate in an Incremental Auction, the Auction Credit Rate shall be the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) 0.24 times the Capacity Resource Clearing Price in the Base Residual Auction for such Delivery Year for the Locational Deliverability Area within which the resource is located or (iii) \$20 per MW-day) times the number of days in such Delivery Year.

d. Subsequent to the posting of the results of an Incremental Auction, the Auction Credit Rate used for ongoing credit requirements for supply committed in such auction shall be (the greater of (i) \$20/MW-day or (ii) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year, but no greater than the Auction Credit Rate previously established for such resource's participation in such Incremental Auction pursuant to subsection (c) above) times the number of days in such Delivery Year.

#### **E. Price Responsive Demand Credit Rate**

a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the Price Responsive Demand Credit Rate shall be (the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) \$20 per MW-day) times the number of days in such Delivery Year;

b. Subsequent to the posting of the results from a Base Residual Auction, the Price Responsive Demand Credit Rate used for ongoing credit requirements for Price Responsive Demand registered prior to such auction shall be (the greater of (i) \$20/MW-day or (ii) 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the PRD load is located) times the number of days in such Delivery Year times a final price uncertainty factor of 1.05;

c. For any additional Price Responsive Demand that seeks to commit in a Third Incremental Auction in response to a qualifying change in the final LDA load forecast, the Price Responsive Demand Credit Rate shall be the same as the rate for Price Responsive Demand that had cleared in the Base Residual Auction;

d. Subsequent to the posting of the results of the Third Incremental Auction, the Price Responsive Demand Credit Rate used for ongoing credit requirements for all Price Responsive Demand, shall be (the greater of (i) \$20/MW-day or (ii) 0.2 times the Final Zonal Capacity Price for the Locational Deliverability Area within which the Price Responsive Demand is located) times the number of days in such Delivery Year, but no greater than the Price Responsive Demand Credit Rate previously established under subsections (a), (b), or (c) of this section for such Delivery Year.

#### **F. WLR Credit Rate**

a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the WLR Credit Rate shall be (the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) \$20 per MW-day) times the number of days in such Delivery Year.

b. Subsequent to the posting of the results from a Base Residual Auction, the WLR Credit Rate used for ongoing credit requirements for supply committed in such auction shall be (the greater of (i) \$20 per MW-day or (ii) 0.2 times the applicable WLR Value corresponding to the WLR Load type in such auction for the Locational Deliverability Area within which the WLR Load is located) times the number of days in such Delivery Year.

#### **G. WEEL Credit Rate**

a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the WEEL Credit Rate shall be (the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) \$20 per MW-day) times the number of days in such Delivery Year.

b. Subsequent to the posting of the results from a Base Residual Auction, the WEEL Credit Rate used for ongoing credit requirements for supply committed in such auction shall be (the greater of (i) \$20 per MW-day or (ii) 0.2 times the applicable WLR Value determined in such auction for the Locational Deliverability Area within which the WEEL is located) times the number of days in such Delivery Year.

#### **H. RPM Seller Credit - Additional Form of Unsecured Credit for RPM**

In addition to the forms of credit specified elsewhere in this Attachment Q, RPM Seller Credit shall be available to Market Sellers, but solely for purposes of satisfying RPM Auction Credit Requirements. If a supplier has a history of being a net seller into PJM markets, on average, over the past 12 months, then PJMSettlement will count as available Unsecured Credit twice the average of that participant's total net monthly PJMSettlement bills over the past 12 months. This RPM Seller Credit shall be subject to the cap on available Unsecured Credit as established in Section II.F.

#### **I. Credit Responsibility for Traded Planned RPM Capacity Resources**

PJMSettlement may require that credit and financial responsibility for planned RPM Capacity Resources that are traded remain with the original party (which for these purposes, means the party bearing credit responsibility for the planned RPM Capacity Resource immediately prior to trade) unless the receiving party independently establishes consistent with the PJM credit policy, that it has sufficient credit with PJMSettlement and agrees by providing written notice to PJMSettlement that it will fully assume the credit responsibility associated with the traded planned RPM Capacity Resource.

## **V. FINANCIAL TRANSMISSION RIGHT AUCTIONS**

### **A. FTR Credit Limit.**

PJMSettlement will establish an FTR Credit Limit for each Participant. Participants must maintain their FTR Credit Limit at a level equal to or greater than their FTR Credit Requirement. FTR Credit Limits will be established only by a Participant providing Financial Security.

### **B. FTR Credit Requirement.**

For each Participant with FTR activity, PJMSettlement shall calculate an FTR Credit Requirement based on FTR cost less a discounted historical value. FTR Credit Requirements shall be further adjusted by ARR credits available and by an amount based on portfolio diversification, if applicable. The requirement will be based on individual monthly exposures which are then used to derive a total requirement.

The FTR Credit Requirement shall be calculated by first adding for each month the FTR Monthly Credit Requirement Contribution for each submitted, accepted, and cleared FTR and then subtracting the prorated value of any ARRs held by the Participant for that month. The resulting twelve monthly subtotals represent the expected value of net payments between PJMSettlement and the Participant for FTR activity each month during the Planning Period. Subject to later adjustment by an amount based on portfolio diversification, if applicable, the FTR Credit Requirement shall be the sum of the individual positive monthly subtotals, representing months in which net payments to PJMSettlement are expected.

### **C. Rejection of FTR Bids.**

Bids submitted into an auction will be rejected if the Participant's FTR Credit Requirement including such submitted bids would exceed the Participant's FTR Credit Limit, or if the Participant fails to establish additional credit as required pursuant to provisions related to portfolio diversification.

### **D. FTR Credit Collateral Returns.**

A Market Participant may request from PJMSettlement the return of any collateral no longer required for the FTR auctions. PJMSettlement is permitted to limit the frequency of such requested collateral returns, provided that collateral returns shall be made by PJMSettlement at least once per calendar quarter, if requested by a Market Participant.



## **E. Credit Responsibility for Traded FTRs.**

PJMSettlement may require that credit responsibility associated with an FTR traded within PJM's eFTR system remain with the original party (which for these purposes, means the party bearing credit responsibility for the FTR immediately prior to trade) unless and until the receiving party independently establishes, consistent with the PJM credit policy, sufficient credit with PJMSettlement and agrees through confirmation of the FTR trade within the eFTR system that it will meet in full the credit requirements associated with the traded FTR.

## **F. Portfolio Diversification.**

Subsequent to calculating a tentative cleared solution for an FTR auction (or auction round), PJM shall both:

1. Determine the FTR Portfolio Auction Value, including the tentative cleared solution. Any Participants with such FTR Portfolio Auction Values that are negative shall be deemed FTR Flow Undiversified.
2. Measure the geographic concentration of the FTR Flow Undiversified portfolios by testing such portfolios using a simulation model including, one at a time, each planned transmission outage or other network change which would substantially affect the network for the specific auction period. A list of such planned outages or changes anticipated to be modeled shall be posted prior to commencement of the auction (or auction round). Any FTR Flow Undiversified portfolio that experiences a net reduction in calculated congestion credits as a result of any one or more of such modeled outages or changes shall be deemed FTR Geographically Undiversified.

For portfolios that are FTR Flow Undiversified but not FTR Geographically Undiversified, PJMSettlement shall increment the FTR Credit Requirement by an amount equal to twice the absolute value of the FTR Portfolio Auction Value, including the tentative cleared solution. For Participants with portfolios that are both FTR Flow Undiversified and FTR Geographically Undiversified, PJMSettlement shall increment the FTR Credit Requirement by an amount equal to three times the absolute value of the FTR Portfolio Auction Value, including the tentative cleared solution. For portfolios that are FTR Flow Undiversified in months subsequent to the current planning year, these incremental amounts, calculated on a monthly basis, shall be reduced (but not below zero) by an amount up to 25% of the monthly value of ARR credits that are held by a Participant. Subsequent to the ARR allocation process preceding an annual FTR auction, such ARR credits shall be reduced to zero for months associated with that ARR allocation process. PJMSettlement may recalculate such ARR credits at any time, but at a minimum shall do so subsequent to each annual FTR auction. If a reduction in such ARR credits at any time increases the amount of credit required for the Participant beyond its credit available for FTR activity, the Participant must increase its credit to eliminate the shortfall.

If the FTR Credit Requirement for any Participant exceeds its credit available for FTRs as a result of these diversification requirements for the tentatively cleared portfolio of FTRs,

PJMSettlement shall immediately issue a demand for additional credit, and such demand must be fulfilled before 4:00 p.m. on the business day following the demand. If any Participant does not timely satisfy such demand, PJMSettlement, in coordination with PJM, shall cause the removal that Participant's entire set of bids for that FTR auction (or auction round) and a new cleared solution shall be calculated for the entire auction (or auction round).

If necessary, PJM shall repeat the auction clearing calculation. PJM shall repeat these portfolio diversification calculations subsequent to any such secondary clearing calculation, and PJMSettlement shall require affected Participants to establish additional credit.

#### **G. FTR Administrative Charge Credit Requirement**

In addition to any other credit requirements, PJMSettlement may apply a credit requirement to cover the maximum administrative fees that may be charged to a Participant for its bids and offers.

#### **H. Long-Term FTR Credit Recalculation**

Long-term FTR Credit Requirement calculations shall be updated annually for known history, consistent with updating of historical values used for FTR Credit Requirement calculations in the annual auctions.

### **VI. EXPORT TRANSACTION SCREENING**

Export Transactions in the Real-time Energy Market shall be subject to Export Transaction Screening. Export Transaction Screening may be performed either for the duration of the entire Export Transaction, or separately for each time interval comprising an Export Transaction. PJM will deny or curtail all or a portion (based on the relevant time interval) of an Export Transaction if that Export Transaction, or portion thereof, would otherwise cause the Market Participant's Export Credit Exposure to exceed its Credit Available for Export Transactions. Export Transaction Screening shall be applied separately for each Operating Day and shall also be applied to each Export Transaction one or more times prior to the market clearing process for each relevant time interval. Export Transaction Screening shall not apply to transactions established directly by and between PJM and a neighboring Balancing Authority for the purpose of maintaining reliability.

A Market Participant's credit exposure for an individual Export Transaction shall be the MWh volume of the Export Transaction for each relevant time interval multiplied by each relevant Export Transaction Price Factor and summed over all relevant time intervals of the Export Transaction.

### **VII. FORMS OF FINANCIAL SECURITY**

Participants that provide Financial Security must provide the security in a PJMSettlement approved form and amount according to the guidelines below.

Financial Security which is no longer required to be maintained under provisions of the Agreements shall be returned at the request of a participant no later than two Business Days following determination by PJMSettlement within a commercially reasonable period of time that such collateral is not required.

Except when an event of default has occurred, a Participant may substitute an approved PJMSettlement form of Financial Security for another PJMSettlement approved form of Financial Security of equal value. The Participant must provide three (3) Business Days notice to PJMSettlement of its intent to substitute the Financial Security. PJMSettlement will release the replaced Financial Security with interest, if applicable, within (3) Business Days of receiving an approved form of substitute Financial Security.

#### **A. Cash Deposit**

Cash provided by a Participant as Financial Security will be held in a depository account by PJMSettlement with interest earned at PJMSettlement's overnight bank rate, and accrued to the Participant. PJMSettlement also may establish an array of investment options among which a Participant may choose to invest its cash deposited as Financial Security. Such investment options shall be comprised of high quality debt instruments, as determined by PJMSettlement, and may include obligations issued by the federal government and/or federal government sponsored enterprises. These investment options will reside in accounts held in PJMSettlement's name in a banking or financial institution acceptable to PJMSettlement. Where practicable, PJMSettlement may establish a means for the Participant to communicate directly with the bank or financial institution to permit the Participant to direct certain activity in the PJMSettlement account in which its Financial Security is held. PJMSettlement will establish and publish procedural rules, identifying the investment options and respective discounts in collateral value that will be taken to reflect any liquidation, market and/or credit risk presented by such investments. PJMSettlement has the right to liquidate all or a portion of the account balances at its discretion to satisfy a Participant's Total Net Obligation to PJMSettlement in the event of default under this credit policy or one or more of the Agreements.

#### **B. Letter Of Credit**

An unconditional, irrevocable standby letter of credit can be utilized to meet the Financial Security requirement. As stated below, the form, substance, and provider of the letter of credit must all be acceptable to PJMSettlement.

- The letter of credit will only be accepted from U.S.-based financial institutions or U.S. branches of foreign financial institutions ("financial institutions") that have a minimum corporate debt rating of "A" by Standard & Poor's or Fitch Ratings, or "A2" from Moody's Investors Service, or an equivalent short term rating from one of these agencies. PJMSettlement will consider the lowest applicable rating to be the rating of the financial institution. If the rating of a financial institution providing a letter of credit is lowered below A/A2 by any rating agency, then PJMSettlement may require the Participant to provide a letter of credit from another financial institution that is rated A/A2 or better, or to provide a cash deposit. If a letter of credit is provided from a U.S. branch of a foreign

institution, the U.S. branch must itself comply with the terms of this credit policy, including having its own acceptable credit rating.

- The letter of credit shall state that it shall renew automatically for successive one-year periods, until terminated upon at least ninety (90) days prior written notice from the issuing financial institution. If PJM or PJMSettlement receives notice from the issuing financial institution that the current letter of credit is being cancelled, the Participant will be required to provide evidence, acceptable to PJMSettlement, that such letter of credit will be replaced with appropriate Financial Security, effective as of the cancellation date of the letter of credit, no later than thirty (30) days before the cancellation date of the letter of credit, and no later than ninety (90) days after the notice of cancellation. Failure to do so will constitute a default under this credit policy and one of more of the Agreements.
- The letter of credit must clearly state the full names of the "Issuer", "Account Party" and "Beneficiary" (PJMSettlement), the dollar amount available for drawings, and shall specify that funds will be disbursed upon presentation of the drawing certificate in accordance with the instructions stated in the letter of credit. The letter of credit should specify any statement that is required to be on the drawing certificate, and any other terms and conditions that apply to such drawings.
- The PJMSettlement Credit Application contains an acceptable form of a letter of credit that should be utilized by a Participant choosing to meet its Financial Security requirement with a letter of credit. If the letter of credit varies in any way from the PJMSettlement format, it must first be reviewed and approved by PJMSettlement. All costs associated with obtaining and maintaining a letter of credit and meeting the policy provisions are the responsibility of the Participant
- PJMSettlement may accept a letter of credit from a Financial Institution that does not meet the credit standards of this policy provided that the letter of credit has third-party support, in a form acceptable to PJMSettlement, from a financial institution that does meet the credit standards of this policy.

## **VIII. POLICY BREACH AND EVENTS OF DEFAULT**

A Participant will have two Business Days from notification of Breach (including late payment notice) or notification of a Collateral Call to remedy the Breach or satisfy the Collateral Call in a manner deemed acceptable by PJMSettlement. Failure to remedy the Breach or satisfy such Collateral Call within such two Business Days will be considered an event of default. If a Participant fails to meet the requirements of this policy but then remedies the Breach or satisfies a Collateral Call within the two Business Day cure period, then the Participant shall be deemed to have complied with the policy. Any such two Business Day cure period will expire at 4:00 p.m. eastern prevailing time on the final day.

Only one cure period shall apply to a single event giving rise to a breach or default. Application of Financial Security towards a non-payment Breach shall not be considered a satisfactory cure of the Breach if the Participant fails to meet all requirements of this policy after such application.

Failure to comply with this policy (except for the responsibility of a Participant to notify PJMSettlement of a Material change) shall be considered an event of default. Pursuant to § 15.1.3(a) of the Operating Agreement of PJM Interconnection, L.L.C. and § 1.7.3 of the PJM Open Access Transmission Tariff, non-compliance with the PJMSettlement credit policy is an event of default under those respective Agreements. In event of default under this credit policy or one or more of the Agreements, PJMSettlement, in coordination with PJM, will take such actions as may be required or permitted under the Agreements, including but not limited to the termination of the Participant's ongoing Transmission Service and participation in PJM Markets. PJMSettlement has the right to liquidate all or a portion of a Participant's Financial Security at its discretion to satisfy Total Net Obligations to PJMSettlement in the event of default under this credit policy or one or more of the Agreements.

PJMSettlement may hold a defaulting Participant's Financial Security for as long as such party's positions exist and consistent with the PJM credit policy in this Attachment Q, in order to protect PJM's membership from default.

No payments shall be due to a Participant, nor shall any payments be made to a Participant, while the Participant is in default or has been declared in Breach of this policy or the Agreements, or while a Collateral Call is outstanding. PJMSettlement may apply towards an ongoing default any amounts that are held or later become available or due to the defaulting Participant through PJM's markets and systems.

In order to cover Obligations, PJMSettlement may hold a Participant's Financial Security through the end of the billing period which includes the 90th day following the last day a Participant had activity, open positions, or accruing obligations (other than reconciliations and true-ups), and until such Participant has satisfactorily paid any obligations invoiced through such period. Obligations incurred or accrued through such period shall survive any withdrawal from PJM. In event of non-payment, PJMSettlement may apply such Financial Security to such Participant's Obligations, even if Participant had previously announced and effected its withdrawal from PJM.

## **IX. DEFINITIONS:**

All capitalized terms in this Attachment Q that are not otherwise defined herein shall have the same meaning as they are defined in the Agreements.

### **Affiliate**

Affiliate is defined in the PJM Operating Agreement, §1.2.

### **Agreements**

Agreements are the Operating Agreement of PJM Interconnection, L.L.C., the PJM Open Access Transmission Tariff, the Reliability Assurance Agreement, the Reliability Assurance Agreement – West, and/or other agreements between PJM Interconnection, L.L.C. and its Members.

**Applicant**

Applicant is an entity desiring to become a PJM Member, or to take Transmission Service that has submitted the PJMSettlement Credit Application, PJMSettlement Credit Agreement and other required submittals as set forth in this policy.

**Breach**

Breach is the status of a Participant that does not currently meet the requirements of this policy or other provisions of the Agreements.

**Business Day**

A Business Day is a day in which the Federal Reserve System is open for business and is not a scheduled PJM holiday.

**Canadian Guaranty**

Canadian Guaranty is a Corporate Guaranty provided by an Affiliate of a Participant that is domiciled in Canada, and meets all of the provisions of this credit policy.

**Capacity**

Capacity is the installed capacity requirement of the Reliability Assurance Agreement or similar such requirements as may be established.

**Collateral Call**

Collateral Call is a notice to a Participant that additional Financial Security, or possibly early payment, is required in order to remain in, or to regain, compliance with this policy.

**Corporate Guaranty**

Corporate Guaranty is a legal document used by one entity to guaranty the obligations of another entity.

**Credit Available for Export Transactions**

Credit Available for Export Transactions is a set-aside of credit to be used for Export Transactions that is allocated by each Market Participant from its Credit Available for Virtual Transactions, and which reduces the Market Participant's Credit Available for Virtual Transactions accordingly.

**Credit Available for Virtual Transactions**

A Market Participant's Credit Available for Virtual Transactions is the Market Participant's Working Credit Limit for Virtual Transactions calculated on its credit provided in compliance with its Peak Market Activity requirement plus available credit submitted above that amount, less any unpaid billed and unbilled amounts owed to PJMSettlement, plus any unpaid unbilled amounts owed by PJMSettlement to the Market Participant, less any applicable credit required for Minimum Participation Requirements, FTR, Export Transactions, or other credit requirement determinants as defined in this policy.

**Credit-Limited Offer**

Credit-Limited Offer shall mean a Sell Offer that is submitted by a Market Seller in an RPM Auction subject to a maximum credit requirement specified by such Market Seller.

### **Credit Score**

Credit Score is a composite numerical score scaled from 0-100 as calculated by PJM Settlement that incorporates various predictors of creditworthiness.

### **Export Credit Exposure**

Export Credit Exposure is determined for each Market Participant for a given Operating Day, and is the sum of credit exposures for the Market Participant's Export Transactions for that Operating Day and for the preceding Operating Day.

### **Export Nodal Reference Price**

The Export Nodal Reference Price at each location is the 97th percentile real-time hourly integrated price experienced over the corresponding two-month period in the preceding calendar year, calculated separately for peak and off-peak time periods. The two-month time periods used in this calculation shall be January and February, March and April, May and June, July and August, September and October, and November and December.

### **Export Transaction**

An Export Transaction is a transaction by a Market Participant that results in the transfer of energy from within the PJM Control Area to outside the PJM Control Area. Coordinated External Transactions that result in the transfer of energy from the PJM Control Area to an adjacent Control Area are one form of Export Transaction.

### **Export Transactions Net Activity**

Export Transactions Net Activity shall mean the aggregate net total, resulting from Export Transactions, of (i) Spot Market Energy charges, (ii) Transmission Congestion Charges, and (iii) Transmission Loss Charges, calculated as set forth in Attachment K-Appendix. Export Transactions Net Activity may be positive or negative.

### **Export Transaction Price Factor**

The Export Transaction Price Factor for a prospective time interval shall be the greater of (i) PJM's forecast price for the time interval, if available, or (ii) the Export Nodal Reference Price, but shall not exceed the Export Transaction's dispatch ceiling price cap, if any, for that time interval. The Export Transaction Price Factor for a past time interval shall be calculated in the same manner as for a prospective time interval, except that the Export Transaction Price Factor may use a tentative or final settlement price, as available. If an Export Nodal Reference Price is not available for a particular time interval, PJM may use an Export Transaction Price Factor for that time interval based on an appropriate alternate reference price.

### **Export Transaction Screening**

Export Transaction Screening is the process PJM uses to review the Export Credit Exposure of Export Transactions against the Credit Available for Export Transactions, and deny or curtail all or a portion of an Export Transaction, if the credit required for such transactions is greater than the credit available for the transactions.

**Financial Security**

Financial Security is a cash deposit or letter of credit in an amount and form determined by and acceptable to PJMSettlement, provided by a Participant to PJMSettlement as security in order to participate in the PJM Markets or take Transmission Service.

**Foreign Guaranty**

Foreign Guaranty is a Corporate Guaranty provided by an Affiliate of a Participant that is domiciled in a foreign country, and meets all of the provisions of this credit policy.

**FTR Credit Limit**

FTR Credit Limit will be equal to the amount of credit established with PJMSettlement that a Participant has specifically designated to PJMSettlement to be set aside and used for FTR activity. Any such credit so set aside shall not be considered available to satisfy any other credit requirement the Participant may have with PJMSettlement.

**FTR Credit Requirement**

FTR Credit Requirement is the amount of credit that a Participant must provide in order to support the FTR positions that it holds and/or is bidding for. The FTR Credit Requirement shall not include months for which the invoicing has already been completed, provided that PJMSettlement shall have up to two Business Days following the date of the invoice completion to make such adjustments in its credit systems.

**FTR Flow Undiversified**

FTR Flow Undiversified shall have the meaning established in section V.G of this Attachment Q.

**FTR Geographically Undiversified**

FTR Geographically Undiversified shall have the meaning established in section V.G of this Attachment Q.

**FTR Historical Value**

FTR Historical Value – For each FTR for each month, this is the historical weighted average value over three years for the FTR path using the following weightings: 50% - most recent year; 30% - second year; 20% - third year. FTR Historical Values shall be calculated separately for on-peak, off-peak, and 24-hour FTRs for each month of the year. FTR Historical Values shall be adjusted by plus or minus ten percent (10%) for cleared counterflow or normal flow FTRs, respectively, in order to mitigate exposure due to uncertainty and fluctuations in actual FTR value.

**FTR Monthly Credit Requirement Contribution**

FTR Monthly Credit Requirement Contribution - For each FTR for each month, this is the total FTR cost for the month, prorated on a daily basis, less the FTR Historical Value for the month. For cleared FTRs, this contribution may be negative; prior to clearing, FTRs with negative contribution shall be deemed to have zero contribution.

**FTR Net Activity**



FTR Net Activity shall mean the aggregate net value of the billing line items for auction revenue rights credits, FTR auction charges, FTR auction credits, and FTR congestion credits, and shall also include day-ahead and balancing/real-time congestion charges up to a maximum net value of the sum of the foregoing auction revenue rights credits, FTR auction charges, FTR auction credits and FTR congestion credits.

**FTR Participant**

FTR Participant shall mean any Market Participant that is required to provide Financial Security in order to participate in PJM's FTR auctions.

**FTR Portfolio Auction Value**

FTR Portfolio Auction Value shall mean for each Participant (or Participant account), the sum, calculated on a monthly basis, across all FTRs, of the FTR price times the FTR volume in MW.

**Market Participant**

Market Participant shall have the meaning provided in the Operating Agreement.

**Material**

For these purposes, material is defined in §I.B.3, Material Changes. For the purposes herein, the use of the term "material" is not necessarily synonymous with use of the term by governmental agencies and regulatory bodies.

**Member**

Member shall have the meaning provided in the Operating Agreement.

**Minimum Participation Requirements**

A set of minimum training, risk management, communication and capital or collateral requirements required for Participants in the PJM markets, as set forth herein and in the Form of Annual Certification set forth as Appendix 1 to this Attachment Q. Participants transacting in FTRs in certain circumstances will be required to demonstrate additional risk management procedures and controls as further set forth in the Annual Certification found in Appendix 1 to this Attachment Q.

**Net Obligation**

Net Obligation is the amount owed to PJMSettlement and PJM for purchases from the PJM Markets, Transmission Service, (under both Part II and Part III of the O.A.T.T.), and other services pursuant to the Agreements, after applying a deduction for amounts owed to a Participant by PJMSettlement as it pertains to monthly market activity and services. Should other markets be formed such that Participants may incur future Obligations in those markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

**Net Sell Position**

Net Sell Position is the amount of Net Obligation when Net Obligation is negative.

**Nodal Reference Price**

The Nodal Reference Price at each location is the 97th percentile price differential between hourly day-ahead and real-time prices experienced over the corresponding two-month reference period in the prior calendar year. In order to capture seasonality effects and maintain a two-month reference period, reference months will be grouped by two, starting with January (e.g., Jan-Feb, Mar-Apr, ... , Jul-Aug, ... Nov-Dec). For any given current-year month, the reference period months will be the set of two months in the prior calendar year that include the month corresponding to the current month. For example, July and August 2003 would each use July-August 2002 as their reference period.

### **Obligation**

Obligation is all amounts owed to PJMSettlement for purchases from the PJM Markets, Transmission Service, (under both Part II and Part III of the O.A.T.T.), and other services or obligations pursuant to the Agreements. In addition, aggregate amounts that will be owed to PJMSettlement in the future for Capacity purchases within the PJM Capacity markets will be added to this figure. Should other markets be formed such that Participants may incur future Obligations in those markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

### **Operating Agreement of PJM Interconnection, L.L.C., (“Operating Agreement”)**

The Amended and Restated Operating Agreement of PJM Interconnection, L.L.C., dated as of June 2, 1997, on file with the Federal Energy Regulatory Commission, and as revised from time to time.

### **Participant**

A Participant is a Market Participant and/or Transmission Customer and/or Applicant requesting to be an active Market Participant and/or Transmission Customer.

### **Peak Market Activity**

Peak Market Activity is a measure of exposure for which credit is required, involving peak exposures in rolling three-week periods over a year timeframe, with two semi-annual reset points, pursuant to provisions of section II.D of this Credit Policy.

### **PJM Markets**

The PJM Markets are the PJM Interchange Energy Market and the PJM Capacity markets as established by the Operating Agreement. Also any other markets that exist or may be established in the future wherein Participants may incur Obligations to PJMSettlement.

### **PJM Open Access Transmission Tariff (“O.A.T.T.”)**

The Open Access Transmission Tariff of PJM Interconnection, L.L.C., on file with the Federal Energy Regulatory Commission, and as revised from time to time.

### **Reliability Assurance Agreement (“R.A.A.”)**

See the definition of the Reliability Assurance Agreement (“R.A.A.”) in the Operating Agreement.

### **RPM Seller Credit**

RPM Seller Credit is an additional form of Unsecured Credit defined in section IV of this document.

**Seller Credit**

A Seller Credit is a form of Unsecured Credit extended to Participants that have a consistent long-term history of selling into PJM Markets, as defined in this document.

**Tangible Net Worth**

Tangible Net Worth is all assets (not including any intangible assets such as goodwill) less all liabilities. Any such calculation may be reduced by PJMSettlement upon review of the available financial information.

**Total Net Obligation**

Total Net Obligation is all unpaid billed Net Obligations plus any unbilled Net Obligation incurred to date, as determined by PJMSettlement on a daily basis, plus any other Obligations owed to PJMSettlement at the time.

**Total Net Sell Position**

Total Net Sell Position is all unpaid billed Net Sell Positions plus any unbilled Net Sell Positions accrued to date, as determined by PJMSettlement on a daily basis.

**Transmission Customer**

Transmission Customer is a Transmission Customer is an entity taking service under Part II or Part III of the O.A.T.T.

**Transmission Service**

Transmission Service is any or all of the transmission services provided by PJM pursuant to Part II or Part III of the O.A.T.T.

**Uncleared Bid Exposure**

Uncleared Bid Exposure is a measure of exposure from Increment Offers and Decrement Bids activity relative to a Participant's established credit as defined in this policy. It is used only as a pre-screen to determine whether a Participant's Increment Offers and Decrement Bids should be subject to Increment Offer and Decrement Bid Screening.

**Unsecured Credit**

Unsecured Credit is any credit granted by PJMSettlement to a Participant that is not secured by a form of Financial Security.

**Unsecured Credit Allowance**

Unsecured Credit Allowance is Unsecured Credit extended by PJMSettlement in an amount determined by PJMSettlement's evaluation of the creditworthiness of a Participant. This is also defined as the amount of credit that a Participant qualifies for based on the strength of its own financial condition without having to provide Financial Security. See also: "Working Credit Limit."

**Up-to Congestion Counterflow Transaction**

An Up-to Congestion Transaction will be deemed an Up-to Congestion Counterflow Transaction if the following value is negative: (a) when bidding, the lower of the bid price and the prior Up-to Congestion Historical Month's average real-time value for the transaction; or (b) for cleared Virtual Transactions, the cleared day-ahead price of the Virtual Transactions.

**Up-to Congestion Historical Month**

An Up-to Congestion Historical Month is a consistently-defined historical period nominally one month long that is as close to a calendar month as PJM determines is practical.

**Up-to Congestion Prevailing Flow Transaction**

An Up-to Congestion Transaction will be deemed an Up-to Congestion Prevailing Flow Transaction if it is not an Up-to Congestion Counterflow Transaction.

**Up-to Congestion Reference Price**

The Up-to Congestion Reference Price for an Up-to Congestion Transaction is the specified percentile price differential between source and sink (defined as sink price minus source price) for hourly real-time prices experienced over the prior Up-to Congestion Historical Month, averaged with the same percentile value calculated for the second prior Up-to Congestion Historical Month. Up-to Congestion Reference Prices shall be calculated using the following historical percentiles:

For Up-to Congestion Prevailing Flow Transactions: 30<sup>th</sup> percentile

For Up-to Congestion Counterflow Transactions when bid: 20<sup>th</sup> percentile

For Up-to Congestion Counterflow Transactions when cleared: 5<sup>th</sup> percentile

**Virtual Credit Exposure**

Virtual Credit Exposure is the amount of potential credit exposure created by a market participant's bid submitted into the Day-ahead market, as defined in this policy.

**Virtual Transaction Screening**

Virtual Transaction Screening is the process of reviewing the Virtual Credit Exposure of submitted Virtual Transactions against the Credit Available for Virtual Transactions. If the credit required is greater than credit available, then the Virtual Transactions will not be accepted.

**Virtual Transactions Net Activity**

Virtual Transactions Net Activity shall mean the aggregate net total, resulting from Virtual Transactions, of (i) Spot Market Energy charges, (ii) Transmission Congestion Charges, and (iii) Transmission Loss Charges, calculated as set forth in Attachment K-Appendix. Virtual Transactions Net Activity may be positive or negative.

**Working Credit Limit**

Working Credit Limit amount is 75% of the Market Participant's Unsecured Credit Allowance and/or 75% of the Financial Security provided by the Market Participant to PJMSettlement. The Working Credit Limit establishes the maximum amount of Total Net Obligation that a Market Participant may have outstanding at any time. The calculation of Working Credit Limit shall

take into account applicable reductions for Minimum Participation Requirements, FTR, or other credit requirement determinants as defined in this policy.

**Working Credit Limit for Virtual Transactions**

The Working Credit Limit for Virtual Transactions shall be calculated as 75% of the Market Participant's Unsecured Credit Allowance and/or 75% of the Financial Security provided by the Market Participant to PJMSettlement when the Market Participant is at or below its Peak Market Activity credit requirements as specified in section II.D of this Credit Policy. When the Market Participant provides additional Unsecured Credit Allowance and/or Financial Security in excess of its Peak Market Activity credit requirements, such additional Unsecured Credit Allowance and/or Financial Security shall not be discounted by 25% when calculating the Working Credit Limit for Virtual Transactions. The Working Credit Limit for Virtual Transactions is a component in the calculation of Credit Available for Virtual Transactions. The calculation of Working Credit Limit for Virtual Transactions shall take into account applicable reductions for Minimum Participation Requirements, FTR, or other credit requirement determinants as defined in this policy.

## **Appendix 1 to Attachment Q**

**PJM MINIMUM PARTICIPATION CRITERIA  
OFFICER CERTIFICATION FORM**

Participant Name: _____ ("Participant")
---

I, \_\_\_\_\_, a duly authorized officer of Participant, understanding that PJM Interconnection, L.L.C. and PJM Settlement, Inc. ("PJMSettlement") are relying on this certification as evidence that Participant meets the minimum requirements set forth in Attachment Q to the PJM Open Access Transmission Tariff ("PJM Tariff"), hereby certify that I have full authority to represent on behalf of Participant and further represent as follows, as evidenced by my initialing each representation in the space provided below:

1. All employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Amended and Restated Operating Agreement ("PJM Operating Agreement") on behalf of the Participant have received appropriate<sup>1</sup> training and are authorized to transact on behalf of Participant. \_\_\_\_\_
2. Participant has written risk management policies, procedures, and controls, approved by Participant's independent risk management function<sup>2</sup> and applicable to transactions in the PJM markets in which it participates and for which employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Operating Agreement have been trained, that provide an appropriate, comprehensive risk management framework that, at a minimum, clearly identifies and documents the range of risks to which Participant is exposed, including, but not limited to credit risks, liquidity risks and market risks. \_\_\_\_\_
3. An FTR Participant (as defined in Attachment Q to the PJM Tariff) must make either the following 3.a. or 3.b. additional representations, evidenced by the undersigned officer initialing either the one 3.a. representation or the six 3.b. representations in the spaces provided below:
  - 3.a. Participant transacts in PJM's FTR markets with the sole intent to hedge congestion risk in connection with either obligations Participant has to serve load or rights Participant has to generate electricity in the PJM Region ("physical

<sup>1</sup> As used in this representation, the term "appropriate" as used with respect to training means training that is (i) comparable to generally accepted practices in the energy trading industry, and (ii) commensurate and proportional in sophistication, scope and frequency to the volume of transactions and the nature and extent of the risk taken by the participant.

<sup>2</sup> As used in this representation, a Participant's "independent risk management function" can include appropriate corporate persons or bodies that are independent of the Participant's trading functions, such as a risk management committee, a risk officer, a Participant's board or board committee, or a board or committee of the Participant's parent company.

transactions”) and monitors all of the Participant’s FTR market activity to endeavor to ensure that its FTR positions, considering both the size and pathways of the positions, are either generally proportionate to or generally do not exceed the Participant’s physical transactions, and remain generally consistent with the Participant’s intention to hedge its physical transactions.\_\_\_\_\_

- 3.b. On no less than a weekly basis, Participant values its FTR positions and engages in a probabilistic assessment of the hypothetical risk of such positions using analytically based methodologies, predicated on the use of industry accepted valuation methodologies.\_\_\_\_\_

Such valuation and risk assessment functions are performed either by persons within Participant’s organization independent from those trading in PJM’s FTR markets or by an outside firm qualified and with expertise in this area of risk management.\_\_\_\_\_

Having valued its FTR positions and quantified their hypothetical risks, Participant applies its written policies, procedures and controls to limit its risks using industry recognized practices, such as value-at-risk limitations, concentration limits, or other controls designed to prevent Participant from purposefully or unintentionally taking on risk that is not commensurate or proportional to Participant’s financial capability to manage such risk.\_\_\_\_\_

Exceptions to Participant’s written risk policies, procedures and controls applicable to Participant’s FTR positions are documented and explain a reasoned basis for the granting of any exception.\_\_\_\_\_

Participant has provided to PJMSettlement, in accordance with Section I A. of Attachment Q to the PJM Tariff, a copy of its current governing risk management policies, procedures and controls applicable to its FTR trading activities.\_\_\_\_\_

If the risk management policies, procedures and controls applicable to Participant’s FTR trading activities submitted to PJMSettlement were submitted prior to the current certification, Participant certifies that no substantive changes have been made to such policies, procedures and controls applicable to its FTR trading activities since such submission.\_\_\_\_\_

4. Participant has appropriate personnel resources, operating procedures and technical abilities to promptly and effectively respond to all PJM communications and directions.\_\_\_\_\_
5. Participant has demonstrated compliance with the Minimum Capitalization criteria set forth in Attachment Q of the PJM Open Access Transmission Tariff that are applicable to the PJM market(s) in which Participant transacts, and is not aware of any change having occurred or being imminent that would invalidate such compliance.\_\_\_\_\_



6. All Participants must certify and initial in at least one of the four sections below:

- a. I certify that Participant qualifies as an “appropriate person” as that term is defined under Section 4(c)(3), or successor provision, of the Commodity Exchange Act or an “eligible contract participant” as that term is defined under Section 1a(18), or successor provision, of the Commodity Exchange Act. I certify that Participant will cease transacting in PJM’s Markets and notify PJMSettlement immediately if Participant no longer qualifies as an “appropriate person” or “eligible contract participant.” \_\_\_\_\_

If providing financial statements to support Participant’s certification of qualification as an “appropriate person:”

I certify, to the best of my knowledge and belief, that the financial statements provided to PJMSettlement present fairly, pursuant to such disclosures in such financial statements, the financial position of Participant as of the date of those financial statements. Further, I certify that Participant continues to maintain the minimum \$1 million total net worth and/or \$5 million total asset levels reflected in these financial statements as of the date of this certification. I acknowledge that both PJM and PJMSettlement are relying upon my certification to maintain compliance with federal regulatory requirements. \_\_\_\_\_

If providing financial statements to support Participant’s certification of qualification as an “eligible contract participant:”

I certify, to the best of my knowledge and belief, that the financial statements provided to PJMSettlement present fairly, pursuant to such disclosures in such financial statements, the financial position of Participant as of the date of those financial statements. Further, I certify that Participant continues to maintain the minimum \$1 million total net worth and/or \$10 million total asset levels reflected in these financial statements as of the date of this certification. I acknowledge that both PJM and PJMSettlement are relying upon my certification to maintain compliance with federal regulatory requirements. \_\_\_\_\_

- b. I certify that Participant has provided an unlimited Corporate Guaranty in a form acceptable to PJM as described in Section I.C of Attachment Q from an issuer that has at least \$1 million of total net worth or \$5 million of total assets per Participant per Participant for which the issuer has issued an unlimited Corporate Guaranty. I certify that Participant will cease transacting PJM’s Markets and notify PJMSettlement immediately if issuer of the unlimited Corporate Guaranty for Participant no longer has at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty. \_\_\_\_\_

I certify that the issuer of the unlimited Corporate Guaranty to Participant continues to have at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty. I acknowledge that PJM and PJMSettlement are relying upon my certifications to maintain compliance with federal regulatory requirements.\_\_\_\_\_

c. I certify that Participant fulfills the eligibility requirements of the Commodity Futures Trading Commission exemption order (78 F.R. 19880 – April 2, 2013) by being in the business of at least one of the following in the PJM Region as indicated below (initial those applicable):

1. Generating electric energy, including Participants that resell physical energy acquired from an entity generating electric energy:\_\_\_\_\_
2. Transmitting electric energy:\_\_\_\_\_
3. Distributing electric energy delivered under Point-to-Point or Network Integration Transmission Service, including scheduled import, export and wheel through transactions:\_\_\_\_\_
4. Other electric energy services that are necessary to support the reliable operation of the transmission system:\_\_\_\_\_

Description only if c(4) is initialed:

---

Further, I certify that Participant will cease transacting in PJM's Markets and notify PJMSettlement immediately if Participant no longer performs at least one of the functions noted above in the PJM Region. I acknowledge that PJM and PJMSettlement are relying on my certification to maintain compliance with federal energy regulatory requirements.\_\_\_\_\_

- d. I certify that Participant has provided a letter of credit of \$5 million or more to PJMSettlement in a form acceptable to PJMSettlement as described in Section VI.B of Attachment Q that the Participant acknowledges cannot be utilized to meet its credit requirements to PJMSettlement. I acknowledge that PJM and PJMSettlement are relying on the provision of this letter of credit and my certification to maintain compliance with federal regulatory requirements.\_\_\_\_\_
7. I acknowledge that I have read and understood the provisions of Attachment Q of the PJM Tariff applicable to Participant's business in the PJM markets, including those provisions describing PJM's minimum participation requirements and the enforcement actions available to PJMSettlement of a Participant not satisfying those requirements. I acknowledge that the information provided herein is true and accurate to the best of my belief and knowledge after due investigation. In addition, by signing this Certification, I

acknowledge the potential consequences of making incomplete or false statements in this  
Certification. \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_  
(Signature)

Print Name:

Title:

\_\_\_\_\_  
\_\_\_\_\_

## **1. INTRODUCTION**

This Attachment sets forth the terms and conditions governing the Reliability Pricing Model for the PJM Region. In the event of a conflict between this Attachment DD and Attachment M and its Appendix with respect to the responsibilities of the Market Monitoring Unit, the provisions of Attachment M and its Appendix shall control. As more fully set forth in this Attachment and the PJM Manuals, and in conjunction with the Reliability Assurance Agreement, the Reliability Pricing Model provides:

- (a) support for LSEs in satisfying Daily Unforced Capacity Obligations for future Delivery Years through Self Supply of Capacity Resources;
- (b) a competitive auction mechanism to secure the forward commitment of additional Capacity Resources and Qualifying Transmission Upgrades as necessary to satisfy the portion of LSEs' Unforced Capacity Obligations not satisfied through Self-Supply, in order to ensure the reliability of the PJM Region for future Delivery Years;
- (c) long-term pricing signals for the development of Capacity Resources, including demand resources and planned generation resources, to ensure the reliability of the PJM Region;
- (d) recognition for the locational benefits of Capacity Resources;
- (e) deficiency charges to ensure progress toward, and fulfillment of, forward commitments by demand and generation resources to satisfy capacity requirements;
- (f) measures to identify and mitigate capacity market structure deficiencies; and
- (g) a Reliability Backstop mechanism to ensure that sufficient generation, transmission and demand response solutions will be available to preserve system reliability.

Notwithstanding any other provision of this Attachment DD, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **2. DEFINITIONS**

Definitions specific to this Attachment are set forth below. In addition, any capitalized terms used in this Attachment not defined herein shall have the meaning given to such terms elsewhere in this Tariff or in the RAA. References to section numbers in this Attachment DD refer to sections of this attachment, unless otherwise specified.

### **2.1A Annual Demand Resource**

“Annual Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.1B Annual Resource**

“Annual Resource” shall mean a Generation Capacity Resource, an Energy Efficiency Resource or an Annual Demand Resource.

### **2.1C Annual Resource Price Adder**

“Annual Resource Price Adder” shall mean, for Delivery Years starting June 1, 2014 and ending May 31, 2017, an addition to the marginal value of Unforced Capacity and the Extended Summer Resource Price Adder as necessary to reflect the price of Annual Resources required to meet the applicable Minimum Annual Resource Requirement.

### **2.1D Annual Revenue Rate**

“Annual Revenue Rate” shall mean the rate employed to assess a compliance penalty charge on a Curtailment Service Provider under section 11.

### **2.1E Annual WRL Load**

“Annual WRL Load” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.2 Avoidable Cost Rate**

“Avoidable Cost Rate” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

## **2.3 Base Load Generation Resource**

“Base Load Generation Resource” shall mean a Generation Capacity Resource that operates at least 90 percent of the hours that it is available to operate, as determined by the Office of the Interconnection in accordance with the PJM Manuals.

## **2.4 Base Offer Segment**

“Base Offer Segment” shall mean a component of a Sell Offer based on an existing Generation Capacity Resource, equal to the Unforced Capacity of such resource, as determined in accordance with the PJM Manuals. If the Sell Offers of multiple Market Sellers are based on a single Existing Generation Capacity Resource, the Base Offer Segments of such Market Sellers shall be determined pro rata based on their entitlements to Unforced Capacity from such resource.

## **2.5 Base Residual Auction**

“Base Residual Auction” shall mean the auction conducted three years prior to the start of the Delivery Year to secure commitments from Capacity Resources as necessary to satisfy any portion of the Unforced Capacity Obligation of the PJM Region not satisfied through Self-Supply.

## **2.6 Buy Bid**

“Buy Bid” shall mean a bid to buy Capacity Resources in any Incremental Auction.

### **2.6A Compliance Aggregation Area (CAA)**

“Compliance Aggregation Area” or “CAA” shall mean a geographic area of Zones or sub-Zones that are electrically-contiguous and experience for the relevant Delivery Year, based on Resource Clearing Prices of Annual Resources, the same locational price separation in the Base Residual Auction, the same locational price separation in the First Incremental Auction, the same locational price separation in the Second Incremental Auction, or the same locational price separation in the Third Incremental Auction.

## **2.7 Capacity Credit**

“Capacity Credit” shall have the meaning specified in Schedule 11 of the Operating Agreement, including Capacity Credits obtained prior to the termination of such Schedule applicable to periods after the termination of such Schedule.

## **2.8 Capacity Emergency Transfer Limit**

“Capacity Emergency Transfer Limit” or “CETL” shall have the meaning provided in the Reliability Assurance Agreement.

## **2.9 Capacity Emergency Transfer Objective**

“Capacity Emergency Transfer Objective” or “CETO” shall have the meaning provided in the Reliability Assurance Agreement.

### **2.9A Capacity Export Transmission Customer**

“Capacity Export Transmission Customer” shall mean a customer taking point to point transmission service under Part II of this Tariff to export capacity from a generation resource located in the PJM Region that has qualified for an exception to the RPM must-offer requirement as described in section 6.6(g).

## **2.9B Capacity Import Limit**

“Capacity Import Limit” shall have the meaning provided in the Reliability Assurance Agreement.

## **2.10 Capacity Market Buyer**

“Capacity Market Buyer” shall mean a Member that submits bids to buy Capacity Resources in any Incremental Auction.

## **2.11 Capacity Market Seller**

“Capacity Market Seller” shall mean a Member that owns, or has the contractual authority to control the output or load reduction capability of, a Capacity Resource, that has not transferred such authority to another entity, and that offers such resource in the Base Residual Auction or an Incremental Auction.

## **2.12 Capacity Resource**

“Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.13 Capacity Resource Clearing Price**

“Capacity Resource Clearing Price” shall mean the price calculated for a Capacity Resource that offered and cleared in a Base Residual Auction or Incremental Auction, in accordance with Section 5.

## **2.14 Capacity Transfer Right**

“Capacity Transfer Right” shall mean a right, allocated to LSEs serving load in a Locational Deliverability Area, to receive payments, based on the transmission import capability into such Locational Deliverability Area, that offset, in whole or in part, the charges attributable to the Locational Price Adder, if any, included in the Zonal Capacity Price calculated for a Locational Delivery Area.

## **2.14A Conditional Incremental Auction**

“Conditional Incremental Auction” shall mean an Incremental Auction conducted for a Delivery Year if and when necessary to secure commitments of additional capacity to address reliability criteria violations arising from the delay in a Backbone Transmission upgrade that was modeled in the Base Residual Auction for such Delivery Year.

## **2.15 CONE Area**

“CONE Area” shall mean the areas listed in section 5.10(a)(iv)(A) and any LDAs established as CONE Areas pursuant to section 5.10(a)(iv)(B).

## **2.16 Cost of New Entry**

“Cost of New Entry” or “CONE” shall mean the nominal levelized cost of a Reference Resource, as determined in accordance with section 5.

### **2.16A Credit-Limited Offer**

“Credit-Limited Offer” shall have the meaning provided in Attachment Q to this Tariff.

## **2.17 Daily Deficiency Rate**

“Daily Deficiency Rate” shall mean the rate employed to assess certain deficiency charges under sections 7, 8, 9, or 13.

## **2.18 Daily Unforced Capacity Obligation**

“Daily Unforced Capacity Obligation” shall mean the capacity obligation of a Load Serving Entity during the Delivery Year, determined in accordance with Schedule 8 of the Reliability Assurance Agreement.

## **2.19 Delivery Year**

Delivery Year shall mean the Planning Period for which a Capacity Resource is committed pursuant to the auction procedures specified in Section 5.

## **2.20 Demand Resource**

“Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.21 Demand Resource Factor**

“Demand Resource Factor” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.22 [Reserved for Future Use]**

## **2.23 EFORD**

“EFORD” shall have the meaning specified in the PJM Reliability Assurance Agreement.



## **2.24 Energy Efficiency Resource**

“Energy Efficiency Resource” shall have the meaning specified in the PJM Reliability Assurance Agreement.

### **2.24.01 Existing WLR Load**

“Existing WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.24A Extended Summer Demand Resource**

“Extended Summer Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.24B Extended Summer Resource Price Adder**

“Extended Summer Resource Price Adder” shall mean an addition to the marginal value of Unforced Capacity as necessary to reflect the price of Annual Resources and Extended Summer Demand Resources required to meet the applicable Minimum Extended Summer Resource Requirement.

### **2.24C Sub-Annual Resource Reliability Target**

“Sub-Annual Reliability Target” for the PJM Region or an LDA, shall mean the maximum amount of the combination of Extended Summer Demand Resources and Limited Demand Resources in Unforced Capacity determined by PJM to be consistent with the maintenance of reliability, stated in Unforced Capacity, that shall be used to calculate the Minimum Annual Resource Requirement for Delivery Years through May 31, 2017 and the Sub-Annual Resource Constraint for Delivery Years beginning June 1, 2017. As more fully set forth in the PJM Manuals, PJM calculates the Sub-Annual Resource Reliability Target, by first determining a reference annual loss of load expectation (“LOLE”) assuming no Demand Resources. The calculation for the unconstrained portion of the PJM Region uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast and iteratively shifting the load distributions to result in the Installed Reserve Margin established for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). The calculation for each relevant LDA uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Capacity Emergency Transfer Objective study for the Delivery Year in question). For the relevant LDA calculation, the weekly capacity distributions are adjusted to reflect the Capacity Emergency Transfer Limit for the Delivery Year in question.

For both the PJM Region and LDA analyses, PJM then models the commitment of varying amounts of DR (displacing otherwise committed generation) as interruptible from May 1 through October 31 and unavailable from November 1 through April 30 and calculates the LOLE at each DR level. The Extended Summer DR Reliability Target is the DR amount, stated as a percentage

of the unrestricted peak load, that produces no more than a ten percent increase in the LOLE, compared to the reference value. The Sub-Annual Resource Reliability Target shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the DR Factor] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

#### **2.24D Extended Summer WLR Load**

“Extended Summer WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.25 Sub-Annual Resource Constraint**

“Sub-Annual Resource Constraint” shall mean, for the PJM Region or for each LDA for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for a Delivery Year, a limit on the total amount of Unforced Capacity that can be committed as Limited Demand Resources and Extended Summer Demand Resources for such Delivery Year in the PJM Region or in such LDA, calculated as the Sub-Annual Resource Reliability Target for the PJM Region or for such LDA, respectively, minus the Short-Term Resource Procurement Target for the PJM Region or for such LDA, respectively.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **2.26 Final RTO Unforced Capacity Obligation**

“Final RTO Unforced Capacity Obligation” shall mean the capacity obligation for the PJM Region, determined in accordance with Schedule 8 of the Reliability Assurance Agreement.

#### **2.26A [Reserved]**

#### **2.27 First Incremental Auction**

“First Incremental Auction” shall mean an Incremental Auction conducted 20 months prior to the start of the Delivery Year to which it relates.

#### **2.28 Forecast Pool Requirement**

“Forecast Pool Requirement” shall have the meaning specified in the Reliability Assurance Agreement.

**2.29 [Reserved]**

**2.30 [Reserved]**

**2.31 Generation Capacity Resource**

“Generation Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

**2.32 [Reserved]**

**2.33 [Reserved]**

**2.34 Incremental Auction**

“Incremental Auction” shall mean any of several auctions conducted for a Delivery Year after the Base Residual Auction for such Delivery Year and before the first day of such Delivery Year, including the First Incremental Auction, Second Incremental Auction, Third Incremental Auction or Conditional Incremental Auction. Incremental Auctions (other than the Conditional Incremental Auction), shall be held for the purposes of:

(i) allowing Market Sellers that committed Capacity Resources in the Base Residual Auction for a Delivery Year, which subsequently are determined to be unavailable to deliver the committed Unforced Capacity in such Delivery Year (due to resource retirement, resource cancellation or construction delay, resource derating, EFORD increase, a decrease in the Nominated Demand Resource Value of a Planned Demand Resource, delay or cancellation of a Qualifying Transmission Upgrade, or similar occurrences) to submit Buy Bids for replacement Capacity Resources; and

(ii) allowing the Office of the Interconnection to reduce or increase the amount of committed capacity secured in prior auctions for such Delivery Year if, as a result of changed circumstances or expectations since the prior auction(s), there is, respectively, a significant excess or significant deficit of committed capacity for such Delivery Year, for the PJM Region or for an LDA.

**2.35 Incremental Capacity Transfer Right**

“Incremental Capacity Transfer Right” shall mean a Capacity Transfer Right allocated to a Generation Interconnection Customer or Transmission Interconnection Customer obligated to fund a transmission facility or upgrade, to the extent such upgrade or facility increases the transmission import capability into a Locational Deliverability Area, or a Capacity Transfer Right allocated to a Responsible Customer in accordance with Schedule 12A of the Tariff.

**2.36 [Reserved]**

**2.36A Limited Demand Resource**

“Limited Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.36B Limited Demand Resource Reliability Target**

“Limited Demand Resource Reliability Target” for the PJM Region or an LDA, shall mean the maximum amount of Limited Demand Resources determined by PJM to be consistent with the maintenance of reliability, stated in Unforced Capacity that shall be used to calculate the Minimum Extended Summer Demand Resource Requirement for Delivery Years through May 31, 2017 and the Limited Resource Constraint for Delivery Years beginning June 1, 2017 for the PJM Region or such LDA. As more fully set forth in the PJM Manuals, PJM calculates the Limited Demand Resource Reliability Target by first: i) testing the effects of the ten-interruption requirement by comparing possible loads on peak days under a range of weather conditions (from the daily load forecast distributions for the Delivery Year in question) against possible generation capacity on such days under a range of conditions (using the cumulative capacity distributions employed in the Installed Reserve Margin study for the PJM Region and in the Capacity Emergency Transfer Objective study for the relevant LDAs for such Delivery Year) and, by varying the assumed amounts of DR that is committed and displaces committed generation, determines the DR penetration level at which there is a ninety percent probability that DR will not be called (based on the applicable operating reserve margin for the PJM Region and for the relevant LDAs) more than ten times over those peak days; ii) testing the six-hour duration requirement by calculating the MW difference between the highest hourly unrestricted peak load and seventh highest hourly unrestricted peak load on certain high peak load days (e.g., the annual peak, loads above the weather normalized peak, or days where load management was called) in recent years, then dividing those loads by the forecast peak for those years and averaging the result; and (iii) (for the 2016-2017 and subsequent Delivery Years) testing the effects of the six-hour duration requirement by comparing possible hourly loads on peak days under a range of weather conditions (from the daily load forecast distributions for the Delivery Year in question) against possible generation capacity on such days under a range of conditions (using a Monte Carlo model of hourly capacity levels that is consistent with the capacity model employed in the Installed Reserve Margin study for the PJM Region and in the Capacity Emergency Transfer Objective study for the relevant LDAs for such Delivery Year) and, by varying the assumed amounts of DR that is committed and displaces committed generation, determines the DR penetration level at which there is a ninety percent probability that DR will not be called (based on the applicable operating reserve margin for the PJM Region and for the relevant LDAs) for more than six hours over any one or more of the tested peak days. Second, PJM adopts the lowest result from these three tests as the Limited Demand Resource Reliability Target. The Limited Demand Resource Reliability Target shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the DR Factor] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

### **2.36C Limited Resource Constraint**

“Limited Resource Constraint” shall mean, for the PJM Region or each LDA for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for a Delivery Year, a limit on the total amount of Unforced Capacity that can be committed as Limited Demand Resources for such Delivery Year in the PJM Region or in such LDA, calculated as the Limited Demand Resource Reliability Target for the PJM Region or such LDA, respectively, minus the Short Term Resource Procurement Target for the PJM Region or such LDA, respectively.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **2.36D Limited Resource Price Decrement**

“Limited Resource Price Decrement” shall mean, for the Delivery Year commencing June 1, 2017 and subsequent Delivery Years, a difference between the clearing price for Limited Demand Resources and the clearing price for Extended Summer Demand Resources and Annual Resources, representing the cost to procure additional Extended Summer Demand Resources or Annual Resources out of merit order when the Limited Resource Constraint is binding.

#### **2.36E Limited WLR Load**

“Limited WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.36F Limited WLR Load Constraint**

“Limited WLR Load Constraint” for the PJM Region or an LDA, shall mean the maximum amount of Limited WLR Load determined by PJM to be consistent with the maintenance of reliability, stated in Unforced Capacity. As more fully set forth in the PJM Manuals, PJM calculates the Limited WLR Load Constraint by first: i) testing the effects of the ten-interruption requirement by comparing possible loads on peak days under a range of weather conditions (from the daily load forecast distributions for the Delivery Year in question) against possible generation capacity on such days under a range of conditions (using the cumulative capacity distributions employed in the Installed Reserve Margin study for the PJM Region and in the Capacity Emergency Transfer Objective study for the relevant LDAs for such Delivery Year) and, by varying the assumed amounts of WLR Load that is committed and displaces committed generation, determines the WLR Load penetration level at which there is a ninety percent probability that WLR Load will not be called (based on the applicable operating reserve margin for the PJM Region and for the relevant LDAs) more than ten times over those peak days; ii) testing the six-hour duration requirement by calculating the MW difference between the highest hourly unrestricted peak load and seventh highest hourly unrestricted peak load on certain high peak load days (e.g., the annual peak, loads above the weather normalized peak, or days where load management was called) in recent years, then dividing those loads by the forecast peak for those years and averaging the result; and (iii) testing the effects of the six-hour duration

requirement by comparing possible hourly loads on peak days under a range of weather conditions (from the daily load forecast distributions for the Delivery Year in question) against possible generation capacity on such days under a range of conditions (using a Monte Carlo model of hourly capacity levels that is consistent with the capacity model employed in the Installed Reserve Margin study for the PJM Region and in the Capacity Emergency Transfer Objective study for the relevant LDAs for such Delivery Year) and, by varying the assumed amounts of WLR Load that is committed and displaces committed generation, determines the WLR Load penetration level at which there is a ninety percent probability that WLR Load will not be called (based on the applicable operating reserve margin for the PJM Region and for the relevant LDAs) for more than six hours over any one or more of the tested peak days. Second, PJM adopts the lowest result from these three tests as the Limited WLR Load Constraint. The Limited WLR Load Constraint shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the DR Factor] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

### **2.37 Load Serving Entity (LSE)**

“Load Serving Entity” or “LSE” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.38 Locational Deliverability Area (LDA)**

“Locational Deliverability Area” or “LDA” shall mean a geographic area within the PJM Region that has limited transmission capability to import capacity to satisfy such area’s reliability requirement, as determined by the Office of the Interconnection in connection with preparation of the Regional Transmission Expansion Plan, and as specified in Schedule 10.1 of the Reliability Assurance Agreement.

### **2.39 Locational Deliverability Area Reliability Requirement**

“Locational Deliverability Area Reliability Requirement” shall mean the projected internal capacity in the Locational Deliverability Area plus the Capacity Emergency Transfer Objective for the Delivery Year, as determined by the Office of the Interconnection in connection with preparation of the Regional Transmission Expansion Plan, less the minimum internal resources required for all FRR Entities in such Locational Deliverability Area.

### **2.40 Locational Price Adder**

“Locational Price Adder” shall mean an addition to the marginal value of Unforced Capacity within an LDA as necessary to reflect the price of Capacity Resources required to relieve applicable binding locational constraints.

### **2.41 Locational Reliability Charge**

“Locational Reliability Charge” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.41A Locational UCAP**

“Locational UCAP” shall mean unforced capacity that a Member with available uncommitted capacity sells in a bilateral transaction to a Member that previously committed capacity or load reduction through an RPM Auction but now requires replacement capacity to fulfill its RPM Auction commitment. The Locational UCAP Seller retains responsibility for performance of the resource providing such replacement capacity. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **2.41B Locational UCAP Seller**

“Locational UCAP Seller” shall mean a Member that sells Locational UCAP.

#### **2.41C Market Seller Offer Cap**

“Market Seller Offer Cap” shall mean a maximum offer price applicable to certain Market Sellers under certain conditions, as determined in accordance with section 6 of Attachment DD and section II.E of Attachment M - Appendix.

#### **2.41D Minimum Annual Resource Requirement**

“Minimum Annual Resource Requirement” shall mean, for Delivery Years through May 31, 2017, the minimum amount of capacity that PJM will seek to procure from Annual Resources for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. For the PJM Region, the Minimum Annual Resource Requirement shall be equal to the RTO Reliability Requirement minus [the Sub-Annual Resource Reliability Target for the RTO in Unforced Capacity]. For an LDA, the Minimum Annual Resource Requirement shall be equal to the LDA Reliability Requirement minus [the LDA CETL] minus [the Sub-Annual Resource Reliability Target for such LDA in Unforced Capacity]. The LDA CETL may be adjusted pro rata for the amount of load served under the FRR Alternative.

#### **2.41E Minimum Extended Summer Resource Requirement**

“Minimum Extended Summer Resource Requirement” shall mean, for Delivery Years through May 31, 2017, the minimum amount of capacity that PJM will seek to procure from Extended Summer Demand Resources and Annual Resources for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a)

of this Attachment DD to establish a separate VRR Curve for such Delivery Year. For the PJM Region, the Minimum Extended Summer Resource Requirement shall be equal to the RTO Reliability Requirement minus [the Limited Demand Resource Reliability Target for the PJM Region in Unforced Capacity]. For an LDA, the Minimum Extended Summer Resource Requirement shall be equal to the LDA Reliability Requirement minus [the LDA CETL] minus [the Limited Demand Resource Reliability Target for such LDA in Unforced Capacity]. The LDA CETL may be adjusted pro rata for the amount of load served under the FRR Alternative. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **2.42 Net Cost of New Entry**

“Net Cost of New Entry” shall mean the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset, as defined in Section 5.

#### **2.43 Nominated Demand Resource Value**

“Nominated Demand Resource Value” shall mean the amount of load reduction that a Demand Resource commits to provide either through direct load control, firm service level or guaranteed load drop programs. For existing Demand Resources, the maximum Nominated Demand Resource Value is limited, in accordance with the PJM Manuals, to the value appropriate for the method by which the load reduction would be accomplished, at the time the Base Residual Auction or Incremental Auction is being conducted.

#### **2.43A Nominated Energy Efficiency Value**

“Nominated Energy Efficiency Value” shall mean the amount of load reduction that an Energy Efficiency Resource commits to provide through installation of more efficient devices or equipment or implementation of more efficient processes or systems.

#### **2.43B Nominated WLR Quantity**

“Nominated WLR Quantity” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.44 Nominated WEEL Quantity**

“Nominated WEEL Quantity” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.45 Opportunity Cost**



“Opportunity Cost” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

#### **2.46 Peak-Hour Dispatch**

“Peak-Hour Dispatch” shall mean, for purposes of calculating the Energy and Ancillary Services Revenue Offset under section 5 of this Attachment, an assumption, as more fully set forth in the PJM Manuals, that the Reference Resource is committed in the Day-Ahead Energy Market in four distinct blocks of four hours of continuous output for each block from the peak-hour period beginning with the hour ending 0800 EPT through to the hour ending 2300 EPT for any day when the average day-ahead LMP for the area for which the Net Cost of New Entry is being determined is greater than, or equal to, the cost to generate (including the cost for a complete start and shutdown cycle) for at least two hours during each four-hour block, where such blocks shall be assumed to be committed independently; provided that, if there are not at least two economic hours in any given four-hour block, then the Reference Resource shall be assumed not to be committed for such block; and to the extent not committed in any such block in the Day-Ahead Energy Market under the above conditions based on Day-Ahead LMPs, is dispatched in the Real-Time Energy Market for such block if the Real-Time LMP is greater than or equal to the cost to generate under the same conditions as described above for the Day-Ahead Energy Market.

#### **2.47 Peak Season**

“Peak Season” shall mean the weeks containing the 24th through 36th Wednesdays of the calendar year. Each such week shall begin on a Monday and end on the following Sunday, except for the week containing the 36th Wednesday, which shall end on the following Friday.

#### **2.48 Percentage Internal Resources Required**

“Percentage Internal Resources Required” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.49 Planned Demand Resource**

“Planned Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.50 Planned External Generation Capacity Resource**

“Planned External Generation Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.50A Planned Generation Capacity Resource**

“Planned Generation Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.50B Planned WLR Load**

“Planned WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.51 Planning Period**

“Planning Period” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.52 PJM Region**

“PJM Region” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.53 PJM Region Installed Reserve Margin**

“PJM Region Installed Reserve Margin” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.54 PJM Region Peak Load Forecast**

“PJM Region Peak Load Forecast” shall mean the peak load forecast used by the Office of the Interconnection in determining the PJM Region Reliability Requirement, and shall be determined on both a preliminary and final basis as set forth in section 5.

## **2.55 PJM Region Reliability Requirement**

“PJM Region Reliability Requirement” shall mean, for purposes of the Base Residual Auction, the Forecast Pool Requirement multiplied by the Preliminary PJM Region Peak Load Forecast, less the sum of all Preliminary Unforced Capacity Obligations of FRR Entities in the PJM Region; and, for purposes of the Incremental Auctions, the Forecast Pool Requirement multiplied by the updated PJM Region Peak Load Forecast, less the sum of all updated Unforced Capacity Obligations of FRR Entities in the PJM Region.

## **2.56 Projected PJM Market Revenues**

“Projected PJM Market Revenues” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

## **2.57 Qualifying Transmission Upgrade**

“Qualifying Transmission Upgrade” shall mean a proposed enhancement or addition to the Transmission System that: (a) will increase the Capacity Emergency Transfer Limit into an LDA by a megawatt quantity certified by the Office of the Interconnection; (b) the Office of the Interconnection has determined will be in service on or before the commencement of the first Delivery Year for which such upgrade is the subject of a Sell Offer in the Base Residual Auction; (c) is the subject of a Facilities Study Agreement executed before the conduct of the

Base Residual Auction for such Delivery Year and (d) a New Service Customer is obligated to fund through a rate or charge specific to such facility or upgrade.

## **2.58 Reference Resource**

“Reference Resource” shall mean a combustion turbine generating station, configured with two General Electric Frame 7FA turbines with inlet air cooling to 50 degrees, Selective Catalytic Reduction technology all CONE Areas, dual fuel capability, and a heat rate of 10.096 Mmbtu/MWh.

## **2.59 Reliability Assurance Agreement**

“Reliability Assurance Agreement” shall mean that certain “Reliability Assurance Agreement Among Load-Serving Entities in the PJM Region,” on file with FERC as PJM Interconnection, L.L.C. Rate Schedule FERC No.44.

## **2.60 Reliability Pricing Model Auction**

“Reliability Pricing Model Auction” or “RPM Auction” shall mean the Base Residual Auction or any Incremental Auction.

### **2.60A Repowered / Repowering**

“Repowering” or “Repowered” shall refer to a partial or total replacement of existing steam production equipment with new technology or a partial or total replacement of steam production process and power generation equipment, or an addition of steam production and/or power generation equipment, or a change in the primary fuel being used at the plant. A resource can be considered Repowered whether or not such aforementioned replacement, addition, or fuel change provides an increase in installed capacity, and whether or not the pre-existing plant capability is formally deactivated or retired.

## **2.61 Resource Substitution Charge**

“Resource Substitution Charge” shall mean a charge assessed on Capacity Market Buyers in an Incremental Auction to recover the cost of replacement Capacity Resources.

### **2.61A Scheduled Incremental Auctions**

“Scheduled Incremental Auctions” shall refer to the First, Second, or Third Incremental Auction.

## **2.62 Second Incremental Auction**

“Second Incremental Auction” shall mean an Incremental Auction conducted ten months before the Delivery Year to which it relates.

## **2.63 Sell Offer**

“Sell Offer” shall mean an offer to sell Capacity Resources in a Base Residual Auction, Incremental Auction, or Reliability Backstop Auction.

## **2.64 [Reserved for Future Use]**

## **2.65 Self-Supply**

“Self-Supply” shall mean Capacity Resources secured by a Load-Serving Entity, by ownership or contract, outside a Reliability Pricing Model Auction, and used to meet obligations under this Attachment or the Reliability Assurance Agreement through submission in a Base Residual Auction or an Incremental Auction of a Sell Offer indicating such Market Seller’s intent that such Capacity Resource be Self-Supply. Self-Supply may be either committed regardless of clearing price or submitted as a Sell Offer with a price bid. A Load Serving Entity’s Sell Offer with a price bid for an owned or contracted Capacity Resource shall not be deemed “Self-Supply,” unless it is designated as Self-Supply and used by the LSE to meet obligations under this Attachment or the Reliability Assurance Agreement.

### **2.65A Short-Term Resource Procurement Target**

“Short-Term Resource Procurement Target” shall mean, as to the PJM Region, for purposes of the Base Residual Auction, 2.5% of the PJM Region Reliability Requirement determined for such Base Residual Auction, for purposes of the First Incremental Auction, 2% of the of the PJM Region Reliability Requirement as calculated at the time of the Base Residual Auction; and, for purposes of the Second Incremental Auction, 1.5% of the of the PJM Region Reliability Requirement as calculated at the time of the Base Residual Auction; and, as to any Zone, an allocation of the PJM Region Short-Term Resource Procurement Target based on the Preliminary Zonal Forecast Peak Load, reduced by the amount of load served under the FRR Alternative. For any LDA, the LDA Short-Term Resource Procurement Target shall be the sum of the Short-Term Resource Procurement Targets of all Zones in the LDA.

### **2.65B Short-Term Resource Procurement Target Applicable Share**

“Short-Term Resource Procurement Target Applicable Share” shall mean: (i) for the PJM Region, as to the First and Second Incremental Auctions, 0.2 times the Short-Term Resource Procurement Target used in the Base Residual Auction and, as to the Third Incremental Auction for the PJM Region, 0.6 times such target; and (ii) for an LDA, as to the First and Second Incremental Auctions, 0.2 times the Short-Term Resource Procurement Target used in the Base Residual Auction for such LDA and, as to the Third Incremental Auction, 0.6 times such target.

#### **2.65B.01 Small Commercial Customer**

“Small Commercial Customer,” as used in Schedule 6 of the RAA and Attachment DD-1 of the Tariff, shall mean a commercial retail electric end-use customer of an electric distribution company that participates in a mass market demand response program under the jurisdiction of a RERRA and satisfies the definition of a “small commercial customer” under the terms of the

applicable RERRA's program, provided that the customer has an annual peak demand no greater than 100kW.

### **2.65C Sub-Annual Resource Price Decrement**

"Sub-Annual Resource Price Decrement" shall mean, for the Delivery Year commencing June 1, 2017 and subsequent Delivery Years, a difference between the clearing price for Extended Summer Demand Resources and the clearing price for Annual Resources, representing the cost to procure additional Annual Resources out of merit order when the Sub-Annual Resource Constraint is binding.

### **2.65D Sub-Annual WLR Load Constraint**

"Sub-Annual WLR Load Constraint" for the PJM Region or an LDA, shall mean the maximum amount of the combination of Extended Summer WLR Load and Limited WLR Loads in Unforced Capacity determined by PJM to be consistent with the maintenance of reliability, stated in Unforced Capacity. As more fully set forth in the PJM Manuals, PJM calculates the Sub-Annual WLR Load Constraint, by first determining a reference annual LOLE assuming no WLR Load. The calculation for the unconstrained portion of the PJM Region uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast and iteratively shifting the load distributions to result in the Installed Reserve Margin established for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). The calculation for each relevant LDA uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Capacity Emergency Transfer Objective study for the Delivery Year in question). For the relevant LDA calculation, the weekly capacity distributions are adjusted to reflect the Capacity Emergency Transfer Limit for the Delivery Year in question.

For both the PJM Region and LDA analyses, PJM then models the commitment of varying amounts of WLR Loads (displacing otherwise committed generation) as interruptible from May 1 through October 31 and unavailable from November 1 through April 30 and calculates the LOLE at each WLR Load level. The Sub-Annual WLR Load Constraint is the WLR Load amount, stated as a percentage of the unrestricted peak load, that produces no more than a ten percent increase in the LOLE, compared to the reference value. The Sub-Annual WLR Load Constraint shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the DR Factor] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

### **2.66 Third Incremental Auction**

"Third Incremental Auction" shall mean an Incremental Auction conducted three months before the Delivery Year to which it relates.

## **2.67 [Reserved for Future Use]**

## **2.68 Unconstrained LDA Group**

“Unconstrained LDA Group” shall mean a combined group of LDAs that form an electrically contiguous area and for which a separate Variable Resource Requirement Curve has not been established under Section 5.10 of Attachment DD. Any LDA for which a separate Variable Resource Requirement Curve has not been established under Section 5.10 of Attachment DD shall be combined with all other such LDAs that form an electrically contiguous area.

## **2.69 Unforced Capacity**

“Unforced Capacity” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.69A Updated VRR Curve**

“Updated VRR Curve” shall mean the Variable Resource Requirement Curve as defined in section 5.10(a) of this Attachment for use in the Base Residual Auction of the relevant Delivery Year, updated to reflect the Short-term Resource Procurement Target applicable to the relevant Incremental Auction and any change in the Reliability Requirement from the Base Residual Auction to such Incremental Auction.

### **2.69B Updated VRR Curve Increment**

“Updated VRR Curve Increment” shall mean the portion of the Updated VRR Curve to the right of a vertical line at the level of Unforced Capacity on the x-axis of such curve equal to the net Unforced Capacity committed to the PJM Region as a result of all prior auctions conducted for such Delivery Year *and adjusted, if applicable, by the reduction in Unforced Capacity commitments associated with the transition provision of section 5.14C of this Attachment DD.*

### **2.69C Updated VRR Curve Decrement**

“Updated VRR Curve Decrement” shall mean the portion of the Updated VRR Curve to the left of a vertical line at the level of Unforced Capacity on the x-axis of such curve equal to the net Unforced Capacity committed to the PJM Region as a result of all prior auctions conducted for such Delivery Year *and adjusted, if applicable, by the reduction in Unforced Capacity commitments associated with the transition provision of section 5.14C of this attachment DD.*

## **2.70 Variable Resource Requirement Curve**

“Variable Resource Requirement Curve” shall mean a series of maximum prices that can be cleared in a Base Residual Auction for Unforced Capacity, corresponding to a series of varying resource requirements based on varying installed reserve margins, as determined by the Office of the Interconnection for the PJM Region and for certain Locational Deliverability Areas in accordance with the methodology provided in Section 5.

#### **2.70A WEEL Provider**

“WEEL Provider” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70B Wholesale Energy Efficiency Load or WEEL**

“Wholesale Energy Efficiency Load or WEEL” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70C Wholesale Entity**

“Wholesale Entity” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70D Wholesale Load Reduction or WLR**

“Wholesale Load Reduction or WLR” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70E WLR Bid**

“WLR Bid” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70F WLR Bid Price**

“WLR Bid Price” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70G WLR Load**

“WLR Load” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70H WLR Provider**

“WLR Provider” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.70I WLR Value**

“WLR Value” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.71 Zonal Capacity Price**

“Zonal Capacity Price” shall mean the clearing price required in each Zone to meet the demand for Unforced Capacity and satisfy Locational Deliverability Requirements for the LDA or LDAs associated with such Zone. 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. RESPONSIBILITIES OF THE OFFICE OF THE INTERCONNECTION**

#### **3.1 Support for Self-Supply and Bilateral Transactions**

The Office of the Interconnection shall:

- (a) support electronic tools to facilitate communication by Market Sellers and Market Buyers of information to the Office of the Interconnection concerning Self-Supply arrangements;
- (b) support an electronic bulletin board providing a forum for prospective buyers and sellers to transact Capacity Resources outside the Reliability Pricing Model Auctions, including Locational UCAP transactions (including mechanisms to allow prospective Sellers with partial-year resources to explore voluntary opportunities to combine their resources such that they can be offered together for a full Delivery Year) and support electronic tools to report bilateral capacity transactions and bilateral load reduction transactions between Market Participants to the Office of the Interconnection, in accordance with procedures set forth in the PJM Manuals; and
- (c) define one or more capacity trading hubs and determine and publicize values for such hubs based on the capacity prices determined for one or more Locational Deliverability Areas, in accordance with the PJM Manuals.

#### **3.2 Administration of the Base Residual Auction and Incremental Auctions**

The Office of the Interconnection shall conduct and administer the Base Residual Auction and Incremental Auctions in accordance with this Attachment, the Operating Agreement, and the Reliability Assurance Agreement. Administration of the Base Residual Auction and Incremental Auctions shall include, but not be limited to, the following:

- a) Determining the qualification of entities to become Capacity Market Sellers, Capacity Market Buyers, and Wholesale Entities;
- b) Determining PJM Region Peak Load Forecasts and Locational Deliverability Area Reliability Requirements;
- c) Determining the Minimum Annual Resource Requirements and the Minimum Extended Summer Resource Requirements for the PJM Region and applicable LDAs for Delivery Years starting June 1, 2014 and ending May 31, 2017;
- d) Determining Limited Resource Constraints, Sub-Annual Resource Constraints, Limited WLR Load Constraints, and Sub-Annual WLR Load Constraints for Delivery Years starting June 1, 2017;
- e) Determining the need, if any, for a Conditional Incremental Auction and providing appropriate prior notice of any such auction

- f) Calculating the EFORD for each Generation Capacity Resource in the PJM Region to be used in the Third Incremental Auction;
- g) Receiving WLR Bids, Buy Bids, and Sell Offers, determining Locational Deliverability Requirements and Variable Resource Requirement Curves, and determining the clearing price that reflects all such inputs;
- h) Conducting settlements for auction transactions, including but not limited to rendering bills to, receiving payments from, and disbursing payments to, participants in Base Residual Auctions and Incremental Auctions.
- i) Maintaining such records of WLR Bids, Sell Offers, and Buy Bids, clearing price determinations, and other aspects of auction transactions, as may be appropriate to the administration of Base Residual Auctions and Incremental Auctions; and
- j) Posting of selected non-confidential data used in Reliability Pricing Model Auctions to calculate clearing prices, WLR Values, and other auction results, as appropriate to inform market participants of auction conditions.

### **3.3 Records and Reports**

The Office of the Interconnection shall prepare and maintain such records as are required for the administration of the Base Residual Auction and Incremental Auctions. For each auction conducted, the Office of the Interconnection shall, consistent with section 18.17 of the Operating Agreement, publish the following: (i) Zonal Capacity Prices for each LDA; (ii) Capacity Resource Clearing Prices for each LDA; (iii) Locational Price Adders; (iv) the total megawatts of Unforced Capacity that cleared; and (v) such other auction data as may be appropriate to the efficient and competitive conduct of the Base Residual Auction and Incremental Auctions. Such information shall be available on the PJM internet site through the end of the Delivery Year to which such auctions apply.

### **3.4 Counterparty**

- (a) PJMSettlement shall be the Counterparty to the transactions arising from the cleared Base Residual Auctions and Incremental Auctions; provided, however, PJMSettlement shall not be a contracting party to (i) any bilateral transactions between Market Participants, or (ii) with respect to Self-Supply for which designation of Self-Supply has been reported to the Office of the Interconnection.
- (b) Charges. PJMSettlement shall be the Counterparty with respect to the obligations to pay, and the payment of, charges pursuant to this Attachment DD.

## **4. GENERAL PROVISIONS**

### **4.1 Capacity Market Sellers**

Only Capacity Market Sellers shall be eligible to submit Sell Offers into the Base Residual Auction and Incremental Auctions. Capacity Market Sellers shall comply with the terms and conditions of all Sell Offers, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M - Appendix and the Operating Agreement.

### **4.2 Capacity Market Buyers**

Only Capacity Market Buyers shall be eligible to submit Buy Bids into an Incremental Auction. Capacity Market Buyers shall comply with the terms and conditions of all Buy Bids, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M - Appendix and the Operating Agreement.

#### **4.2A Wholesale Entity**

Only Wholesale Entities shall be eligible to submit WLR Bids into a Base Residual Auction. Wholesale Entities shall comply with the terms and conditions of all WLR Bids, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M – Appendix, and the Reliability Assurance Agreement.

### **4.3 Agents**

A Capacity Market Seller or Wholesale Entity may participate in a Base Residual Auction or Incremental Auction through an Agent, provided that the Capacity Market Seller or Wholesale Entity informs the Office of the Interconnection in advance in writing of the appointment and authority of such Agent. A Capacity Market Buyer or Wholesale Entity may participate in an Incremental Auction through an Agent, provided that the Capacity Market Buyer informs the Office of the Interconnection in advance in writing of the appointment and authority of such Agent. A Wholesale Entity, Capacity Market Buyer, or Capacity Market Seller participating in such an auction through an Agent shall be bound by all of the acts or representations of such Agent with respect to transactions in such auction. Any written instrument establishing the authority of such Agent shall provide that any such Agent shall comply with the requirements of this Attachment, the Reliability Assurance Agreement, and the Operating Agreement, as applicable.

### **4.4 General Obligations of Wholesale Entities, Capacity Market Buyers, and Capacity Market Sellers**

Each Wholesale Entity, Capacity Market Buyer, and Capacity Market Seller shall comply with all laws and regulations applicable to the operation of the Base Residual and Incremental Auctions and the use of these auctions shall comply with all applicable provisions of this Attachment, Attachment M, Attachment M - Appendix, the Operating Agreement, and the Reliability Assurance Agreement, and all procedures and requirements for the conduct of the

Base Residual and Incremental Auctions and the PJM Region established by the Office of the Interconnection in accordance with the foregoing.

#### **4.5 Confidentiality**

The following information submitted to the Office of the Interconnection in connection with any Base Residual Auction, Incremental Auction, or Reliability Backstop Auction shall be deemed confidential information for purposes of Section 18.17 of the Operating Agreement, Attachment M and Attachment M - Appendix: (i) the terms and conditions of the WLR Bids, Sell Offers, and Buy Bids; and (ii) the terms and conditions of any bilateral transactions for Capacity Resources, Wholesale Load Reductions, or Wholesale Energy Efficiency Loads.

#### **4.6 Bilateral Capacity Transactions**

(a) Unit-Specific Internal Capacity Bilateral Transaction Transferring All Rights and Obligations (“Section 4.6(a) Bilateral”).

(i) Market Participants may enter into unit-specific internal bilateral capacity contracts for the purchase and sale of title and rights to a specified amount of installed capacity from a specific generating unit or units. Such bilateral capacity contracts shall be for the transfer of rights to capacity to and from a Market Participant and shall be reported to the Office of the Interconnection in accordance with this Attachment DD and the Office of the Interconnection’s rules related to its eRPM tools.

(ii) For purposes of clarity, with respect to all Section 4.6(a) Bilateral transactions, the rights to, and obligations regarding, the capacity that is the subject of the transaction shall pass to the buyer under the contract at the location of the unit and further transactions and rights and obligations associated with such capacity shall be the responsibility of the buyer under the contract. Such obligations include any charges, including penalty charges, relating to the capacity under this Attachment DD. In no event shall the purchase and sale of the rights to capacity pursuant to a Section 4.6(a) Bilateral constitute a transaction with the Office of the Interconnection or PJMSettlement or a transaction in any auction under this Attachment DD.

(iii) All payments and related charges associated with a Section 4.6(a) Bilateral shall be arranged between the parties to the transaction and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The Office of the Interconnection, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Section 4.6(a) Bilateral reported to the Office of the Interconnection under this Attachment DD.

(iv) With respect to capacity that is the subject of a Section 4.6(a) Bilateral that has cleared an auction under this Attachment DD prior to a transfer, the buyer of the cleared capacity shall be considered in the Delivery Year the party to a transaction with PJMSettlement as Counterparty for the cleared capacity at the Capacity Resource Clearing Price published for the applicable auction.

(v) A buyer under a Section 4.6(a) Bilateral contract shall pay any penalties or charges associated with the capacity transferred under the contract. To the extent the capacity that is the subject of a Section 4.6(a) Bilateral contract has cleared an auction under this Attachment DD prior to a transfer, then the seller under the contract also shall guarantee and indemnify the Office of the Interconnection, PJMSettlement, and the Members for the buyer's obligation to pay any penalties or charges associated with the capacity and for which payment is not made to PJMSettlement by the buyer as determined by the Office of the Interconnection. All claims regarding a default of a buyer to a seller under a Section 4.6(a) Bilateral contract shall be resolved solely between the buyer and the seller.

(vi) To the extent the capacity that is the subject of the Section 4.6(a) Bilateral transaction already has cleared an auction under this Attachment DD, such bilateral capacity transactions shall be subject to the prior consent of the Office of the Interconnection and its determination that sufficient credit is in place for the buyer with respect to the credit exposure associated with such obligations.

(b) Bilateral Capacity Transaction Transferring Title to Capacity But Not Transferring Performance Obligations ("Section 4.6(b) Bilateral").

(i) Market Participants may enter into bilateral capacity transactions for the purchase and sale of a specified megawatt quantity of capacity that has cleared an auction pursuant to this Attachment DD. The parties to a Section 4.6(b) Bilateral transaction shall identify (1) each unit from which the transferred megawatts are being sold, and (2) the auction in which the transferred megawatts cleared. Such bilateral capacity transactions shall transfer title and all rights with respect to capacity and shall be reported to the Office of the Interconnection on an annual basis prior to each Delivery Year in accordance with this Attachment DD and pursuant to the Office of the Interconnection's rules related to its eRPM tools. Reported transactions with respect to a unit will be accepted by the Office of the Interconnection only to the extent that the total of all bilateral sales from the reported unit (including Section 4.6(a) Bilaterals, Section 4.6(b) Bilaterals, and Locational UCAP bilaterals) do not exceed the unit's cleared unforced capacity.

(ii) For purposes of clarity, with respect to all Section 4.6(b) Bilateral transactions, the rights to the capacity shall pass to the buyer at the location of the unit(s) specified in the reported transaction. In no event shall the purchase and sale of the rights to capacity pursuant to a Section 4.6(b) Bilateral constitute a transaction with PJMSettlement or the Office of the Interconnection or a transaction in any auction under this Attachment DD.

(iii) With respect to a Section 4.6(b) Bilateral, the buyer of the cleared capacity shall be considered in the Delivery Year the party to a transaction with PJMSettlement as Counterparty for the cleared capacity at the Capacity Resource Clearing Price published for the applicable auction; provided, however, with respect to all Section 4.6(b) Bilateral transactions, such transactions do not effect a novation of the seller's obligations to make RPM capacity available to PJM pursuant to the terms and conditions originally agreed to by the seller; provided further, however, the buyer shall indemnify PJMSettlement, the LLC, and the Members for any failure by a seller under a Section 4.6(b) Bilateral to meet any resulting obligations, including the

obligation to pay deficiency penalties and charges owed to PJMSettlement, associated with the capacity.

(iv) All payments and related charges associated with a Section 4.6(b) Bilateral shall be arranged between the parties to the contract and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The Office of the Interconnection, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Section 4.6(b) Bilateral capacity contract reported to the Office of the Interconnection under this Attachment DD.

(v) All claims regarding a default of a buyer to a seller under a Section 4.6(b) Bilateral shall be resolved solely between the buyer and the seller.

(c) Locational UCAP Bilateral Transactions.

(i) Market Participants may enter into Locational UCAP bilateral transactions as defined in, and pursuant to the rules set forth in, section 5.3A of this Attachment DD, which shall be reported to the Office of the Interconnection in accordance with this Attachment DD and the LLC's rules related to its eRPM tools.

(ii) For purposes of clarity, with respect to all Locational UCAP bilateral transactions, the rights to the Locational UCAP that are the subject of the Locational UCAP bilateral transaction shall pass to the buyer under the Locational UCAP bilateral contract subject to the provisions of section 5.3A. In no event, shall the purchase and sale of Locational UCAP pursuant to a Locational UCAP bilateral transaction constitute a transaction with the Office of the Interconnection or PJMSettlement, or a transaction in any auction under this Attachment DD.

(iii) A Locational UCAP Seller shall have the obligation to make the capacity available to PJM in the same manner as capacity that has cleared an auction under this Attachment DD and the Locational UCAP Seller shall have all obligations for charges and penalties associated with the capacity that is the subject of the Locational UCAP bilateral contract; provided, however, the buyer shall indemnify PJMSettlement, the LLC, and the Members for any failure by a seller to meet any resulting obligations, including the obligation to pay deficiency penalties and charges owed to PJMSettlement, associated with the capacity. All claims regarding a default of a buyer to a seller under a Locational UCAP bilateral contract shall be resolved solely between the buyer and the seller.

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

(d) The bilateral transactions provided for in this section 4.6 shall be for the physical transfer of capacity to or from a Market Participant and shall be reported to and coordinated with

the Office of the Interconnection in accordance with this Attachment DD and pursuant to the Office of the Interconnection's rules relating to its eRPM tools. Bilateral transactions that do not contemplate the physical transfer of capacity to and from a Market Participant are not subject to this Attachment DD and shall not be reported to and coordinated with the Office of the Interconnection. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **5.1 Introduction**

In accordance with the Reliability Assurance Agreement, each Load Serving Entity is obligated to pay a Locational Reliability Charge for each Zone in which it serves load based on the Daily Unforced Capacity Obligation of its loads in such Zone. An LSE may offset the Locational Reliability charge for a Delivery Year, in whole or in part, by: (a) Self-Supply of Capacity Resources in the Base Residual Auction or an Incremental Auction; (b) offering and clearing Capacity Resources in the Base Residual Auction or an Incremental Auction (but only to the extent of the additional resources committed to meet Unforced Capacity Obligations through such Incremental Auction); (c) receiving payments from Capacity Transfer Rights; (d) offering and clearing Qualifying Transmission Upgrades in the Base Residual Auction; or (e) bidding and clearing WLR Load(s) or Wholesale Energy Efficiency Load(s) in the Base Residual Auction.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.



## **5.2 Nomination of Self Supplied Capacity Resources**

A Capacity Market Seller, including a Load Serving Entity, may designate a Capacity Resource as Self-Supply for a Delivery year by submitting a Sell Offer for such resource in the Base Residual Auction or an Incremental Auction in accordance with the procedure and time schedule set forth in the PJM Manuals. The LSE shall indicate its intent in the Sell Offer that the Capacity Resource be deemed Self-Supply and shall indicate whether it is committing the resource regardless of clearing price or with a price bid. Any such Sell Offer shall be subject to the minimum offer price rule set forth in section 5.14(h). Upon receipt of a Self-Supply Sell Offer, the Office of the Interconnection will verify that the designated Capacity Resource is available, in accordance with Section 5.6, and, if the LSE indicated that it is committing the resource regardless of clearing price, will treat such Capacity Resource as committed in the clearing process of the Reliability Pricing Model Auction for which it was offered for such Delivery Year. To address capacity obligation quantity uncertainty associated with the Variable Resource Requirement Curve, a Load Serving Entity may submit a Sell Offer with a contingent designation of a portion of its Capacity Resources as either Self-Supply (to the extent required to meet a portion (as specified by the LSE) of the LSE's peak load forecast in each transmission zone) or as not Self-Supply (to the extent not so required) and subject to an offer price, in accordance with the PJM Manuals. PJMSettlement shall not be the Counterparty with respect to a Capacity Resource designated as Self-Supply. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### **5.3A Locational UCAP Bilateral Transactions**

A Member that has committed capacity or load reduction through an RPM Auction for a Delivery Year may purchase Locational UCAP as replacement capacity from a Member with available uncommitted capacity for such Delivery Year in accordance with the terms of this section and the PJM Manuals. Locational UCAP may not be sold or purchased prior to the date that the final EFORD is established for such Delivery Year, and if designated to PJM by the Locational UCAP Seller as sold prior to the Third Incremental Auction for a Delivery Year must be confirmed by the buyer prior to such Third Incremental Auction as purchased for replacement capacity, or such transaction shall be rejected. In accordance with procedures specified in the PJM Manuals, the parties to a Locational UCAP transaction must notify PJM of such transaction, which notification must specify: i) the buyer, ii) the Locational UCAP Seller, iii) the start and end dates of the transaction (which may not be retroactive), iv) the Locational UCAP amount (no less than 0.1 megawatts), v) the demand or generation resource with available uncommitted capacity that is the basis for the sale, and vi) the Locational Delivery Area in which the resource is located. The Locational UCAP Seller shall be responsible for any charges imposed under sections 7, 8, 9, 10, 11, or 13, as applicable, for such Delivery Year, with respect to the increment of capacity sold as Locational UCAP; any other settlement of charges under the Locational UCAP transaction shall be between the parties. A purchaser of Locational UCAP may not offer such capacity into an RPM Auction. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **5.4 Reliability Pricing Model Auctions**

The Office of the Interconnection shall conduct the following Reliability Pricing Model Auctions:

a) Base Residual Auction.

PJM shall conduct for each Delivery Year a Base Residual Auction to secure commitments of Capacity Resources, WLR Loads, and Wholesale Energy Efficiency Loads as needed to satisfy the portion of the RTO Unforced Capacity Obligation not satisfied through Self-Supply of Capacity Resources for such Delivery Year. All Self-Supply Capacity Resources must be offered in the Base Residual Auction. As set forth in section 6.6, all other Capacity Resources, and certain other existing generation resources, must be offered in the Base Residual Auction. The Base Residual Auction shall be conducted in the month of May that is three years prior to the start of such Delivery Year. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement from Load Serving Entities through the Locational Reliability Charge during such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and the payments, by Load Serving Entities; provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

b) Scheduled Incremental Auctions.

PJM shall conduct for each Delivery Year a First, a Second, and a Third Incremental Auction for the purposes set forth in section 2.34. The First Incremental Auction shall be conducted in the month of September that is twenty months prior to the start of the Delivery Year; the Second Incremental Auction shall be conducted in the month of July that is ten months prior to the start of the Delivery Year; and the Third Incremental Auction shall be conducted in the month of February that is three months prior to the start of the Delivery Year.

c) Adjustment through Scheduled Incremental Auctions of Capacity Previously Committed.

The Office of the Interconnection shall recalculate the PJM Region Reliability Requirement and each LDA Reliability Requirement prior to each Scheduled Incremental Auction, based on an updated peak load forecast, updated Installed Reserve Margin, WLR Bids that cleared in the Base Residual Auction for that Delivery Year, any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year, and an updated Capacity Emergency Transfer Objective; shall update such reliability requirements for the Third Incremental Auction to reflect any change from such recalculation; and shall update such reliability requirements for the First Incremental Auction or Second Incremental Auction only if the change is greater than or equal to the lesser of: (i) 500 MW or (ii) one percent of the applicable prior reliability requirement. Based on such update, the Office of the Interconnection shall, under certain conditions, seek through the Scheduled

Incremental Auction to secure additional commitments of capacity or release sellers from prior capacity commitments. Specifically, the Office of the Interconnection shall:

1) seek additional capacity commitments to serve the PJM Region or an LDA if the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year (including any reductions to such reliability requirements as a result of any WLR Bids that cleared in the Base Residual Auction for that Delivery Year and any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year) is less than, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; provided, however, that in the First Incremental Auction or Second Incremental Auction the Office of the Interconnection shall seek such additional capacity commitments only if such shortfall is in an amount greater than or equal to the lesser of: (i) 500 MW or (ii) one percent of the applicable prior reliability requirement;

LDA if:

2) seek additional capacity commitments to serve the PJM Region or an

i) the updated PJM Region Reliability Requirement less the PJM Region Short-Term Resource Procurement Target utilized in the most recent auction conducted for the Delivery Year, or if the LDA Reliability Requirement less the LDA Short Term Resource Procurement Target applicable to such auction, exceeds the total capacity committed in all prior auctions in such region or area, respectively, for such Delivery Year by an amount greater than or equal to the lesser of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement; or

ii) PJM conducts a Conditional Incremental Auction for such Delivery Year and does not obtain all additional commitments of Capacity Resources sought in such Conditional Incremental Auction, in which case, PJM shall seek in the Incremental Auction the commitments that were sought in the Conditional Incremental Auction but not obtained.

3) seek agreements to release prior capacity commitments to the PJM Region or to an LDA if:

i) the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year (including any reductions to such reliability requirements as a result of any WLR Bids that cleared in the Base Residual Auction for that Delivery Year and any Price Responsive Demand with a PRD Reservation Price equal to or lower than the clearing price in the Base Residual Auction for such Delivery Year) exceeds, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; provided, however, that in the First Incremental Auction or Second Incremental Auction the Office of the Interconnection shall seek such agreements only if such excess is in an amount greater than or equal to the lesser

of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement;  
or

ii) PJM obtains additional commitments of Capacity Resources in a Conditional Incremental Auction, in which case PJM shall seek release of an equal number of megawatts (comparing the total purchase amount for all LDAs and the PJM Region related to the delay in Backbone Transmission with the total sell amount for all LDAs and the PJM Region related to the delay in Backbone Transmission) of prior committed capacity that would not have been committed had the delayed Backbone Transmission upgrade that prompted the Conditional Incremental Auction not been assumed, at the time of the Base Residual Auction, to be in service for the relevant Delivery Year; and if PJM obtains additional commitments of capacity in an incremental auction pursuant to subsection c.2.ii above, PJM shall seek in such Incremental Auction to release an equal amount of capacity (in total for all LDAs and the PJM Region related to the delay in Backbone Transmission) previously committed that would not have been committed absent the Backbone Transmission upgrade.

4) The cost of payments to Market Sellers for additional Capacity Resources cleared in such auctions, and the credits from payments from Market Sellers for the release of previously committed Capacity Resources, shall be apportioned to Load Serving Entities in the PJM Region or LDA, as applicable, through adjustments to the Locational Reliability Charge for such Delivery Year.

5) PJMSettlement shall be the Counterparty to the sales (including releases) of Capacity Resources that clear in such auctions and to the obligations to pay, and the payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

d) Commitment of Replacement Capacity through Scheduled Incremental Auctions.

Each Scheduled Incremental Auction for each Delivery Year shall allow Capacity Market Sellers that committed Capacity Resources in any prior Reliability Pricing Model Auction for such Delivery Year and Wholesale Entities that committed WLR Loads or Wholesale Energy Efficiency Loads in the Base residual Auction for such Delivery Year to submit Buy Bids for replacement Capacity Resources. Capacity Market Sellers and Wholesale Entities that submit Buy Bids into an Incremental Auction must specify the type of Unforced Capacity desired, i.e., Annual Resource, Extended Summer Demand Resource, or Limited Demand Resource. The need to purchase replacement Capacity Resources may arise for any reason, including but not limited to resource retirement, resource cancellation or construction delay, resource derating, EFORd increase, a decrease in the Nominated Demand Resource Value of a Planned Demand Resource, delay or cancellation of a Qualifying Transmission Upgrade, a decrease in the Nominated WLR Quantity of a WLR Load or similar occurrences. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement from Capacity Market Buyers and Wholesale Entities that purchase replacement Capacity Resources in such auction.

PJMSettlement shall be the Counterparty to the sales and purchases that clear in such auction, provided, however, PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

e) Conditional Incremental Auction.

PJM shall conduct for any Delivery Year a Conditional Incremental Auction if the in service date of a Backbone Transmission Upgrade that was modeled in the Base Residual Auction is announced as delayed by the Office of the Interconnection beyond July 1 of the Delivery Year for which it was modeled and if such delay causes a reliability criteria violation. If conducted, the Conditional Incremental Auction shall be for the purpose of securing commitments of additional capacity for the PJM Region or for any LDA to address the identified reliability criteria violation. If PJM determines to conduct a Conditional Incremental Auction, PJM shall post on its website the date and parameters for such auction (including whether such auction is for the PJM Region or for an LDA) at least one month prior to the start of such auction. The cost of payments to Market Sellers for Capacity Resources cleared in such auction shall be collected by PJMSettlement from Load Serving Entities in the PJM Region or LDA, as applicable, through an adjustment to the Locational Reliability Charge for such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

## **5.5 Eligibility for Participation in RPM Auctions**

A Capacity Market Seller may submit a Sell Offer for a Capacity Resource in a Base Residual or Incremental Auction only if such seller owns or has the contractual authority to control the output or load reduction capability of such resource and has not transferred such authority to another entity. Capacity Resources must satisfy the capability and deliverability requirements of Schedules 9 and 10 of the PJM Reliability Assurance Agreement, and, as applicable, the requirements for Demand Resources or Energy Efficiency Resources in Attachment DD-1 and Schedule 6 of the Reliability Assurance Agreement.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **5.6 Sell Offers**

Sell Offers shall be submitted or withdrawn via the internet site designated by the Office of the Interconnection, in accordance with the procedures and time schedule set forth in the PJM Manuals.

### **5.6.1 Specifications**

A Sell Offer shall state quantities in increments of 0.1 megawatts and shall specify, as appropriate:

a) Identification of the Generation Capacity Resource, Annual Demand Resource, Extended Summer Demand Resource, Limited Demand Resource or Energy Efficiency Resource on which such Sell Offer is based;

b) Minimum and maximum megawatt quantity of installed capacity that the Capacity Market Seller is willing to offer (notwithstanding such specification, the product offered shall be Unforced Capacity), or designate as Self-Supply, from a Generation Capacity Resource;

i) Price, in dollars and cents per megawatt-day, that will be accepted by the Capacity Market Seller for the megawatt quantity of Unforced Capacity offered from such Generation Capacity Resource.

ii) The Sell Offer may take the form of offer segments with varying price-quantity pairs for varying output levels from the underlying resource, but may not take the form of an offer curve with nonzero slope.

c) EFORD of each Generation Capacity Resource offered.

i) If a Capacity Market Seller is offering such resource in a Base Residual Auction, First Incremental Auction, Second Incremental Auction, or Conditional Incremental Auction occurring before the Third Incremental Auction, the Capacity Market Seller shall specify the EFORD to apply to the offer.

ii) If a Capacity Market Seller is committing the resource as Self-Supply, the Capacity Market Seller shall specify the EFORD to apply to the commitment.

iii) The EFORD applied to the Third Incremental Auction will be the final EFORD established by the Office of the Interconnection six (6) months prior to the Delivery Year, based on the actual EFORD in the PJM Region during the 12-month period ending September 30 that last precedes such Delivery Year.

d) The Nominated Demand Resource Value for each Demand Resource offered and the Nominated Energy Efficiency Value for each Energy Efficiency Resource offered. The Office of the Interconnection shall, in both cases, convert such value to an Unforced Capacity basis by multiplying such value by the DR Factor times the Forecast Pool Requirement. Demand



Resources shall specify the LDA in which the Demand Resource is located, including the location of such resource within any Zone that includes more than one LDA as identified on Schedule 10.1 of the RAA.

e) A Demand Resource with the potential to qualify as two or more of a Limited Demand Resource, Extended Summer Demand Resource or Annual Demand Resource may submit separate but coupled Sell Offers for each Demand Resource type for which it qualifies at different prices and the auction clearing algorithm will select the Sell Offer that yields the least-cost solution. For such coupled Demand Resource offers, the offer price of an Annual Demand Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Extended Summer Demand Resource offer and the offer price of a Extended Summer Demand Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Limited Demand Resource offer.

f) For a Qualifying Transmission Upgrade, the Sell Offer shall identify such upgrade, and the Office of the Interconnection shall determine and certify the increase in CETL provided by such upgrade. The Capacity Market Seller may offer the upgrade with an associated increase in CETL to an LDA in accordance with such certification, including an offer price that will be accepted by the Capacity Market Seller, stated in dollars and cents per megawatt-day as a price difference between a Capacity Resource located outside such an LDA and a Capacity Resource located inside such LDA; and the increase in CETL into such LDA to be provided by such Qualifying Transmission Upgrade, as certified by the Office of the Interconnection.

(g) Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### **5.6.2 Compliance with PJM Credit Policy**

Capacity Market Sellers shall comply with the provisions of the PJM Credit Policy as set forth in Attachment Q to this Tariff, including the provisions specific to the Reliability Pricing Model, prior to submission of Sell Offers in any Reliability Pricing Model Auction. A Capacity Market Seller desiring to submit a Credit-Limited Offer shall specify in its Sell Offer the maximum auction credit requirement, in dollars, and the maximum amount of Unforced Capacity, in megawatts, applicable to its Sell Offer.

### **5.6.3 [reserved]**

### **5.6.4 Qualifying Transmission Upgrades**

A Qualifying Transmission Upgrade may not be the subject of any Sell Offer in a Base Residual Auction unless it has been approved by the Office of the Interconnection, including certification of the increase in Import Capability to be provided by such Qualifying Transmission Upgrade, no later than 45 days prior to such Base Residual Auction. No such approval shall be granted

unless, at a minimum, a Facilities Study Agreement has been executed with respect to such upgrade, and such upgrade conforms to all applicable standards of the Regional Transmission Expansion Plan process.

### **5.6.5 Market-based Sell Offers**

Subject to section 6, a Market Seller authorized by FERC to sell electric generating capacity at market-based prices, or that is not required to have such authorization, may submit Sell Offers that specify market-based prices in any Base Residual Auction or Incremental Auction.

### **5.6.6 Availability of Capacity Resources for Sale**

(a) The Office of the Interconnection shall determine the quantity of megawatts of available installed capacity that each Capacity Market Seller must offer in any RPM Auction pursuant to Section 6.6 of Attachment DD, through verification of the availability of megawatts of installed capacity from: (i) all Generation Capacity Resources owned by or under contract to the Capacity Market Seller, including all Generation Capacity Resources obtained through bilateral contract; (ii) the results of prior Reliability Pricing Model Auctions, if any, for such Delivery Year (including consideration of any restriction imposed as a consequence of a prior failure to offer); and (iii) such other information as may be available to the Office of the Interconnection. The Office of the Interconnection shall reject Sell Offers or portions of Sell Offers for Capacity Resources in excess of the quantity of installed capacity that it determines to be available for sale.

(b) The Office of the Interconnection shall determine the quantity of installed capacity available for sale in a Base Residual Auction or Incremental Auction as of the beginning of the period during which Buy Bids and Sell Offers are accepted for such auction, as applicable, in accordance with the time schedule set forth in the PJM Manuals. Removal of a resource from Capacity Resource status shall not be reflected in the determination of available installed capacity unless the associated unit-specific bilateral transaction is approved, the designation of such resource (or portion thereof) as a network resource for the external load is demonstrated to the Office of the Interconnection, or equivalent evidence of a firm external sale is provided prior to the deadline established therefor. The determination of available installed capacity shall also take into account, as they apply in proportion to the share of each resource owned or controlled by a Capacity Market Seller, any approved capacity modifications, and existing capacity commitments established in a prior RPM Auction, an FRR Capacity Plan, Locational UCAP transactions and/or replacement capacity transactions under this Attachment DD. To enable the Office of the Interconnection to make this determination, no bilateral transactions for Capacity Resources applicable to the period covered by an auction will be processed from the beginning of the period for submission of Sell Offers and Buy Bids, as appropriate, for that auction until completion of the clearing determination for such auction. Processing of such bilateral transactions will reconvene once clearing for that auction is completed. A Generation Capacity Resource located in the PJM Region shall not be removed from Capacity Resource status to the extent the resource is committed to service of PJM loads as a result of an RPM Auction, FRR Capacity Plan, Locational UCAP transaction and/or by designation as a replacement resource under this Attachment DD.

(c) In order for a bilateral transaction for the purchase and sale of a Capacity Resource to be processed by the Office of the Interconnection, both parties to the transaction must notify the Office of the Interconnection of the transfer of the Capacity Resource from the seller to the buyer in accordance with procedures established by the Office of the Interconnection and set forth in the PJM Manuals. If a material change with respect to any of the prerequisites for the application of Section 5.6.6 to the Generation Capacity Resource occurs, the Capacity Resource Owner shall immediately notify the Market Monitoring Unit and the Office of the Interconnection.

## **5.9 Time Standard**

All deadlines for the submission or withdrawal of Sell Offers, WLR Bids, or Buy Bids, or for other purposes specified in this Attachment, shall be determined by the prevailing time observed in the Eastern Time zone.

## 5.10 Auction Clearing Requirements

The Office of the Interconnection shall clear each Base Residual Auction and Incremental Auction for a Delivery Year in accordance with the following:

a) Variable Resource Requirement Curve

The Office of the Interconnection shall determine Variable Resource Requirement Curves for the PJM Region and for such Locational Deliverability Areas as determined appropriate in accordance with subsection (a)(iii) for such Delivery Year to establish the level of Capacity Resources that will provide an acceptable level of reliability consistent with the Reliability Principles and Standards. It is recognized that the variable resource requirement reflected in the Variable Resource Requirement Curve can result in an optimized auction clearing in which the level of Capacity Resources committed for a Delivery Year exceeds the PJM Region Reliability Requirement (less the Short-Term Resource Procurement Target) or Locational Deliverability Area Reliability Requirement (less the Short-Term Resource Procurement Target for the Zones associated with such LDA) for such Delivery Year. For any auction, the Updated Forecast Peak Load, and Short-Term Resource Procurement Target applicable to such auction, shall be used, and Price Responsive Demand from any applicable approved PRD Plan, including any associated PRD Reservation Prices, shall be reflected in the derivation of the Variable Resource Requirement Curves, in accordance with the methodology specified in the PJM Manuals.

i) Methodology to Establish the Variable Resource Requirement Curve

Prior to the Base Residual Auction, in accordance with the schedule in the PJM Manuals, the Office of the Interconnection shall establish the Variable Resource Requirement Curve for the PJM Region as follows:

- Each Variable Resource Requirement Curve shall be plotted on a graph on which Unforced Capacity is on the x-axis and price is on the y-axis;
- For the 2015/2016, 2016/2017, and 2017/2018 Delivery Years, the Variable Resource Requirement Curve for the PJM Region shall be plotted by combining (i) a horizontal line from the y-axis to point (1), (ii) a straight line connecting points (1) and (2), (iii) a straight line connecting points (2) and (3), and (iv) a vertical line from point (3) to the x-axis, where:
  - For point (1), price equals: {the greater of [the Cost of New Entry] or [1.5 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)]} divided by (one minus the pool-wide average EFORd) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus the approved PJM Region Installed Reserve Margin (“IRM”)% minus 3%) divided by (100% plus IRM%)] minus the Short-Term Resource Procurement Target;

- For point (2), price equals:  $\frac{(\text{the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset})}{(\text{one minus the pool-wide average EFORD})}$  and Unforced Capacity equals:  $\frac{[\text{the PJM Region Reliability Requirement multiplied by } (100\% \text{ plus IRM\% plus } 1\%)]}{(100\% \text{ plus IRM\%})}$  minus the Short-Term Resource Procurement Target; and
- For point (3), price equals  $[0.2 \text{ times } (\text{the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset})]$  divided by  $(\text{one minus the pool-wide average EFORD})$  and Unforced Capacity equals:  $\frac{[\text{the PJM Region Reliability Requirement multiplied by } (100\% \text{ plus IRM\% plus } 5\%)]}{(100\% \text{ plus IRM\%})}$  minus the Short-Term Resource Procurement Target;
- For the 2018/2019 Delivery Year and subsequent Delivery Years, the Variable Resource Requirement Curve for the PJM Region shall be plotted by combining (i) a horizontal line from the y-axis to point (1), (ii) a straight line connecting points (1) and (2), and (iii) a straight line connecting points (2) and (3), where:
  - For point (1), price equals:  $\frac{\{\text{the greater of } [\text{the Cost of New Entry}] \text{ or } [1.5 \text{ times } (\text{the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset})]\}}{(\text{one minus the pool-wide average EFORD})}$  and Unforced Capacity equals:  $\frac{[\text{the PJM Region Reliability Requirement multiplied by } (100\% \text{ plus the approved PJM Region Installed Reserve Margin ("IRM")\% minus } 0.2\%)]}{(100\% \text{ plus IRM\%})}$  minus the Short-Term Resource Procurement Target;
  - For point (2), price equals:  $\frac{[0.75 \text{ times } (\text{the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset})]}{(\text{one minus the pool-wide average EFORD})}$  and Unforced Capacity equals:  $\frac{[\text{the PJM Region Reliability Requirement multiplied by } (100\% \text{ plus IRM\% plus } 2.9\%)]}{(100\% \text{ plus IRM\%})}$  minus the Short-Term Resource Procurement Target; and
  - For point (3), price equals zero and Unforced Capacity equals:  $\frac{[\text{the PJM Region Reliability Requirement multiplied by } (100\% \text{ plus IRM\% plus } 8.8\%)]}{(100\% \text{ plus IRM\%})}$  minus the Short-Term Resource Procurement Target.

ii) For any Delivery Year, the Office of the Interconnection shall establish a separate Variable Resource Requirement Curve for each LDA for which:

- A. the Capacity Emergency Transfer Limit is less than 1.15 times the Capacity Emergency Transfer Objective, as determined by the Office of the Interconnection in accordance with NERC and Applicable Regional Entity guidelines; or
- B. such LDA had a Locational Price Adder in any one or more of the three immediately preceding Base Residual Auctions; or
- C. such LDA is determined in a preliminary analysis by the Office of the Interconnection to be likely to have a Locational Price Adder, based on historic offer price levels; provided however that for the Base Residual Auction conducted for the Delivery Year commencing on June 1, 2012, the Eastern Mid-Atlantic Region (“EMAR”), Southwest Mid-Atlantic Region (“SWMAR”), and Mid-Atlantic Region (“MAR”) LDAs shall employ separate Variable Resource Requirement Curves regardless of the outcome of the above three tests; and provided further that the Office of the Interconnection may establish a separate Variable Resource Requirement Curve for an LDA not otherwise qualifying under the above three tests if it finds that such is required to achieve an acceptable level of reliability consistent with the Reliability Principles and Standards, in which case the Office of the Interconnection shall post such finding, such LDA, and such Variable Resource Requirement Curve on its internet site no later than the March 31 last preceding the Base Residual Auction for such Delivery Year. The same process as set forth in subsection (a)(i) shall be used to establish the Variable Resource Requirement Curve for any such LDA, except that the Locational Deliverability Area Reliability Requirement for such LDA shall be substituted for the PJM Region Reliability Requirement and the LDA Short-Term Resource Procurement Target shall be substituted for the PJM Region Short-Term Resource Procurement Target. For purposes of calculating the Capacity Emergency Transfer Limit under this section, all generation resources located in the PJM Region that are, or that qualify to become, Capacity Resources, shall be modeled at their full capacity rating, regardless of the amount of capacity cleared from such resource for the immediately preceding Delivery Year.

For each such LDA, for the 2018/2019 Delivery Year and subsequent Delivery Years, the Office of the Interconnection shall (a) determine the Net Cost of New Entry for each Zone in such LDA, with such Net Cost of New Entry equal to the applicable Cost of New Entry value for such Zone minus the Net Energy and Ancillary Services Revenue Offset value for such Zone, and (b) compute the average of the Net Cost of New Entry values of all such Zones to determine the Net Cost of New Entry for such LDA; provided however, that the Net Cost of New Entry for an LDA may be greater than, but shall be no less than, the Net Cost of New Entry determined for any other LDA in which the first LDA resides

(immediately or successively) including the Net Cost of New Entry for the RTO. The Net Cost of New Entry for use in an LDA in any Incremental Auction for the 2015/2016, 2016/2017, and 2017/2018 Delivery Years shall be the Net Cost of New Entry used for such LDA in the Base Residual Auction for such Delivery Year.

iii) Procedure for ongoing review of Variable Resource Requirement Curve shape.

Beginning with the Delivery Year that commences June 1, 2018, and continuing no later than for every fourth Delivery Year thereafter, the Office of the Interconnection shall perform a review of the shape of the Variable Resource Requirement Curve, as established by the requirements of the foregoing subsection. Such analysis shall be based on simulation of market conditions to quantify the ability of the market to invest in new Capacity Resources and to meet the applicable reliability requirements on a probabilistic basis. Based on the results of such review, PJM shall prepare a recommendation to either modify or retain the existing Variable Resource Requirement Curve shape. The Office of the Interconnection shall post the recommendation and shall review the recommendation through the stakeholder process to solicit stakeholder input. If a modification of the Variable Resource Requirement Curve shape is recommended, the following process shall be followed:

- A) If the Office of the Interconnection determines that the Variable Resource Requirement Curve shape should be modified, Staff of the Office of the Interconnection shall propose a new Variable Resource Requirement Curve shape on or before May 15, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
- B) The PJM Members shall review the proposed modification to the Variable Resource Requirement Curve shape.
- C) The PJM Members shall either vote to (i) endorse the proposed modification, (ii) propose alternate modifications or (iii) recommend no modification, by August 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
- D) The PJM Board of Managers shall consider a proposed modification to the Variable Resource Requirement Curve shape, and the Office of the Interconnection shall file any approved modified Variable Resource Requirement Curve shape 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.

iv) Cost of New Entry



- A) For the Incremental Auctions for the 2015/2016, 2016/2017, and 2017/2018 Delivery Years, the Cost of New Entry for the PJM Region and for each LDA shall be the respective value used in the Base Residual Auction for such Delivery Year and LDA. For the Delivery Year commencing on June 1, 2018, and continuing thereafter unless and until changed pursuant to subsection (B) below, the Cost of New Entry for the PJM Region shall be the average of the Cost of New Entry for each CONE Area listed in this section as adjusted pursuant to subsection (a)(iv)(B).

<b>Geographic Location Within the PJM Region Encompassing These Zones</b>	<b>Cost of New Entry in \$/MW-Year</b>
PS, JCP&L, AE, PECO, DPL, RECO (“CONE Area 1”)	132,200
BGE, PEPCO (“CONE Area 2”)	130,300
AEP, Dayton, ComEd, APS, DQL, ATSI, DEOK, EKPC, Dominion (“CONE Area 3”)	128,900
PPL, MetEd, Penelec (“CONE Area 4”)	130,300

- B) Beginning with the 2019/2020 Delivery Year, the CONE for each CONE Area shall be adjusted to reflect changes in generating plant construction costs based on changes in the Applicable United States Bureau of Labor Statistics (“BLS”) Composite Index, in accordance with the following:

(1) The Applicable BLS Composite Index for any Delivery Year and CONE Area shall be the most recently published twelve-month change, at the time CONE values are required to be posted for the Base Residual Auction for such Delivery Year, in a composite of the BLS Quarterly Census of Employment and Wages for Utility System Construction (weighted 20%), the BLS Producer Price Index for Construction Materials and Components (weighted 50%), and the BLS Producer Price Index Turbines and Turbine Generator Sets (weighted 30%), as each such index is further specified for each CONE Area in the PJM Manuals.

(2) The CONE in a CONE Area shall be adjusted prior to the Base Residual Auction for each Delivery Year by applying the Applicable BLS Composite Index for such CONE Area to the Benchmark CONE for such CONE Area.

(3) The Benchmark CONE for a CONE Area shall be the CONE used for such CONE Area in the Base Residual Auction for the prior Delivery Year (provided, however that the Gross CONE values stated in subsection (a)(iv)(A) above shall be the Benchmark

CONE values for the 2018/2019 Delivery Year to which the Applicable BLS Composite Index shall be applied to determine the CONE for subsequent Delivery Years).

(4) Notwithstanding the foregoing, CONE values for any CONE Area for any Delivery Year shall be subject to amendment pursuant to appropriate filings with FERC under the Federal Power Act, including, without limitation, any filings resulting from the process described in section 5.10(a)(vi)(C) or any filing to establish new or revised CONE Areas.

v) Net Energy and Ancillary Services Revenue Offset

- A) The Office of the Interconnection shall determine the Net Energy and Ancillary Services Revenue Offset each year for the PJM Region as (A) the annual average of the revenues that would have been received by the Reference Resource from the PJM energy markets during a period of three consecutive calendar years preceding the time of the determination, based on (1) the heat rate and other characteristics of such Reference Resource; (2) fuel prices reported during such period at an appropriate pricing point for the PJM Region with a fuel transmission adder appropriate for such region, as set forth in the PJM Manuals, assumed variable operation and maintenance expenses for such resource of \$6.47 per MWh, and actual PJM hourly average Locational Marginal Prices recorded in the PJM Region during such period; and (3) an assumption that the Reference Resource would be dispatched for both the Day-Ahead and Real-Time Energy Markets on a Peak-Hour Dispatch basis; plus (B) ancillary service revenues of \$2,199 per MW-year.
- B) For the Incremental Auctions for the 2015/2016, 2016/2017 and 2017/2018 Delivery Years, the Office of the Interconnection will employ for purposes of the Variable Resource Requirement Curves for such Delivery Years the same calculations of the sub-regional Net Energy and Ancillary Services Revenue Offsets that were used in the Base Residual Auctions for such Delivery year and sub-region. For the 2018/2019 Delivery Year and subsequent Delivery Years, the Office of the Interconnection also shall determine a Net Energy and Ancillary Service Revenue Offset each year for each Zone, using the same procedures and methods as set forth in the previous subsection; provided, however, that: (1) the average hourly LMPs for such Zone shall be used in place of the PJM Region average hourly LMPs; (2) if such Zone was not integrated into the PJM Region for the entire applicable period, then the offset shall be calculated using only those whole calendar years during which the Zone was integrated; and (3) a posted fuel pricing point in such Zone, if available, and (if such pricing point is not available in such Zone) a fuel transmission adder appropriate

to such Zone from an appropriate PJM Region pricing point shall be used for each such Zone.

Curve

vi) Process for Establishing Parameters of Variable Resource Requirement

- A) The parameters of the Variable Resource Requirement Curve will be established prior to the conduct of the Base Residual Auction for a Delivery Year and will be used for such Base Residual Auction.
- B) The Office of the Interconnection shall determine the PJM Region Reliability Requirement and the Locational Deliverability Area Reliability Requirement for each Locational Deliverability Area for which a Variable Resource Requirement Curve has been established for such Base Residual Auction on or before February 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values will be applied, in accordance with the Reliability Assurance Agreement.
- C) Beginning with the Delivery Year that commences June 1, 2018, and continuing no later than for every fourth Delivery Year thereafter, the Office of the Interconnection shall review the calculation of the Cost of New Entry for each CONE Area.
  - 1) If the Office of the Interconnection determines that the Cost of New Entry values should be modified, the Staff of the Office of the Interconnection shall propose new Cost of New Entry values on or before May 15, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
  - 2) The PJM Members shall review the proposed values.
  - 3) The PJM Members shall either vote to (i) endorse the proposed values, (ii) propose alternate values or (iii) recommend no modification, by August 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
  - 4) The PJM Board of Managers shall consider Cost of New Entry values, and the Office of the Interconnection shall file any approved modified Cost of New Entry values 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.

- D) Beginning with the Delivery Year that commences June 1, 2018, and continuing no later than for every fourth Delivery Year thereafter, the Office of the Interconnection shall review the methodology set forth in this Attachment for determining the Net Energy and Ancillary Services Revenue Offset for the PJM Region and for each Zone.
- 1) If the Office of the Interconnection determines that the Net Energy and Ancillary Services Revenue Offset methodology should be modified, Staff of the Office of the Interconnection shall propose a new Net Energy and Ancillary Services Revenue Offset methodology on or before May 15, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new methodology would be applied.
  - 2) The PJM Members shall review the proposed methodology.
  - 3) The PJM Members shall either vote to (i) endorse the proposed methodology, (ii) propose an alternate methodology or (iii) recommend no modification, by August 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new methodology would be applied.
  - 4) The PJM Board of Managers shall consider the Net Revenue Offset methodology, and the Office of the Interconnection shall file any approved modified Net Energy and Ancillary Services Revenue Offset values 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.

b) Locational Requirements

The Office of Interconnection shall establish locational requirements prior to the Base Residual Auction to quantify the amount of Unforced Capacity that must be committed in each Locational Deliverability Area, in accordance with the PJM Reliability Assurance Agreement.

c) Resource Requirements and Constraints

Prior to the Base Residual Auction and each Incremental Auction for the Delivery Years starting on June 1, 2014 and ending May 31, 2017, the Office of the Interconnection shall establish the Minimum Annual Resource Requirement and the Minimum Extended Summer Resource Requirement for the PJM Region and for each Locational Deliverability Area for which the

Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. Prior to the Base Residual Auction and Incremental Auctions for each Delivery Year beginning with the Delivery Year that commences June 1, 2017, the Office of the Interconnection shall establish the Limited Resource Constraints, the Sub-Annual Resource Constraints, the Limited WLR Load Constraints, and the Sub-Annual WLR Load Constraints for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year.

d) Preliminary PJM Region Peak Load Forecast for the Delivery Year

The Office of the Interconnection shall establish the Preliminary PJM Region Load Forecast for the Delivery Year in accordance with the PJM Manuals by February 1, prior to the conduct of the Base Residual Auction for such Delivery Year.

e) Updated PJM Region Peak Load Forecasts for Incremental Auctions

The Office of the Interconnection shall establish the updated PJM Region Peak Load Forecast for a Delivery Year in accordance with the PJM Manuals by February 1, prior to the conduct of the First, Second, and Third Incremental Auction for such Delivery Year.

## 5.11 Posting of Information Relevant to the RPM Auctions

a) In accordance with the schedule provided in the PJM Manuals, PJM will post the following information for a Delivery Year prior to conducting the Base Residual Auction for such Delivery Year:

i) The Preliminary PJM Region Peak Load Forecast (for the PJM Region, and allocated to each Zone);

ii) The PJM Region Installed Reserve Margin, the Pool-wide average EFORD, the Forecast Pool Requirement, *and all applicable Capacity Import Limits*;

iii) The Demand Resource Factor;

iv) The PJM Region Reliability Requirement, and the Variable Resource Requirement Curve for the PJM Region, including the details of any adjustments to account for Price Responsive Demand and any associated PRD Reservation Prices;

v) The Locational Deliverability Area Reliability Requirement and the Variable Resource Requirement Curve for each Locational Deliverability Area for which a separate Variable Resource Requirement Curve has been established for such Base Residual Auction, including the details of any adjustments to account for Price Responsive Demand and any associated PRD Reservation Prices, and the CETO and CETL values for all Locational Deliverability Areas;

vi) For the 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 PJM is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year; and for the Delivery Year that commences June 1, 2017 and subsequent Delivery Years, the Limited Resource Constraints, the Sub-Annual Resource Constraints, the Limited WLR Load Constraints, and the Sub-Annual WLR Load Constraints for the PJM Region and for each Locational Deliverability Area for which PJM is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year;

vii) Any Transmission Upgrades that are expected to be in service for such Delivery Year, provided that a Transmission Upgrade that is Backbone Transmission satisfies the project development milestones set forth in section 5.11A;

viii) The bidding window time schedule for each auction to be conducted for such Delivery Year; and

ix) The Net Energy and Ancillary Services Revenue Offset values for the PJM Region for use in the Variable Resource Requirement Curves for the PJM Region and each Locational Deliverability Area for which a separate Variable Resource Requirement Curve has been established for such Base Residual Auction.

b) In addition to the information required to be posted by subsection (a), PJM will post for a Delivery Year, at least sixty (60) days prior to conducting the Base Residual Auction for such Delivery Year, the aggregate megawatt quantity of, for the PJM Region, all Self-Supply Exemption requests under section 5.14(h), all Competitive Entry Exemption requests under section 5.14(h), and such exemptions granted in each such category, and to the extent PJM has made any such determination, notice that PJM has determined that one or more state-sponsored or state-mandated procurement processes is Competitive and Non-Discriminatory pursuant to section 5.14(h).

c) The information listed in (a) will be posted and applicable for the First, Second, Third, and Conditional Incremental Auctions for such Delivery Year, except to the extent updated or adjusted as required by other provisions of this Tariff.

d) In accordance with the schedule provided in the PJM Manuals, PJM will post the Final PJM Region Peak Load Forecast and the allocation to each zone of the obligation resulting from such final forecast, following the completion of the final Incremental Auction (including any Conditional Incremental Auction) conducted for such Delivery Year;

e) In accordance with the schedule provided in the PJM Manuals, PJM will advise owners of Generation Capacity Resources of the updated EFORd values for such Generation Capacity Resources prior to the conduct of the Third Incremental Auction for such Delivery Year.

f) After conducting the Reliability Pricing Model Auctions, PJM will post the results of each auction as soon thereafter as possible, including any adjustments to PJM Region or LDA Reliability Requirements to reflect Price Responsive Demand with a PRD Reservation Price equal to or less than the applicable Base Residual Auction clearing price, or to any VRR Curves to reflect commitments of WLR Loads or WEELs with a bid price equal to or less than the applicable Base Residual Auction clearing price. The posted results shall include graphical supply curves that are (a) provided for the entire PJM Region, (b) provided for any Locational Deliverability Area for which there are four (4) or more suppliers, and (c) developed using a formulaic approach to smooth the curves using a statistical technique that fits a smooth curve to the underlying supply curve data while ensuring that the point of intersection between supply and demand curves is at the market clearing price. At such time, PJM also shall post the aggregate megawatt quantity requested and granted in the Self-Supply and Competitive Entry Exemption categories in the EMAAC, MAAC and Rest of RTO LDAs/regions; the aggregate megawatt quantity cleared in the RPM Auction for Self-Supply and Competitive Entry Exemption categories; and the aggregate megawatt quantity of Self-Supply and Competitive Entry Exemptions requested and granted for any LDA other than those specified in the preceding clause if the LDA has more than four new generation projects in the generation interconnection queue that could have offered into the applicable RPM Auction and the LDA had a separate VRR Curve posted for the applicable RPM Auction.

If PJM discovers an error in the initial posting of auction results for a particular Reliability Pricing Model Auction, it shall notify Market Participants of the error as soon as possible after it

is found, but in no event later than 5:00 p.m. of the fifth business day following the initial publication of the results of the auction. After this initial notification, if PJM determines it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the seventh business day following the initial publication of the results of the auction. Thereafter, PJM must post on its Web site any corrected auction results by no later than 5:00 p.m. of the tenth business day following the initial publication of the results of the auction. Should any of the above deadlines pass without the associated action on the part of the Office of the Interconnection, the originally posted results will be considered final. Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced auction results are under publicly noticed review by the FERC.



## 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, WLR Bids, and other inputs to such auction to determine the Sell Offers and the WLR Bids 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;
- all WLR Bids 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, the Sub-Annual Resource Constraints, the Limited WLR Load Constraints, and the Sub-Annual WLR Load 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. The Variable Resource Requirement Curve for the PJM Region, or LDA, as applicable, shall shift to the left to reflect the Nominated WLR Quantity, Nominated WEEL Quantity, and WLR Bid Price of any WLR Bids for the PJM Region or such LDA, as applicable, in such RPM Auction. Each such leftward shift shall begin at the price point on the Variable Resource Requirement Curve corresponding to the WLR Bid Price of the WLR Bid, and shall uniformly shift the Variable Resource Requirement Curve to the left in the amount of the combined sum of the Nominated WLR Quantity and Nominated WEEL Quantity times FPR at that price point and all higher price points. 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.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

b) Scheduled Incremental Auctions.

For purposes of a Scheduled Incremental Auction, 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 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;
- To the extent relevant to any necessary shifting of the Updated VRR Curve Increment or Decrement, the WLR Loads and WEELs previously committed for such Delivery Year; and
- The Unforced Capacity previously committed for such Delivery Year.

(i) When the requirement to seek additional resource commitments in a Scheduled Incremental Auction 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.

(ii) When 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 provisions of sections 5.14B and 5.14C of this Attachment DD. 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.

(iii) When 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 provisions of sections 5.14B and 5.14C of this Attachment DD; 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.

(iv) If none of the tests for adjustment of capacity procurement in subsections (i), (ii), or (iii) 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), (ii), or (iii) 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

(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), (ii), (iii) or (iv) 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), (ii), or (iii) 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) above in the Scheduled Incremental Auctions for such Delivery Year that does not clear such

auctions, 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 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 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.

(ix) Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

c) Conditional Incremental Auction

For each 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 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 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.

Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

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.

For each Base Residual Auction, the Office of the Interconnection shall determine: (1) a WLR Value for Annual WLR Loads and WEELs equal to the Capacity Resource Clearing Price for Annual Resources, as determined in such auction; (2) a WLR Value for Extended Summer WLR Loads equal to the price determined by the auction-clearing algorithm as the optimum price at which to recognize the binding of the Sub-Annual WLR Load Constraint or, if such constraint does not bind, such WLR Value shall be the same as the WLR Value determined for Annual WLR Loads and WEELs; and (3) a WLR Value for Limited WLR Loads equal to the price determined by the auction-clearing algorithm as the optimum price at which to recognize the binding of the Limited WLR Load Constraint or, if such constraint does not bind, such WLR Value shall be the same as the WLR Value determined for Extended Summer WLR Loads.

### **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, as may be adjusted pursuant to Schedule 6.2 of the Reliability Assurance Agreement, 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.

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

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.

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 2018/2019 Delivery Year and subsequent Delivery Years, 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. *For purposes of Incremental Auctions for the 2015/2016, 2016/2017 and 2017/2018 Delivery Years, the MOPR Floor Offer Price shall be the same as that used in the Base Residual Auction for such Delivery Year.* 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
CT \$/MW-yr	132,200	130,300	128,900	130,300
CC \$/MW-yr	185,700	176,000	172,600	179,400
IGCC \$/MW-yr	582,042	558,486	547,240	537,306

i) Commencing with the Delivery Year that begins on June 1, 2019, 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 the Applicable BLS Composite Index used for CC plants shall be calculated from the three indices referenced in that section but weighted 25% for the wages index, 60% for the construction materials index, and 15% for the turbines index, and provided further 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 *section 5.14A*. A Demand Resource cleared for a Transition Delivery Year is not viable for purposes of this *section 5.14A* 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 *section 5.14A*, 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 *section 5.14A* 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 *section 5.14A*, 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) and 5.12(b)(iii) 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.

**5.14C Demand Response Operational Resource Flexibility Transition Provision for RPM Delivery Years 2015/2016 and 2016/2017**

A. This transition provision applies only to Demand Resources for which a Curtailment Service Provider has existing RPM commitments for the 2015/2016 or 2016/2017 Delivery Years (alternatively referred to in this section 5.14C as “Applicable Delivery Years” and each an “Applicable Delivery Year”) that (i) cannot satisfy the 30-minute notification requirement as described in Section A.2 of Attachment DD-1 of the Tariff and the parallel provision of Schedule 6 of the RAA; (ii) are not excepted from the 30-minute notification requirement as described in Section A.2 of Attachment DD-1 of the Tariff and the parallel provision of Schedule 6 of the RAA; and (iii) cleared in the Base Residual Auction or First Incremental Auction for the 2015/2016 Delivery Year, or cleared in the Base Residual Auction for the 2016/2017 Delivery Year. A Demand Resource meeting these criteria and the Curtailment Service Provider of such a resource are hereafter in this section 5.14C referred to as an “Affected Demand Resource” and an “Affected Curtailment Service Provider,” respectively.

B. For this section 5.14C to apply to an Affected Demand Resource, the Affected Curtailment Service Provider must notify the Office of the Interconnection in writing, with regard to the Affected Demand Resource, of the number of cleared megawatts of Unforced Capacity for the Applicable Delivery Year, by type of Demand Resource (i.e., Limited DR, Annual DR, Extended Summer DR) and by Zone or sub-Zone, by the applicable deadline as follows:

1. For the 2015/2016 Delivery Year, the notice shall be provided by no later than seven (7) days prior to the posting by the Office of the Interconnection of planning parameters for the Third Incremental Auction for the 2015/2016 Delivery Year. Such Affected Curtailment Service Provider that utilizes this transition provision may not sell or offer to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Third Incremental Auction for the 2015/2016 Delivery Year.

2. For the 2016/2017 Delivery Year, the notice shall be provided by no later than seven (7) days prior to the posting by the Office of the Interconnection of planning parameters for the Second Incremental Auction for the 2016/2017 Delivery Year. Such Affected Curtailment Service Provider that utilizes this transition provision may not sell or offer to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Second or Third Incremental Auctions for the 2016/2017 Delivery Year.

3. For the 2016/2017 Delivery Year, the notice shall be provided by no later than seven (7) days prior to the posting by the Office of the Interconnection of planning parameters for the Third Incremental Auction for the 2016/2017 Delivery Year. Such Affected Curtailment Service Provider that utilizes this transition provision must not have sold or offered to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Second Incremental Auction for the 2016/2017 Delivery Year, and may not sell or offer to sell megawatts in the modeled LDA or sub-LDA where an Affected Demand Resource is located in the Third Incremental Auction for the 2016/2017 Delivery Year.

C. For the Third Incremental Auction for the 2015/2016 Delivery Year and the First, Second, and Third Incremental Auctions for the 2016/2017 Delivery Year, the Office of the Interconnection shall publish aggregate information on the undeliverable megawatts declared under this transition provision (hereafter, “non-viable megawatts”), by type of Demand Resource and by Zone or sub-Zone, concurrently with its posting of planning parameters for the applicable Scheduled Incremental Auction. Non-viable megawatts for a Scheduled Incremental Auction for an Applicable Delivery Year represent those megawatts meeting the criteria of subsection A above and declared in accordance with subsection B above. Prior to each Third Incremental Auction for an Applicable Delivery Year, the Office of the Interconnection shall apply adjustments equal to the declared non-viable megawatt quantity to the quantity of Buy Bid or Sell Offer activity in the upcoming Scheduled Incremental Auctions for the Applicable Delivery Year, as described in sections 5.12(b)(ii) and 5.12(b)(iii) of this Attachment DD. Prior to the Second Incremental Auction for the 2016/2017 Delivery Year, the Office of the Interconnection shall adjust the recalculated PJM Region Reliability Requirement and recalculated LDA Reliability Requirements, as described in section 5.4(c) of this Attachment DD, by the applicable quantity of declared non-viable megawatts, and shall update the PJM Region Reliability Requirement and each LDA Reliability Requirement for such Second Incremental Auction only if the combined change of the applicable adjustment and applicable recalculation is greater than or equal to the lesser of (i) 500 megawatts or (ii) one percent of the prior PJM Region Reliability Requirement or one percent of the prior LDA Reliability Requirement, as applicable.

D. Prior to the start of each Applicable Delivery Year, the Office of the Interconnection shall reduce, by type of Demand Resource and by Zone or sub-Zone, the capacity commitment of each Affected Curtailment Service Provider that utilizes this transition provision for the Applicable Delivery Year based on the non-viable megawatts declared by the Affected Curtailment Service Provider under this transition provision. If the Affected Curtailment Service Provider cleared megawatts from multiple Affected Demand Resources of the same type and Zone or sub-Zone, or cleared megawatts in multiple RPM Auctions for the Applicable Delivery Year, the Office of the Interconnection shall allocate the reduction in capacity commitment by type of Demand Resource and by Zone or sub-Zone across the applicable Affected Demand Resources and

relevant RPM Auctions. Such allocation shall be performed on a pro-rata basis, based on megawatts cleared by the Affected Demand Resources in the relevant RPM Auctions.

E. For each Applicable Delivery Year, an Affected Curtailment Service Provider that utilizes this transition provision for the Applicable Delivery Year relinquishes an Affected Demand Resource's RPM Auction Credits for the amount of capacity commitment reduction as determined under subsection D above. Locational Reliability Charges as described in section 5.14(e) of this Attachment DD are also adjusted accordingly.

## **ATTACHMENT DD-1**

Preface: The provisions of this Attachment incorporate into the Tariff for ease of reference the provisions of Schedule 6 of the Reliability Assurance Agreement among Load Serving Entities in the PJM Region. As a result, this Attachment will be modified, subject to FERC approval, so that the terms and conditions set forth herein remain consistent with the corresponding terms and conditions of Schedule 6 of the RAA. Capitalized terms used herein that are not otherwise defined in Attachment DD or elsewhere in this Tariff have the meaning set forth in the RAA.

### **PROCEDURES FOR DEMAND RESOURCES AND ENERGY EFFICIENCY**

Notwithstanding any other provision of this Attachment DD-1, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

A. Parties can partially or wholly offset the amounts payable for the Locational Reliability Charge with Demand Resources that are operated under the direction of the Office of the Interconnection. FRR Entities may reduce their capacity obligations with Demand Resources that are operated under the direction of the Office of the Interconnection and detailed in such entity's FRR Capacity Plan. Demand Resources qualifying under the criteria set forth below may be offered for sale or designated as Self-Supply in the Base Residual Auction, included in an FRR Capacity Plan, or offered for sale in any Incremental Auction, for any Delivery Year for which such resource qualifies. Qualified Demand Resources generally fall in one of three categories, i.e., Guaranteed Load Drop, Firm Service Level, or Direct Load Control, as further specified in section G and the PJM Manuals. Qualified Demand Resources may be provided by a Curtailment Service Provider, notwithstanding that such Curtailment Service Provider is not a Party to this Agreement. Such Curtailment Service Providers must satisfy the requirements hereof and the PJM Manuals.

1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and section F hereof, as applicable, the Office of the Interconnection of the Demand Resource that it is placing under the direction of the Office of the Interconnection. A Party must further notify the Office of the Interconnection whether the resource is a Limited Demand Resource, an Extended Summer Demand Resource, or an Annual Demand Resource.

2. A Demand Resource must achieve its full load reduction within the following time period:

(a) For the 2014/2015 Delivery Year, Curtailment Service Providers may elect a notification time period from the Office of the Interconnection of 30, 60 or 120 minutes prior to their Demand Resources being required to fully respond to a Load Management Event.



(b) For the 2015/2016 Delivery Year and subsequent Delivery Years, a Demand Resource must be able to fully respond to a Load Management Event within 30 minutes of notification from the Office of the Interconnection. This default 30 minute prior notification shall apply unless a Curtailment Service Provider obtains an exception from the Office of the Interconnection due to physical operational limitations that prevent the Demand Resource from reducing load within that timeframe. In such case, the Curtailment Service Provider shall submit a request for an exception to the 30 minute prior notification requirement to the Office of the Interconnection, at the time the Registration Form for that resource is submitted in accordance with Attachment K-Appendix of this Tariff. The only alternative notification times that the Office of Interconnection will permit, upon approval of an exception request, are 60 minutes and 120 minutes prior to a Load Management Event. The Curtailment Service Provider shall indicate in writing, in the appropriate application, that it seeks an exception to permit a prior notification time of 60 minutes or 120 minutes, and the reason(s) for the requested exception. A Curtailment Service Provider shall not submit a request for an exception to the default 30 minute notification period unless it has done its due diligence to confirm that the Demand Resource is physically incapable of responding within that timeframe based on one or more of the reasons set forth below and as may be further defined in the PJM Manuals and has obtained detailed data and documentation to support this determination.

In order to establish that a Demand Resource is reasonably expected to be physically unable to reduce load in that timeframe, the Curtailment Service Provider that registered the resource must demonstrate that:

- 1) The manufacturing processes for the Demand Resource require gradual reduction to avoid damaging major industrial equipment used in the manufacturing process, or damage to the product generated or feedstock used in the manufacturing process;
- 2) Transfer of load to back-up generation requires time-intensive manual process taking more than 30 minutes;
- 3) On-site safety concerns prevent location from implementing reduction plan in less than 30 minutes; or,
- 4) The Demand Resource is comprised of mass market residential customers or Small Commercial Customers which collectively cannot be notified of a Load Management Event within a 30-minute timeframe due to unavoidable communications latency, in which case the requested notification time shall be no longer than 120 minutes.

The Office of the Interconnection may request data and documentation from the Curtailment Service Provider and such Curtailment Service Provider shall provide to the Office of the Interconnection within three (3) business days of a request therefor, a copy of all of the data and documentation supporting the exception request. Failure to provide a timely response to such request shall cause the exception to terminate the following Operating Day.

At its sole option and discretion, the Office of the Interconnection may review the data and documentation provided by the Curtailment Service Provider to determine if the Demand Resource has met one or more of the criteria above. The Office of the Interconnection will notify

the Curtailment Service Provider in writing of its determination by no later than ten (10) business days after receipt of the data and documentation.

The Curtailment Service Provider shall provide written notification to the Office of the Interconnection of a material change to the facts that supported its exception request within three (3) business days of becoming aware of such material change in facts, and, if the Office of Interconnection determines that the physical limitation criteria above are no longer being met, the Demand Resource shall be subject to the default notification period of 30 minutes immediately upon such determination.

3. The initiation of load reduction, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.

4. The initiation of load reduction upon the request of the Office of the Interconnection is considered a pre-emergency or emergency action and must be implementable prior to a voltage reduction.

5. A Curtailment Service Provider intending to offer for sale or designate for self-supply, a Demand Resource in any RPM Auction, or intending to include a Demand Resource in any FRR Capacity Plan must demonstrate, to PJM's satisfaction, that such resource shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such resource is committed. As part of such demonstration, each such Curtailment Service Provider shall submit a Demand Resource Sell Offer Plan in accordance with the standards and procedures set forth in section A-1 of Schedule 6, Schedule 8.1 (as to FRR Capacity Plans) and the PJM Manuals, no later than 15 business days prior to, as applicable, the RPM Auction in which such resource is to be offered, or the deadline for submission of the FRR Capacity Plan in which such resource is to be included. PJM may verify the Curtailment Service Provider's adherence to the Demand Resource Sell Offer Plan at any time. A Curtailment Service Provider with a PJM-approved Demand Resource Sell Offer Plan will be permitted to offer up to the approved Demand Resource quantity into the subject RPM Auction or include such resource in its FRR Capacity Plan.

6. Selection of a Demand Resource in an RPM Auction results in commitment of capacity to the PJM Region. Demand Resources that are so committed must be registered to participate in the Full Program Option or as a Capacity Only resource of the Emergency Load Response and Pre-Emergency Load Response Program and thus available for dispatch during PJM-declared pre-emergency events and emergency events.

A-1. A Demand Resource Sell Offer Plan shall consist of a completed template document in the form posted on the PJM website, requiring the information set forth below and in the PJM Manuals, and a Demand Resource Officer Certification Form signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification. The Demand Resource Sell Offer Plan must provide information that supports the Demand Resource Provider's intended Demand Resource Sell Offers and demonstrates that the Demand Resources are being offered with the intention that the MW quantity that clears the auction is reasonably

expected to be physically delivered through Demand Resource registrations for the relevant Delivery Year. The Demand Resource Sell Offer Plan shall include all Existing Demand Resources and all Planned Demand Resources that the Demand Resource Provider intends to offer into an RPM Auction or include in an FRR Capacity Plan.

1. Demand Resource Sell Offer Plan Template. The Demand Resource Sell Offer Plan template, in the form provided on the PJM website, shall require the Demand Resource Provider to provide the following information and such other information as specified in the PJM Manuals:

(a) Summary Information. The completed template shall include the Demand Resource Provider's company name, contact information, and the Nominated DR Value in ICAP MWs by Zone/sub-Zone that the Demand Resource Provider intends to offer, stated separately for Existing Demand Resources and Planned Demand Resources. The total Nominated DR Value in MWs for each Zone/sub-Zone shall be the sum of the Nominated DR Value of Existing Demand Resources and the Nominated DR Value of Planned Demand Resources, and shall be the maximum MW amount the Provider intends to offer in the RPM Auction for the indicated Zone/sub-Zone, provided that nothing herein shall preclude the Demand Resource Provider from offering in the auction a lesser amount than the total Nominated DR Value shown in its Demand Resource Sell Offer Plan.

(b) Existing Demand Resources. The Demand Resource Provider shall identify all Existing Demand Resources by identifying end-use customer sites that are currently registered with PJM (even if not registered by such Demand Resource Provider) and that the Demand Resource Provider reasonably expects to have under a contract to reduce load based on PJM dispatch instructions by the start of the auction Delivery Year.

(c) Planned Demand Resources. The Demand Resource Provider shall provide the details of, and key assumptions underlying, the Planned Demand Resource quantities (i.e., all Demand Resource quantities in excess of Existing Demand Resource quantities) contained in the Demand Resource Sell Offer Plan, including:

- (i) key program attributes and assumptions used to develop the Planned Demand Resource quantities, including, but not limited to, discussion of:
- method(s) of achieving load reduction at customer site(s);
  - equipment to be controlled or installed at customer site(s), if any;
  - plan and ability to acquire customers;
  - types of customer targeted;
  - support of market potential and market share for the target customer base, with adjustments for Existing Demand Resource customers within this market and the potential for other Demand Resource Providers targeting the same customers;
  - assumptions regarding regulatory approval of program(s), if applicable; and

- if applicable, Direct Load Control (DLC) program details such as: a description of the cycling control strategy, any assumptions regarding switch operability rate, and a list (and copy) of all load research studies used to develop the estimated nominated ICAP value per customer (i.e., the per-participant impact).

(ii) Zone/sub-Zone information by end-use customer segment for all Nominated DR Values for which an end-use customer site is not identified, to include the number in each segment of end-use customers expected to be registered for the subject Delivery Year, the average Peak Load Contribution per end-use customer for such segment, and the average Nominated DR Value per customer for such segment. End-use customer segments may include residential, commercial, small industrial, medium industrial, and large industrial, as identified and defined in the PJM Manuals, provided that nothing herein or in the Manuals shall preclude the Provider from identifying more specific customer segments within the commercial and industrial categories, if known.

(iii) Information by end-use customer site to the extent required by subsection A-1(1)(c)(iv) or, if not required by such subsection, to the extent known at the time of the submittal of the Demand Resource Sell Offer Plan, to include: customer EDC account number (if known), customer name, customer premise address, Zone/sub-Zone in which the customer is located, end-use customer segment, current Peak Load Contribution value (or an estimate if actual value not known) and an estimate of expected Peak Load Contribution for the subject Delivery Year, and an estimated Nominated DR Value.

(iv) End-use customer site-specific information shall be required for any Zones or sub-Zones identified by PJM pursuant to this subsection for the portion, if any, of a Demand Resource Provider's intended offer in such Zones or sub-Zones that exceeds a Sell Offer threshold determined pursuant to this subsection, as any such excess quantity under such conditions should reflect Planned Demand Resources from end-use customer sites that the Provider has a high degree of certainty it will physically deliver for the subject Delivery Year. In accordance with the procedures in subsection A-1(3) below, PJM shall identify, as requiring site-specific information, all Zones and sub-Zones that comprise any LDA group (from a list of LDA groups stated in the PJM Manuals) in which [the quantity of cleared Demand Resources from the most recent Base Residual Auction] plus [the quantity of Demand Resources included in FRR Capacity Plans for the Delivery Year addressed by the most recent Base Residual Auction] in any Zone or sub-Zone of such LDA group exceeds the greater of:

- the maximum Demand Resources quantity registered with PJM for such Zone for any Delivery Year from the current (at time of plan submission) Delivery Year and the two preceding Delivery Years; and
- the potential Demand Resource quantity for such Zone estimated by PJM based on an independent published assessment of demand response potential that is reasonably applicable to such Zone, as identified in the PJM Manuals.

For each such Zone and sub-Zone, the Sell Offer threshold for each Demand Resource Provider shall be the higher of:

- the Demand Resource Provider's maximum Demand Resource quantity registered with PJM for such Zone/sub-Zone over the current Delivery Year (at the time of plan submission) and two preceding Delivery Years;
- the Demand Resource Provider's maximum for any single Delivery Year of [such provider's cleared Demand Resource quantity] plus [such provider's quantity of Demand Resources included in FRR Capacity Plans] from the three forward Delivery Years addressed by the three most recent Base Residual Auctions for such Zone/sub-Zone; and
- 10 MW.

(d) Schedule. The Demand Resource Provider shall provide an approximate timeline for procuring end-use customer sites as needed to physically deliver the total Nominated DR Value (for both Existing Demand Resources and Planned Demand Resources) by Zone/sub-Zone in the Demand Resource Sell Offer Plan. The Demand Resource Provider must specify the cumulative number of customers and the cumulative Nominated DR Value associated with each end-use customer segment within each Zone/sub-Zone that the Demand Resource Provider expects (at the time of plan submission) to have under contract as of June 1 each year between the time of the auction and the subject Delivery Year.

2. Demand Resource Officer Certification Form. Each Demand Resource Sell Offer Plan must include a Demand Resource Officer Certification, signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification, in the form shown in the PJM Manuals, which form shall include the following certifications:

(a) that the signing officer has reviewed the Demand Resource Sell Offer Plan and the information supplied to PJM in support of the Plan is true and correct as of the date of the certification; and

(b) that the Demand Resource Provider is submitting the Plan with the reasonable expectation, based upon its analyses as of the date of the certification, to physically deliver all megawatts that clear the RPM Auction through Demand Resource registrations by the specified Delivery Year.

As set forth in the form provided in the PJM manuals, the certification shall specify that it does not in any way abridge, expand, or otherwise modify the current provisions of the PJM Tariff, Operating Agreement and/or RAA, or the Demand Resource Provider's rights and obligations thereunder, including the Demand Resource Provider's ability to adjust capacity obligations through participation in PJM incremental auctions and bilateral transactions.

3. Procedures. No later than December 1 prior to the Base Residual Auction for a Delivery Year, PJM shall post to the PJM website a list of Zones and sub-Zones, if any, for which end-use customer site-specific information shall be required under the conditions specified in subsection A-1(1)(c)(iv) above for all RPM Auctions conducted for such Delivery Year. Once so identified, a Zone or sub-Zone shall remain on the list for future Delivery Years until the threshold determined under subsection A-1(1)(c)(iv) above is not exceeded for three consecutive Delivery Years. No later than 15 business days prior to the RPM Auction in which a Demand Resource Provider intends to offer a Demand Resource, the Demand Resource Provider shall submit to PJM a completed Demand Resource Sell Offer Plan template and a Demand Resource Officer Certification Form signed by a duly authorized officer of the Provider. PJM will review all submitted DR Sell Offer Plans. No later than 10 business days prior to the subject RPM Auction, PJM shall notify any Demand Resource Providers that have identified the same end-use customer site(s) in their respective DR Sell Offer Plans for the same Delivery Year. In such event, the MWs associated with such site(s) will not be approved for inclusion in a Sell Offer in an RPM Auction by any of the Demand Resource Providers, unless a Demand Resource Provider provides a letter of support from the end-use customer indicating that it is likely to execute a contract with that Demand Resource Provider for the relevant Delivery Year, or provides other comparable evidence of likely commitment. Such letter of support or other supporting evidence must be provided to PJM no later than 7 business days prior to the subject RPM Auction. If an end-use customer provides letters of support for the same site for the same Delivery Year to multiple Demand Resource Providers, the MWs associated with such end-use customer site shall not be approved as a Demand Resource for any of the Demand Resource Providers. No later than 5 business days prior to the subject RPM Auction, PJM will notify each Demand Resource Provider of the approved Demand Resource quantity, by Zone/sub-Zone, that such Demand Resource Provider is permitted to offer into such RPM Auction.

B. The Unforced Capacity value of a Demand Resource will be determined as:

the product of the Nominated Value of the Demand Resource times the DR Factor, times the Forecast Pool Requirement. Nominated Values shall be determined and reviewed in accordance with sections I and J, respectively, and the PJM Manuals. The DR Factor is a factor established by the PJM Board with the advice of the Members Committee to reflect the increase in the peak load carrying capability in the PJM Region due to Demand Resources. Peak load carrying capability is defined to be the peak load that the PJM Region is able to serve at the loss of load expectation defined in the Reliability Principles and Standards. The DR Factor is the increase in

the peak load carrying capability in the PJM Region due to Demand Resources, divided by the total Nominated Value of Demand Resources in the PJM Region. The DR Factor will be determined using an analytical program that uses a probabilistic approach to determine reliability. The determination of the DR Factor will consider the reliability of Demand Resources, the number of interruptions, and the total amount of load reduction.

C. Demand Resources offered and cleared in a Base Residual or Incremental Auction shall receive the corresponding Capacity Resource Clearing Price as determined in such auction, in accordance with Attachment DD of the PJM Tariff. For Delivery Years beginning with the Delivery Year that commences on June 1, 2013, any Demand Resources located in a Zone with multiple LDAs shall receive the Capacity Resource Clearing Price applicable to the location of such resource within such Zone, as identified in such resource's offer. Further, the Curtailment Service Provider shall register its resource in the same location within the Zone as specified in its cleared sell offer, and shall be subject to deficiency charges under Attachment DD of this Tariff to the extent it fails to provide the resource in such location consistent with its cleared offer. For either of the Delivery Year commencing on June 1, 2010 or commencing on June 1, 2012, if the location of a Demand Resource is not specified by a Seller in the Sell Offer on an individual LDA basis in a Zone with multiple LDAs, then Demand Resources cleared by such Seller will be paid a DR Weighted Zonal Resource Clearing Price, determined as follows: (i) for a Zone that includes non-overlapping LDAs, calculated as the weighted average of the Resource Clearing Prices for such LDAs, weighted by the cleared Demand Resources registered by such Seller in each such LDA; or (ii) for a Zone that contains a smaller LDA within a larger LDA, calculated treating the smaller LDA and the remaining portion of the larger LDA as if they were separate LDAs, and weight-averaging in the same manner as (i) above.

D. The Party, Electric Distributor, or Curtailment Service Provider that establishes a contractual relationship (by contract or tariff rate) with a customer for load reductions is entitled to receive the compensation specified in section C for a committed Demand Resource, notwithstanding that such provider is not the customer's energy supplier.

E. Any Party hereto shall demonstrate that its Demand Resources performed during periods when load management procedures were invoked by the Office of the Interconnection. The Office of the Interconnection shall adopt and maintain rules and procedures for verifying the performance of such resources, as set forth in section K hereof and the PJM Manuals. In addition, committed Demand Resources that do not comply with the directions of the Office of the Interconnection to reduce load during an emergency shall be subject to the penalty charge set forth in Attachment DD to the PJM Tariff.

F. Parties may elect to place Demand Resources associated with Behind The Meter Generation under the direction of the Office of the Interconnection for a Delivery Year by submitting a Sell Offer for such resource (as Self Supply, or with an offer price) in the Base Residual Auction for such Delivery Year. This election shall remain in effect for the entirety of such Delivery Year. In the event such an election is made, such Behind The Meter Generation will not be netted from load for the purposes of calculating the Daily Unforced Capacity Obligations under this Agreement.

G. PJM measures Demand Resources in the following three ways:

Direct Load Control (DLC) – Load management that is initiated directly by the Curtailment Service Provider’s market operations center or its agent, employing a communication signal to cycle equipment (typically water heaters or central air conditioners). DLC programs are qualified based on load research and customer subscription data. Curtailment Service Providers may rely on the results of load research studies identified in the PJM Manuals to set the per-participant load reduction for DLC programs. Each Curtailment Service Provider relying on DLC load management must periodically update its DLC switch operability rates, in accordance with the PJM Manuals.

Firm Service Level (FSL) – Load management achieved by an end-use customer reducing its load to a pre-determined level (the Firm Service Level), upon notification from the Curtailment Service Provider’s market operations center or its agent.

Guaranteed Load Drop (GLD) – Load management achieved by an end-use customer reducing its load by a pre-determined amount (the Guaranteed Load Drop), upon notification from the Curtailment Service Provider’s market operations center or its agent. Typically, the load reduction is achieved through running customer-owned backup generators, or by shutting down process equipment.

H. Each Curtailment Service Provider must satisfy (or contract with another LSE, Curtailment Service Provider, or electric distribution company to provide) the following requirements:

- A point of contact with appropriate backup to ensure single call notification from PJM and timely execution of the notification process;
- Supplemental status reports, detailing Demand Resources available, as requested by PJM;
- Entry of customer-specific Demand Resource credit information, for planning and verification purposes, into the designated PJM electronic system.
- Customer-specific compliance and verification information for each PJM-initiated Demand Resource event, as well as aggregated Provider load drop data for Provider-initiated events, in accordance with established reporting guidelines.
- Load drop estimates for all Demand Resource events, prepared in accordance with the PJM Manuals.

I. The Nominated Value of each Demand Resource shall be determined consistent with the process for determination of the capacity obligation for the customer.

The Nominated Value for a Firm Service Level customer will be based on the peak load contribution for the customer, as determined by the 5CP methodology utilized to determine other



ICAP obligation values. The maximum Demand Resource load reduction value for a Firm Service Level customer will be equal to Peak Load Contribution – Firm Contract Level adjusted for system losses.

The Nominated Value for a Guaranteed Load Drop customer will be the guaranteed load drop amount, adjusted for system losses, as established by the customer's contract with the Curtailment Service Provider. The maximum credit nominated shall not exceed the customer's Peak Load Contribution.

The Nominated Value for a Direct Load Control program will be based on load research and customer subscription. The maximum value of the program is equal to the approved per-participant load reduction multiplied by the number of active participants, adjusted for system losses. The per-participant impact is to be estimated at long-term average local weather conditions at the time of the summer peak.

Customer-specific Demand Resource information (EDC account number, peak load, notification period, etc.) will be entered into the designated PJM electronic system to establish credit values. Additional data may be required, as defined in sections J and K.

J. Nominated Values shall be reviewed based on documentation of customer-specific data and Demand Resource information, to verify the amount of load management available and to set a maximum allowable Nominated Value. Data is provided by both the zone EDC and the Curtailment Service Provider on templates supplied by PJM, and must include the EDC meter number or other unique customer identifier, Peak Load Contribution (5CP), contract firm service level or guaranteed load drop values, applicable loss factor, zone/area location of the load drop, LSE contact information, number of active participants, etc. Such data must be uploaded and approved prior to the first day of the Delivery Year for such resource as a Demand Resource. Curtailment Service Providers must provide this information concurrently to host EDCs.

For Firm Service Level and Guaranteed Load Drop customers, the 5CP values, for the zone and affected customers, will be adjusted to reflect an "unrestricted" peak for a zone, based on information provided by the Curtailment Service Provider. Load drop levels shall be estimated in accordance with guidelines in the PJM Manuals.

For Direct Load Control programs, the Curtailment Service Provider must provide information detailing the number of active participants in each program. Other information on approved DLC programs will be provided by PJM.

K. Compliance is the process utilized to review Provider performance during PJM-initiated Demand Resource events. Compliance will be established for each Provider on an event specific basis for the Curtailment Service Provider's Demand Resources dispatched by the Office of the Interconnection during such event. PJM will establish and communicate reasonable deadlines for the timely submittal of event data to expedite compliance reviews. Compliance reviews will be completed as soon after the event as possible, with the expectation that reviews of a single event will be completed within two months of the end of the month in which the event

took place. Curtailment Service Providers are responsible for the submittal of compliance information to PJM for each PJM-initiated event during the compliance period. Compliance for Direct Load Control programs will consider only the transmission of the control signal. Curtailment Service Providers are required to report the time period (during the Demand Resource event) that the control signal was actually sent.

Compliance is checked on an individual customer basis for FSL, by comparing actual load during the event to the firm service level. Curtailment Service Providers must submit actual customer load levels (for the event period) for the compliance report. Compliance for FSL will be based on:

End use customer's current Delivery Year peak load contribution ("PLC") minus the metered load ("Load") multiplied by the loss factor ("LF"). The calculation is represented by:

$$(PLC) - (Load * LF)$$

Compliance is checked on an individual customer basis for GLD, and will be based on:

- (i) the lesser of (a) comparison load used to best represent what the load would have been if PJM did not declare a Load Management Event or the CSP did not initiate a test as outlined in the PJM Manuals, minus the Load and then multiplied by the LF, or (b) the PLC minus the Load multiplied by the LF. A load reduction will only be recognized for capacity compliance if the Load multiplied by the LF is less than the PLC.
- (iii) Curtailment Service Providers must submit actual loads and comparison loads for all hours during the day of the Load Management Event or the Load Management performance test, and for all hours during any other days as required by the Office of the Interconnection to calculate the load reduction. Comparison loads must be developed from the guidelines in the PJM Manuals, and note which method was employed.

Compliance is averaged over the Load Management Event for non-interval metered DLC programs. Compliance is averaged over the Load Management Event, for each FSL and GLD customer dispatched by the Office of the Interconnection, for at least 30 minutes of the clock hour (i.e., "partial dispatch compliance hour"). The registered capacity commitment for the partial dispatch compliance hour will be prorated based on the number of minutes dispatched during the clock hour and as defined in the Manuals. Curtailment Service Provider may submit 1 minute load data for use in capacity compliance calculations for partial dispatch compliance hours subject to PJM approval and in accordance with the PJM Manuals where: (a) metering meets all Tariff and Manual requirements, (b) 1 minute load data shall be submitted to PJM for all locations on the registration, and (c) 1 minute load data measures energy consumption over the minute.

Demand Resources may not reduce their load below zero (i.e., export energy into the system). No compliance credit will be given for an incremental load drop below zero. Compliance will be

totaled over all FSL and GLD customers and DLC programs to determine a net compliance position for the event for each Provider by Zone, for all Demand Resources committed by such Provider and dispatched by the Office of the Interconnection in the zone. Deficiencies shall be as further determined in accordance with section 11 of Schedule DD to the PJM Tariff.

#### L. Energy Efficiency Resources

1. An Energy Efficiency Resource is a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak periods as described herein) reduction in electric energy consumption at the End-Use Customer's retail site that is not reflected in the peak load forecast prepared for the Delivery Year for which the Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.

2. An Energy Efficiency Resource may be offered as a Capacity Resource in the Base Residual or Incremental Auctions for any Delivery Year beginning on or after June 1, 2012. No later than 30 days prior to the auction in which the resource is to be offered, the Capacity Market Seller shall submit to the Office of the Interconnection a notice of intent to offer the resource into such auction and a measurement and verification plan. The notice of intent shall include all pertinent project design data, including but not limited to the peak-load contribution of affected customers, a full description of the equipment, device, system or process intended to achieve the load reduction, the load reduction pattern, the project location, the project development timeline, and any other relevant data. Such notice also shall state the seller's proposed Nominated Energy Efficiency Value, which shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday. The measurement and verification plan shall describe the methods and procedures, consistent with the PJM Manuals, for determining the amount of the load reduction and confirming that such reduction is achieved. The Office of the Interconnection shall determine, upon review of such notice, the Nominated Energy Efficiency Value that may be offered in the Reliability Pricing Model Auction.

3. An Energy Efficiency Resource may be offered with a price offer or as Self-Supply. If an Energy Efficiency Resource clears the auction, it shall receive the applicable Capacity Resource Clearing Price, subject to section 5 below. A Capacity Market Seller offering an Energy Efficiency Resource must comply with all applicable credit requirements as set forth in Attachment Q to the PJM Tariff. The Unforced Capacity value of an Energy Efficiency Resource offered into an RPM Auction shall be the Nominated Energy Efficiency value times the DR Factor and the Forecast Pool Requirement.

4. An Energy Efficiency Resource that clears an auction for a Delivery Year may be offered in auctions for up to three additional consecutive Delivery Years, but shall not be assured of clearing in any such auction; provided, however, an Energy Efficiency Resource may not be offered for any Delivery Year in which any part of the peak season is beyond the expected

life of the equipment, device, system, or process providing the expected load reduction; and provided further that a Capacity Market Seller that offers and clears an Energy Efficiency Resource in a BRA may elect a New Entry Price Adjustment on the same terms as set forth in section 5.14(c) of this Attachment DD.

5. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than 30 days prior to each Auction an updated project status and measurement and verification plan subject to the criteria set forth in the PJM Manuals.

6. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than the start of such Delivery Year, an updated project status and detailed measurement and verification data meeting the standards for precision and accuracy set forth in the PJM Manuals. The final value of the Energy Efficiency Resource during such Delivery Year shall be as determined by the Office of the Interconnection based on the submitted data.

7. The Office of the Interconnection may audit, at the Capacity Market Seller's expense, any Energy Efficiency Resource committed to the PJM Region. The audit may be conducted any time including the Performance Hours of the Delivery Year.

Sections of the  
Reliability Assurance Agreement  
Option B  
(Clean Format)

## **ARTICLE 1 – DEFINITIONS**

Unless the context otherwise specifies or requires, capitalized terms used herein shall have the respective meanings assigned herein or in the Schedules hereto for all purposes of this Agreement (such definitions to be equally applicable to both the singular and the plural forms of the terms defined). Unless otherwise specified, all references herein to Articles, Sections or Schedules, are to Articles, Sections or Schedules of this Agreement. As used in this Agreement:

### **1.1 Agreement**

Agreement shall mean this Reliability Assurance Agreement, together with all Schedules hereto, as amended from time to time.

### **1.1A Annual Demand Resource**

Annual Demand Resource shall mean a resource that is placed under the direction of the Office of the Interconnection during the Delivery Year, and will be available for an unlimited number of interruptions during such Delivery Year by the Office of the Interconnection, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time for the months of June through October and the following May, and 6:00AM through 9:00PM Eastern Prevailing Time for the months of November through April unless there is an Office of the Interconnection approved maintenance outage during October through April. The Annual Demand Resource must be available in the corresponding Delivery year to be offered for sale or Self-Supplied in an RPM Auction, or included as an Annual Demand Resource in an FRR Capacity Plan for the corresponding Delivery Year. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### **1.1B Annual WRL Load**

Annual WRL Load shall mean load that is placed by the WLR Provider under the direction of the Office of the Interconnection during the Delivery Year, and will be available for an unlimited number of interruptions during such Delivery Year by the Office of the Interconnection, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time for the months of June through October and the following May, and 6:00AM through 9:00PM Eastern Prevailing Time for the months of November through April unless there is an Office of the Interconnection approved maintenance outage during October through April. The Annual WRL Load must be available in the corresponding Delivery Year to be bid in an RPM Auction.

### **1.2 Applicable Regional Entity**

Applicable Regional Entity shall have the same meaning as in the PJM Tariff.

### **1.3 Base Residual Auction**

Base Residual Auction shall have the same meaning as in Attachment DD to the PJM Tariff.

### **1.4 Behind The Meter Generation**

Behind The Meter Generation shall mean a generating unit that delivers energy to load without using the Transmission System or any distribution facilities (unless the entity that owns or leases the distribution facilities consented to such use of the distribution facilities and such consent has been demonstrated to the satisfaction of the Office of the Interconnection; provided, however, that Behind The Meter Generation does not include (i) at any time, any portion of such generating unit's capacity that is designated as a Capacity Resource or (ii) in any hour, any portion of the output of such generating unit that is sold to another entity for consumption at another electrical location or into the PJM Interchange Energy Market.

### **1.5 Black Start Capability**

Black Start Capability shall mean the ability of a generating unit or station to go from a shutdown condition to an operating condition and start delivering power without assistance from the power system.

### **1.6 Capacity Emergency Transfer Objective ("CETO")**

Capacity Emergency Transfer Objective ("CETO") shall mean the amount of electric energy that a given area must be able to import in order to remain within a loss of load expectation of one event in 25 years when the area is experiencing a localized capacity emergency, as determined in accordance with the PJM Manuals. Without limiting the foregoing, CETO shall be calculated based in part on EFORD determined in accordance with Paragraph C of Schedule 5.

### **1.7 Capacity Emergency Transmission Limit ("CETL")**

Capacity Emergency Transmission Limit ("CETL") shall mean the capability of the transmission system to support deliveries of electric energy to a given area experiencing a localized capacity emergency as determined in accordance with the PJM Manuals.

### **1.7A Capacity Import Limit**

Capacity Import Limit shall mean, (a) for the PJM Region, (1) the maximum megawatt quantity of external Generation Capacity Resources that PJM determines for each Delivery Year, through appropriate modeling and the application of engineering judgment, the transmission system can receive, in aggregate at the interface of the PJM Region with all external balancing authority areas and deliver to load in the PJM Region under capacity emergency conditions

without violating applicable reliability criteria on any bulk electric system facility of 100kV or greater, internal or external to the PJM Region, that has an electrically significant response to transfers on such interface, minus (2) the then-applicable Capacity Benefit Margin; and (b) for certain source zones identified in the PJM manuals as groupings of one or more balancing authority areas, (1) the maximum megawatt quantity of external Generation Capacity Resources that PJM determines the transmission system can receive at the interface of the PJM Region with each such source zone and deliver to load in the PJM Region under capacity emergency conditions without violating applicable reliability criteria on any bulk electric system facility of 100kV or greater, internal or external to the PJM Region, that has an electrically significant response to transfers on such interface, minus the then-applicable Capacity Benefit Margin times (2) the ratio of the maximum import quantity from each such source zone divided by the PJM total maximum import quantity. As more fully set forth in the PJM Manuals, PJM shall make such determination based on the latest peak load forecast for the studied period, the same computer simulation model of loads, generation and transmission topography employed in the determination of Capacity Emergency Transmission Limit for such Delivery Year, including external facilities from an industry standard model of the loads, generation, and transmission topography of the Eastern Interconnection under peak conditions. PJM shall specify in the PJM Manuals the areas and minimum distribution factors for identifying monitored bulk electric system facilities that have an electrically significant response to such transfers on the PJM interface. Employing such tools, PJM shall model increased power transfers from external areas into PJM to determine the transfer level at which one or more reliability criteria is violated on any monitored bulk electric system facilities that have an electrically significant response to such transfers. For the PJM Region Capacity Import Limit, PJM shall optimize transfers from other source areas not experiencing any reliability criteria violations as appropriate to increase the Capacity Import Limit. The aggregate megawatt quantity of transfers into PJM at the point where any increase in transfers on the interface would violate reliability criteria will establish the Capacity Import Limit. Notwithstanding the foregoing, a Capacity Resource located outside the PJM Region shall not be subject to the Capacity Import Limit if the Capacity Market Seller seeks an exception thereto by demonstrating to PJM, by no later than five (5) business days prior to the commencement of the offer period for the relevant RPM Auction, that such resource meets all of the following requirements:

- (i) it has, at the time such exception is requested, met all applicable requirements to be treated as equivalent to PJM Region internal generation that is not subject to NERC tagging as an interchange transaction, or the Capacity Market Seller has committed in writing that it will meet such requirements, unless prevented from doing so by circumstances beyond the control of the Capacity Market Seller, prior to the relevant Delivery Year;
- (ii) at the time such exception is requested, it has long-term firm transmission service confirmed on the complete transmission path from such resource into PJM; and
- (iii) it is, by written commitment of the Capacity Market Seller, subject to the same obligations imposed on Generation Capacity Resources located in the PJM Region by section 6.6 of Attachment DD of the PJM Tariff to offer their capacity into RPM Auctions;



provided, however, that (a) the total megawatt quantity of all exceptions granted hereunder for a Delivery Year, plus the Capacity Import Limit for the applicable interface determined for such Delivery Year, may not exceed the total megawatt quantity of Network External Designated Transmission Service on such interface that PJM has confirmed for such Delivery Year; and (b) if granting a qualified exception would result in a violation of the rule in clause (a), PJM shall grant the requested exception but reduce the Capacity Import Limit by the quantity necessary to ensure that the total quantity of Network External Designated Transmission Service is not exceeded.

## **1.8 Capacity Resources**

Capacity Resources shall mean megawatts of (i) net capacity from existing or Planned Generation Capacity Resources meeting the requirements of Schedules 9 and 10 that are or will be owned by or contracted to a Party and that are or will be committed to satisfy that Party's obligations under this Agreement, or to satisfy the reliability requirements of the PJM Region, for a Delivery Year; (ii) net capacity from existing or Planned Generation Capacity Resources within the PJM Region not owned or contracted for by a Party which are accredited to the PJM Region pursuant to the procedures set forth in Schedules 9 and 10; and (iii) load reduction capability provided by Demand Resources or Energy Efficiency Resources that are accredited to the PJM Region pursuant to the procedures set forth in Schedule 6. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

## **1.9 Capacity Transfer Right**

Capacity Transfer Right shall have the meaning specified in Attachment DD to the PJM Tariff.

### **1.9.1 Compliance Aggregation Area (CAA)**

“Compliance Aggregation Area” or “CAA” shall have the same meaning as in the PJM Tariff.

## **1.10 Control Area**

Control Area shall mean an electric power system or combination of electric power systems bounded by interconnection metering and telemetry to which a common generation control scheme is applied in order to:

(a) match the power output of the generators within the electric power system(s) and energy purchased from entities outside the electric power system(s), with the load within the electric power system(s);

(b) maintain scheduled interchange with other Control Areas, within the limits of Good Utility Practice;

(c) maintain the frequency of the electric power system(s) within reasonable limits in accordance with Good Utility Practice and the criteria of NERC and each Applicable Regional Entity;

(d) maintain power flows on transmission facilities within appropriate limits to preserve reliability; and

(e) provide sufficient generating capacity to maintain operating reserves in accordance with Good Utility Practice.

### **1.11 Daily Unforced Capacity Obligation**

Daily Unforced Capacity Obligation shall have the meaning set forth in Schedule 8 or, as to an FRR Entity, in Schedule 8.1.

### **1.12 Delivery Year**

Delivery Year shall mean a Planning Period for which a Capacity Resource is committed pursuant to the auction procedures specified in Attachment DD to the Tariff or pursuant to an FRR Capacity Plan.

### **1.13 Demand Resource**

Demand Resource or “DR” shall mean a Limited Demand Resource, Extended Summer Demand Resource, or Annual Demand Resource with a demonstrated capability to provide a reduction in demand or otherwise control load in accordance with the requirements of Schedule 6 that offers and that clears load reduction capability in a Base Residual Auction or Incremental Auction or that is committed through an FRR Capacity Plan. As set forth in Schedule 6, a Limited Demand Resource, Extended Summer Demand Resource or Annual Demand Resource may be an existing demand response resource or a Planned Demand Resource. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **1.13A Demand Resource Officer Certification Form**

Demand Resource Officer Certification Form shall mean a certification as to an intended Demand Resource Sell Offer, in accordance with Schedules 6 and 8.1 of this Agreement and the PJM Manuals.

#### **1.14 [Reserved for Future Use]**

##### **1.14A Demand Resource Sell Offer Plan**

Demand Resource Sell Offer Plan shall mean the plan required by Schedules 6 and 8.1 of this Agreement in support of an intended offer of Demand Resources in an RPM Auction, or an intended inclusion of Demand Resources in an FRR Capacity Plan.

#### **1.15 DR Factor**

DR Factor shall mean that factor approved from time to time by the PJM Board used to determine the unforced capacity value of a Demand Resource in accordance with Schedule 6.

#### **1.16 [Reserved for Future Use]**

##### **1.17 Electric Cooperative**

Electric Cooperative shall mean an entity owned in cooperative form by its customers that is engaged in the generation, transmission, and/or distribution of electric energy.

##### **1.18 Electric Distributor**

Electric Distributor shall mean an entity that owns or leases with rights equivalent to ownership electric distribution facilities that are providing electric distribution service to electric load within the PJM Region.

##### **1.19 Emergency**

Emergency shall mean (i) an abnormal system condition requiring manual or automatic action to maintain system frequency, or to prevent loss of firm load, equipment damage, or tripping of system elements that could adversely affect the reliability of an electric system or the safety of persons or property; or (ii) a fuel shortage requiring departure from normal operating procedures in order to minimize the use of such scarce fuel; or (iii) a condition that requires implementation of emergency procedures as defined in the PJM Manuals.

##### **1.20 End-Use Customer**

End-Use Customer shall mean a Member that is a retail end-user of electricity within the PJM Region.

##### **1.20A Energy Efficiency Resource**

Energy Efficiency Resource shall mean a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak

periods as described in Schedule 6 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **1.20A.1 Existing Demand Resource**

Existing Demand Resource shall mean a Demand Resource for which the Demand Resource Provider has identified existing end-use customer sites that are registered for the current Delivery Year with PJM (even if not registered by such Demand Resource Provider) and that the Demand Resource Provider reasonably expects to have under a contract to reduce load based on PJM dispatch instructions by the start of the Delivery Year for which such resource is offered.

#### **1.20B Existing Generation Capacity Resource**

Existing Generation Capacity Resource shall mean, for purposes of the must-offer requirement and mitigation of offers for any RPM Auction for a Delivery Year, a Generation Capacity Resource that, as of the date on which bidding commences for such auction: (a) is in service; or (b) is not yet in service, but has cleared any RPM Auction for any prior Delivery Year. Notwithstanding the foregoing, a Generation Capacity Resource for which construction has not commenced and which would otherwise have been treated as a Planned Generation Capacity Resource but for the fact that it was bid into RPM Auctions for at least two consecutive Delivery Years, and cleared the last such auction only because it was considered existing and its mitigated offer cap was accepted when its price offer would not have otherwise been accepted, shall be deemed to be a Planned Generation Capacity Resource. A Generation Capacity Resource shall be deemed to be in service if interconnection service has ever commenced (for resources located in the PJM Region), or if it is physically and electrically interconnected to an external Control Area and is in full commercial operation (for resources not located in the PJM Region). The additional megawatts of a Generation Capacity Resource that is being, or has been, modified to increase the number of megawatts of available installed capacity thereof shall not be deemed to be an Existing Generation Capacity Resource until such time as those megawatts (a) are in service; or (b) are not yet in service, but have cleared any RPM Auction for any prior Delivery Year.

##### **1.20B.01 Existing WLR Load**

Existing WLR Load shall mean WLR Load for which the WLR Provider has identified existing end-use customer sites that are registered for the current Delivery Year with PJM (even if not registered by such WLR Provider) and that the WLR Provider reasonably expects to serve

as the Load Serving Entity and have under a contract to reduce load based on PJM dispatch instructions by the Delivery Year for which such load is bid.

### **1.20C Extended Summer Demand Resource**

Extended Summer Demand Resource shall mean a resource that is placed under the direction of the Office of the Interconnection and that will be available June through October and the following May, and will be available for an unlimited number of interruptions during such months by the Office of the Interconnection, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time. The Extended Summer Demand Resource must be available June through October and the following May in the corresponding Delivery Year to be offered for sale or Self-Supplied in an RPM Auction, or included as an Extended Summer Demand Resource in an FRR Capacity Plan for the corresponding Delivery Year. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

### **1.20D Extended Summer WLR Load**

Extended Summer WLR Load shall mean a load that is placed by the WLR Provider under the direction of the Office of the Interconnection and that will be available June through October and the following May, and will be available for an unlimited number of interruptions during such months by the Office of the Interconnection, and will be capable of maintaining each such interruption for at least a 10-hour duration between the hours of 10:00AM to 10:00PM Eastern Prevailing Time. The Extended Summer WLR Load must be available June through October and the following May in the corresponding Delivery Year to be bid in an RPM Auction.

### **1.21 Facilities Study Agreement**

Facilities Study Agreement shall have the same meaning as in the PJM Tariff

### **1.22 FERC**

FERC shall mean the Federal Energy Regulatory Commission or any successor federal agency, commission or department.

### **1.23 Firm Point-To-Point Transmission Service**

Firm Point-To-Point Transmission Service shall mean Firm Transmission Service provided pursuant to the rates, terms and conditions set forth in Part II of the PJM Tariff.

### **1.24 Firm Transmission Service**

Firm Transmission Service shall mean transmission service that is intended to be available at all times to the maximum extent practicable, subject to an Emergency, an unanticipated failure of a facility, or other event beyond the control of the owner or operator of the facility or the Office of the Interconnection.

#### **1.25 Fixed Resource Requirement Alternative or FRR Alternative**

Fixed Resource Requirement Alternative or FRR Alternative shall mean an alternative method for a Party to satisfy its obligation to provide Unforced Capacity hereunder, as set forth in Schedule 8.1 to this Agreement.

#### **1.26 Forecast Pool Requirement**

Forecast Pool Requirement or FPR shall mean the amount equal to one plus the unforced reserve margin (stated as a decimal number) for the PJM Region required pursuant to this Agreement, as approved by the PJM Board pursuant to Schedule 4.1.

#### **1.27 [Reserved]**

#### **1.28 [Reserved]**

#### **1.29 FRR Capacity Plan**

FRR Capacity Plan shall mean a long-term plan for the commitment of Capacity Resources to satisfy the capacity obligations of a Party that has elected the FRR Alternative, as more fully set forth in Schedule 8.1 to this Agreement.

#### **1.30 FRR Entity**

FRR Entity shall mean, for the duration of such election, a Party that has elected the FRR Alternative hereunder.

#### **1.31 FRR Service Area**

FRR Service Area shall mean (a) the service territory of an IOU as recognized by state law, rule or order; (b) the service area of a Public Power Entity or Electric Cooperative as recognized by franchise or other state law, rule, or order; or (c) a separately identifiable geographic area that is: (i) bounded by wholesale metering, or similar appropriate multi-site aggregate metering, that is visible to, and regularly reported to, the Office of the Interconnection, or that is visible to, and regularly reported to an Electric Distributor and such Electric Distributor agrees to aggregate the load data from such meters for such FRR Service Area and regularly report such aggregated information, by FRR Service Area, to the Office of the Interconnection; and (ii) for which the FRR Entity has or assumes the obligation to provide capacity for all load (including load growth) within such area. In the event that the service obligations of an Electric Cooperative or Public Power Entity are not defined by geographic boundaries but by physical

connections to a defined set of customers, the FRR Service Area in such circumstances shall be defined as all customers physically connected to transmission or distribution facilities of such Electric Cooperative or Public Power Entity within an area bounded by appropriate wholesale aggregate metering as described above.

### **1.32 Full Requirements Service**

Full Requirements Service shall mean wholesale service to supply all of the power needs of a Load Serving Entity to serve end-users within the PJM Region that are not satisfied by its own generating facilities.

### **1.33 Generation Capacity Resource**

Generation Capacity Resource shall mean a generation unit, or the right to capacity from a specified generation unit, that meets the requirements of Schedules 9 and 10 of this Agreement. A Generation Capacity Resource may be an Existing Generation Capacity Resource or a Planned Generation Capacity Resource.

### **1.34 Generation Owner**

Generation Owner shall mean a Member that owns or leases with rights equivalent to ownership facilities for the generation of electric energy that are located within the PJM Region. Purchasing all or a portion of the output of a generation facility shall not be sufficient to qualify a Member as a Generation Owner.

### **1.35 Generator Forced Outage**

Generator Forced Outage shall mean an immediate reduction in output or capacity or removal from service, in whole or in part, of a generating unit by reason of an Emergency or threatened Emergency, unanticipated failure, or other cause beyond the control of the owner or operator of the facility, as specified in the relevant portions of the PJM Manuals. A reduction in output or removal from service of a generating unit in response to changes in market conditions shall not constitute a Generator Forced Outage.

### **1.36 Generator Maintenance Outage**

Generator Maintenance Outage shall mean the scheduled removal from service, in whole or in part, of a generating unit in order to perform repairs on specific components of the facility, if removal of the facility qualifies as a maintenance outage pursuant to the PJM Manuals.

### **1.37 Generator Planned Outage**

Generator Planned Outage shall mean the scheduled removal from service, in whole or in part, of a generating unit for inspection, maintenance or repair with the approval of the Office of the Interconnection in accordance with the PJM Manuals.

### **1.38 Good Utility Practice**

Good Utility Practice shall mean any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather is intended to include acceptable practices, methods, or acts generally accepted in the region.

### **1.39 [Reserved]**

### **1.40 Incremental Auction**

Incremental Auction shall mean the First Incremental Auction, the Second Incremental Auction, the Third Incremental Auction, or the Conditional Incremental Auction, each as defined in Attachment DD to the PJM Tariff.

### **1.41 Interconnection Agreement**

Interconnection Agreement shall have the same meaning as in the PJM Tariff.

### **1.42 [Reserved]**

### **1.43 IOU**

IOU shall mean an investor-owned utility with substantial business interest in owning and/or operating electric facilities in any two or more of the following three asset categories: generation, transmission, distribution.

### **1.43A Limited Demand Resource**

Limited Demand Resource shall mean a resource that is placed under the direction of the Office of the Interconnection and that will, at a minimum, be available for interruption for at least 10 Load Management Events during the summer period of June through September in the Delivery Year, and will be capable of maintaining each such interruption for at least a 6-hour duration. At a minimum, the Limited Demand Resource shall be available for such interruptions on weekdays, other than NERC holidays, from 12:00PM (noon) to 8:00PM Eastern Prevailing Time. The Limited Demand Resource must be available during the summer period of June through September in the corresponding Delivery Year to be offered for sale or Self-Supplied in an RPM Auction, or included as a Limited Demand Resource in an FRR Capacity Plan for the corresponding Delivery Year. Notwithstanding the foregoing, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years



unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

#### **1.43B Limited WLR Load**

Limited WLR Load shall mean a load that is placed by the WLR Provider under the direction of the Office of the Interconnection and that will, at a minimum, be available for interruption for at least 10 pre-emergency or emergency actions during the summer period of June through September in the Delivery Year, and will be capable of maintaining each such interruption for at least a 6-hour duration. At a minimum, the Limited WLR Load shall be available for such interruptions on weekdays, other than NERC holidays, from 12:00PM (noon) to 8:00PM Eastern Prevailing Time. The Limited WLR Load must be available during the summer period of June through September in the corresponding Delivery Year to be bid in an RPM Auction.

#### **1.43C Limited WLR Load Constraint**

Limited WLR Load Constraint shall have the same meaning as in Attachment DD to the PJM Tariff.

#### **1.44 Load Serving Entity or LSE**

Load Serving Entity or LSE shall mean any entity (or the duly designated agent of such an entity), including a load aggregator or power marketer, (i) serving end-users within the PJM Region, and (ii) that has been granted the authority or has an obligation pursuant to state or local law, regulation or franchise to sell electric energy to end-users located within the PJM Region. Load Serving Entity shall include any end-use customer that qualifies under state rules or a utility retail tariff to manage directly its own supply of electric power and energy and use of transmission and ancillary services.

#### **1.45 Locational Reliability Charge**

Locational Reliability Charge shall mean the charge determined pursuant to Schedule 8.

#### **1.46 Markets and Reliability Committee**

Markets and Reliability Committee shall mean the committee established pursuant to the Operating Agreement as a Standing Committee of the Members Committee.

#### **1.46A Maximum Emergency Service Level**

Maximum Emergency Service Level or MESL of Price Responsive Demand shall mean the level, determined at a PRD Substation level, to which Price Responsive Demand shall be reduced during the Delivery Year when a Maximum Generation Emergency is declared and the Locational Marginal Price exceeds the price associated with such Price Responsive Demand identified by the PRD Provider in its PRD Plan.

#### **1.47 Member**

Member shall mean an entity that satisfies the requirements of Sections 1.24 and 11.6 of the PJM Operating Agreement. In accordance with Article 4 of this Agreement, each Party to this Agreement also is a Member.

#### **1.48 Members Committee**

Members Committee shall mean the committee specified in Section 8 of the PJM Operating Agreement composed of the representatives of all the Members.

#### **1.49 NERC**

NERC shall mean the North American Electric Reliability Council or any successor thereto.

#### **1.49A Network External Designated Transmission Service**

Network External Designated Transmission Service shall mean the quantity of network transmission service confirmed by PJM for use by a market participant to import power and energy from an identified Generation Capacity Resource located outside the PJM Region, upon demonstration by such market participant that it owns such Generation Capacity Resource, has an executed contract to purchase power and energy from such Generation Capacity Resource, or has a contract to purchase power and energy from such Generation Capacity Resource contingent upon securing firm transmission service from such resource.

#### **1.50 Network Resources**

Network Resources shall have the meaning set forth in the PJM Tariff.

#### **1.51 Network Transmission Service**

Network Transmission Service shall mean transmission service provided pursuant to the rates, terms and conditions set forth in Part III of the PJM Tariff or transmission service comparable to such service that is provided to a Load Serving Entity that is also a Transmission Owner (as that term is defined in the PJM Tariff).

#### **1.51A Nominal PRD Value**

Nominal PRD Value shall mean, as to any PRD Provider, an adjustment, determined in accordance with Schedule 6.1 of this Agreement, to the peak-load forecast used to determine the quantity of capacity sought through an RPM Auction, reflecting the aggregate effect of Price Responsive Demand on peak load resulting from the Price Responsive Demand to be provided by such PRD Provider.

### **1.52 Nominated Demand Resource Value**

Nominated Demand Resource Value shall have the meaning specified in Attachment DD to the PJM Tariff.

### **1.52A Nominated WEEL Quantity**

Nominated WEEL Quantity shall mean the MW quantity of load reduction committed by a WEEL Provider in a WLR Bid.

### **1.53 Nominated WLR Quantity**

Nominated WLR Quantity shall mean the MW quantity of load reduction committed by a WLR Provider in a WLR Bid.

### **1.54 Non-Retail Behind the Meter Generation**

Non-Retail Behind the Meter Generation shall mean Behind the Meter Generation that is used by municipal electric systems, electric cooperatives, and electric distribution companies to serve load.

### **1.55 Obligation Peak Load**

Obligation Peak Load shall have the meaning specified in Schedule 8 of this Agreement.

### **1.56 Office of the Interconnection**

Office of the Interconnection shall mean the employees and agents of PJM Interconnection, L.L.C., subject to the supervision and oversight of the PJM Board, acting pursuant to the Operating Agreement.

### **1.57 Operating Agreement of PJM Interconnection, L.L.C. or Operating Agreement**

Operating Agreement of PJM Interconnection, L.L.C. or Operating Agreement shall mean that certain agreement, dated April 1, 1997 and as amended and restated June 2, 1997 and as amended from time to time thereafter, among the members of the PJM Interconnection, L.L.C.

### **1.57A Operating Day**

Operating Day shall have the same meaning as provided in the Operating Agreement.

### **1.58 Operating Reserve**

Operating Reserve shall mean the amount of generating capacity scheduled to be available for a specified period of an Operating Day to ensure the reliable operation of the PJM Region, as specified in the PJM Manuals.

#### **1.59 Other Supplier**

Other Supplier shall mean a Member that is (i) a seller, buyer or transmitter of electric capacity or energy in, from or through the PJM Region, and (ii) is not a Generation Owner, Electric Distributor, Transmission Owner or End-Use Customer.

#### **1.60 Partial Requirements Service**

Partial Requirements Service shall mean wholesale service to supply a specified portion, but not all, of the power needs of a Load Serving Entity to serve end-users within the PJM Region that are not satisfied by its own generating facilities.

#### **1.61 Percentage Internal Resources Required**

Percentage Internal Resources Required shall mean, for purposes of an FRR Capacity Plan, the percentage of the LDA Reliability Requirement for an LDA that must be satisfied with Capacity Resources located in such LDA.

#### **1.62 Party**

Party shall mean an entity bound by the terms of this Agreement.

#### **1.63 PJM**

PJM shall mean the PJM Board and the Office of the Interconnection.

#### **1.64 PJM Board**

PJM Board shall mean the Board of Managers of the PJM Interconnection, L.L.C., acting pursuant to the Operating Agreement.

#### **1.65 PJM Manuals**

PJM Manuals shall mean the instructions, rules, procedures and guidelines established by the Office of the Interconnection for the operation, planning and accounting requirements of the PJM Region.

#### **1.66 PJM Open Access Transmission Tariff or PJM Tariff**

PJM Open Access Transmission Tariff or PJM Tariff shall mean the tariff for transmission service within the PJM Region, as in effect from time to time, including any schedules, appendices, or exhibits attached thereto.

### **1.67 PJM Region**

PJM Region shall have the same meaning as provided in the Operating Agreement.

### **1.68 PJM Region Installed Reserve Margin**

PJM Region Installed Reserve Margin shall mean the percent installed reserve margin for the PJM Region required pursuant to this Agreement, as approved by the PJM Board pursuant to Schedule 4.1.

### **1.69 Planned Demand Resource**

Planned Demand Resource shall mean any Demand Resource that does not currently have the capability to provide a reduction in demand or to otherwise control load, but that is scheduled to be capable of providing such reduction or control on or before the start of the Delivery Year for which such resource is to be committed, as determined in accordance with the requirements of Schedule 6. As set forth in Schedules 6 and 8.1 of this Agreement, a Demand Resource Provider submitting a DR Sell Offer Plan shall identify as Planned Demand Resources in such plan all Demand Resources in excess of those that qualify as Existing Demand Resources.

#### **1.69A Planned External Generation Capacity Resource**

Planned External Generation Capacity Resource shall mean a proposed Generation Capacity Resource, or a proposed increase in the capability of a Generation Capacity Resource, that (a) is to be located outside the PJM Region, (b) participates in the generation interconnection process of a Control Area external to PJM, (c) is scheduled to be physically and electrically interconnected to the transmission facilities of such Control Area on or before the first day of the Delivery Year for which such resource is to be committed to satisfy the reliability requirements of the PJM Region, and (d) is in full commercial operation prior to the first day of such Delivery Year, such that it is sufficient to provide the Installed Capacity set forth in the Sell Offer forming the basis of such resource's commitment to the PJM Region. Prior to participation in any Reliability Pricing Model Auction for such Delivery Year, the Capacity Market Seller must demonstrate that it has executed an interconnection agreement (functionally equivalent to a System Impact Study Agreement under the PJM Tariff for Base Residual Auction and an Interconnection Service Agreement under the PJM Tariff for Incremental Auction) with the transmission owner to whose transmission facilities or distribution facilities the resource is being directly connected, and if applicable the transmission provider. A Planned External Generation Capacity Resource must provide evidence to PJM that it has been studied as a Network Resource, or such other similar interconnection product in such external Control Area, must provide contractual evidence that it has applied for or purchased transmission service to be deliverable to the PJM border, and must provide contractual evidence that it has applied for transmission service to be deliverable to the bus at which energy is to be delivered, the agreements for which must have been executed prior to participation in any Reliability Pricing Model Auction for such Delivery Year. An External Generation Capacity Resource shall cease to be

considered a Planned External Generation Capacity Resource as of the earlier of (i) the date that interconnection service commences as to such resource; or (ii) the resource has cleared an RPM Auction, in which case it shall become an Existing Generation Capacity Resource for purposes of the mitigation of offers for any RPM Auction for all subsequent Delivery Years.

### **1.70 Planned Generation Capacity Resource**

Planned Generation Capacity Resource shall mean a Generation Capacity Resource participating in the generation interconnection process under Part IV, Subpart A of the PJM Tariff, for which: (i) Interconnection Service is scheduled to commence on or before the first day of the Delivery Year for which such resource is to be committed to RPM or to an FRR Plan; (ii) a System Impact Study Agreement has been executed prior to the Base Residual Auction for such Delivery Year; (iii) an Interconnection Service Agreement has been executed prior to any Incremental Auction for such Delivery Year in which such resource plans to participate; and (iv) no megawatts of capacity have cleared an RPM Auction for any prior Delivery Year. For purposes of the must-offer requirement and mitigation of offers for any RPM Auction for a Delivery Year, a Generation Capacity Resource shall cease to be considered a Planned Generation Capacity Resource as of the earlier of (i) the date that Interconnection Service commences as to such resource; or (ii) the resource has cleared an RPM Auction for any Delivery Year, in which case it shall become an Existing Generation Capacity Resource for any RPM Auction for all subsequent Delivery Years. Notwithstanding the foregoing, a Generation Capacity Resource for which construction has not commenced and which would otherwise have been treated as a Planned Generation Capacity Resource but for the fact that it was bid into RPM Auctions for at least two consecutive Delivery Years, and cleared the last such auction only because it was considered existing and its mitigated offer cap was accepted when its price offer would not have otherwise been accepted, shall be deemed to be a Planned Generation Capacity Resource.

### **1.70A Planned WLR Load**

Planned WLR Load shall mean any WLR Load that does not currently have the capability to provide a reduction in load or to otherwise control load, but that is scheduled to be capable of providing such reduction or control on or before the start of the Delivery Year for which such load is to be committed, as determined in accordance with the requirements of Schedule 6.2 of this Agreement. As set forth in Schedule 6.2, a WLR Provider shall identify in its WLR Plan as Planned WLR Loads all WLR Loads in excess of those that qualify as Existing WLR Loads.

### **1.71 Planning Period**

Planning Period shall mean the 12 months beginning June 1 and extending through May 31 of the following year, or such other period approved by the Members Committee.

### **1.71A PRD Curve**

PRD Curve shall mean a price-consumption curve at a PRD Substation level, if available, and otherwise at a Zonal (or sub-Zonal LDA, if applicable) level, that details the base consumption level of Price Responsive Demand and the decreasing consumption levels at increasing prices.

#### **1.71B PRD Provider**

PRD Provider shall mean (i) a Load Serving Entity that provides PRD; or (ii) an entity without direct load serving responsibilities that has entered contractual arrangements with end-use customers served by a Load Serving Entity that satisfy the eligibility criteria for Price Responsive Demand.

#### **1.71C PRD Provider's Zonal Expected Peak Load Value of PRD**

PRD Provider's Zonal Expected Peak Load Value of PRD shall mean the expected contribution to Delivery Year peak load of a PRD Provider's Price Responsive Demand, were such demand not to be reduced in response to price, based on the contribution of the end-use customers comprising such Price Responsive Demand to the most recent prior Delivery Year's peak demand, escalated to the Delivery Year in question, as determined in a manner consistent with the Office of the Interconnection's load forecasts used for purposes of the RPM Auctions.

#### **1.71D PRD Reservation Price**

PRD Reservation Price shall mean an RPM Auction clearing price identified in a PRD Plan for Price Responsive Demand load below which the PRD Provider desires not to commit the identified load as Price Responsive Demand.

#### **1.71E PRD Substation**

PRD Substation shall mean an electrical substation that is located in the same Zone or in the same sub-Zonal LDA as the end-use customers identified in a PRD Plan or PRD registration and that, in terms of the electrical topography of the Transmission Facilities comprising the PJM Region, is as close as practicable to such loads.

#### **1.71F Price Responsive Demand**

Price Responsive Demand or PRD shall mean end-use customer load registered by a PRD Provider pursuant to Schedule 6.1 of the PJM Reliability Assurance Agreement that have, as set forth in more detail in the PJM Manuals, the metering capability to record electricity consumption at an interval of one hour or less, Supervisory Control capable of curtailing such load (consistent with applicable RERRA requirements) at each PRD Substation identified in the relevant PRD Plan or PRD registration in response to a Maximum Generation Emergency declared by the Office of the Interconnection, and a retail rate structure, or equivalent contractual arrangement, capable of changing retail rates as frequently as an hourly basis, that is linked to or based upon changes in real-time Locational Marginal Prices at a PRD Substation level and that results in a predictable automated response to varying wholesale electricity prices.

### **1.71G Price Responsive Demand Credit**

Price Responsive Demand Credit shall mean a credit, based on committed Price Responsive Demand, as determined under Schedule 6.1 of this Agreement.

### **1.71H Price Responsive Demand Plan or PRD Plan**

Price Responsive Demand Plan or PRD Plan shall mean a plan, submitted by a PRD Provider and received by the Office of the Interconnection in accordance with Schedule 6.1 of this Agreement and procedures specified in the PJM Manuals, claiming a peak demand limitation due to Price Responsive Demand to support the determination of such PRD Provider's Nominal PRD Value.

### **1.72 Public Power Entity**

Public Power Entity shall mean any agency, authority, or instrumentality of a state or of a political subdivision of a state, or any corporation wholly owned by any one or more of the foregoing, that is engaged in the generation, transmission, and/or distribution of electric energy.

### **1.73 Qualifying Transmission Upgrades**

Qualifying Transmission Upgrades shall have the meaning specified in Attachment DD to the PJM Tariff.

### **1.74 [Reserved for Future Use]**

### **1.74A Relevant Electric Retail Regulatory Authority**

Relevant Electric Retail Regulatory Authority or RERRA shall have the meaning specified in the PJM Operating Agreement.

### **1.75 Reliability Principles and Standards**

Reliability Principles and Standards shall mean the principles and standards established by NERC or an Applicable Regional Entity to define, among other things, an acceptable probability of loss of load due to inadequate generation or transmission capability, as amended from time to time.

### **1.76 Required Approvals**

Required Approvals shall mean all of the approvals required for this Agreement to be modified or to be terminated, in whole or in part, including the acceptance for filing by FERC and every other regulatory authority with jurisdiction over all or any part of this Agreement.

### **1.77 Self-Supply**



Self Supply shall have the meaning provided in Attachment DD to the PJM Tariff.

#### **1.77A Small Commercial Customer**

“Small Commercial Customer” shall have the same meaning as in the PJM Tariff.

#### **1.78 [Reserved for Future Use]**

#### **1.79 [Reserved for Future Use]**

#### **1.80 State Consumer Advocate**

State Consumer Advocate shall mean a legislatively created office from any State, all or any part of the territory of which is within the PJM Region, and the District of Columbia established, inter alia, for the purpose of representing the interests of energy consumers before the utility regulatory commissions of such states and the District of Columbia and the FERC.

#### **1.81 State Regulatory Structural Change**

State Regulatory Structural Change shall mean as to any Party, a state law, rule, or order that, after September 30, 2006, initiates a program that allows retail electric consumers served by such Party to choose from among alternative suppliers on a competitive basis, terminates such a program, expands such a program to include classes of customers or localities served by such Party that were not previously permitted to participate in such a program, or that modifies retail electric market structure or market design rules in a manner that materially increases the likelihood that a substantial proportion of the customers of such Party that are eligible for retail choice under such a program (a) that have not exercised such choice will exercise such choice; or (b) that have exercised such choice will no longer exercise such choice, including for example, without limitation, mandating divestiture of utility-owned generation or structural changes to such Party’s default service rules that materially affect whether retail choice is economically viable.

##### **1.81.01 Sub-Annual WLR Load Constraint**

Sub-Annual WLR Load Constraint shall have the same meaning as in Attachment DD to the PJM Tariff.

#### **1.81A Supervisory Control**

Supervisory Control shall mean the capability to curtail, in accordance with applicable RERRA requirements, load registered as Price Responsive Demand at each PRD Substation identified in the relevant PRD Plan or PRD registration in response to a Maximum Generation Emergency declared by the Office of the Interconnection. Except to the extent automation is not required by the provisions of this Agreement, the curtailment shall be automated, meaning that load shall be

reduced automatically in response to control signals sent by the PRD Provider or its designated agent directly to the control equipment where the load is located without the requirement for any action by the end-use customer.

### **1.82 Threshold Quantity**

Threshold Quantity shall mean, as to any FRR Entity for any Delivery Year, the sum of (a) the Unforced Capacity equivalent (determined using the Pool-Wide Average EFORD) of the Installed Reserve Margin for such Delivery Year multiplied by the Preliminary Forecast Peak Load for which such FRR Entity is responsible under its FRR Capacity Plan for such Delivery Year, plus (b) the lesser of (i) 3% of the Unforced Capacity amount determined in (a) above or (ii) 450 MW. If the FRR Entity is not responsible for all load within a Zone, the Preliminary Forecast Peak Load for such entity shall be the FRR Entity's Obligation Peak Load last determined prior to the Base Residual Auction for such Delivery Year, times the Base FRR Scaling Factor (as determined in accordance with Schedule 8.1).

### **1.83 Transmission Facilities**

Transmission Facilities shall mean facilities that: (i) are within the PJM Region; (ii) meet the definition of transmission facilities pursuant to FERC's Uniform System of Accounts or have been classified as transmission facilities in a ruling by FERC addressing such facilities; and (iii) have been demonstrated to the satisfaction of the Office of the Interconnection to be integrated with the PJM Region transmission system and integrated into the planning and operation of the PJM Region to serve all of the power and transmission customers within the PJM Region.

### **1.84 Transmission Owner**

Transmission Owner shall mean a Member that owns or leases with rights equivalent to ownership Transmission Facilities. Taking transmission service shall not be sufficient to qualify a Member as a Transmission Owner.

### **1.85 Transmission Owners Agreement**

Transmission Owners Agreement shall mean that certain Consolidated Transmission Owners Agreement, dated as of December 15, 2005 and as amended from time to time, among transmission owners within the PJM Region.

### **1.86 Unforced Capacity**

Unforced Capacity shall mean installed capacity rated at summer conditions that is not on average experiencing a forced outage or forced derating, calculated for each Capacity Resource on the 12-month period from October to September without regard to the ownership of or the contractual rights to the capacity of the unit.

### **1.87 WEEL Provider**

WEEL Provider shall mean a Wholesale Entity that commits to provide, or provides, a Wholesale Energy Efficiency Load for a Delivery Year.

#### **1.87A Wholesale Energy Efficiency Load or WEEL**

Wholesale Energy Efficiency Load or WEEL shall mean a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, meeting the requirements of Schedule 6.2 of this Agreement and exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak periods as described in Schedule 6.2 and the PJM Manuals) reduction in electric energy consumption that is not reflected in the peak load forecast prepared for the Delivery Year for which the WEEL is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.

#### **1.87B Wholesale Entity**

Wholesale Entity shall mean: (i) a Party; or, (ii) an entity that shall become a Party before or during the Delivery Year for which WLR is identified.

#### **1.87C Wholesale Load Reduction or WLR**

Wholesale Load Reduction or WLR shall mean a commitment by a Load Serving Entity to reduce the load served or to be served by such Load Serving Entity during a pre-emergency or emergency action at the request of the Office of the Interconnection.

#### **1.87D WLR Bid**

WLR Bid shall mean a bid submitted in a Base Residual Auction to provide a Wholesale Load Reduction or a Wholesale Energy Efficiency Load.

#### **1.87E WLR Bid Price**

WLR Bid Price shall mean a specified minimum clearing price in an RPM Auction at which a WLR Provider or WEEL Provider is willing to commit a Wholesale Load Reduction or a Wholesale Energy Efficiency Load.

#### **1.87F WLR Load**

WLR Load shall mean identified load served or to be served by a Load Serving Entity that provides the basis for a Wholesale Load Reduction reflected in a WLR Bid by such Load Serving Entity.

#### **1.87G WLR Provider**

WLR Provider shall mean a Wholesale Entity that commits to provide, or provides, a Wholesale Load Reduction by any WLR Load.

### **1.87H WLR Value**

WLR Value shall mean the value assigned to a Wholesale Load Reduction or to a Wholesale Energy Efficiency Load in the auction in which it is committed, as determined in accordance with Schedule 6.2 of this Agreement.

### **1.88 Zonal Capacity Price**

Zonal Capacity Price shall mean the price of Unforced Capacity in a Zone that an LSE that has not elected the FRR Alternative is obligated to pay for a Delivery Year as determined pursuant to Attachment DD to the PJM Tariff.

### **1.89 Zone or Zonal**

Zone or Zonal shall refer to an area within the PJM Region, as set forth in Schedule 15, or as such areas may be (i) combined as a result of mergers or acquisitions or (ii) added as a result of the expansion of the boundaries of the PJM Region. A Zone shall include any Non-Zone Network Load (as defined in the PJM Tariff) located outside the PJM Region that is served from such Zone under Schedule H-A of the PJM Tariff.

## **SCHEDULE 6**

### **PROCEDURES FOR DEMAND RESOURCES AND ENERGY EFFICIENCY**

Notwithstanding any other provision of this Schedule 6, Demand Resources and Energy Efficiency Resources, except to the extent committed before April 1, 2015, shall not be permitted to commit to provide capacity, whether through an RPM Auction, bilateral transaction, Self-Supply, or by any other means, for the 2016/2017 Delivery Year and subsequent Delivery Years unless and until revised tariff records restoring authorization for commitment of such resources become effective after acceptance by the Commission.

A. Parties can partially or wholly offset the amounts payable for the Locational Reliability Charge with Demand Resources that are operated under the direction of the Office of the Interconnection. FRR Entities may reduce their capacity obligations with Demand Resources that are operated under the direction of the Office of the Interconnection and detailed in such entity's FRR Capacity Plan. Demand Resources qualifying under the criteria set forth below may be offered for sale or designated as Self-Supply in the Base Residual Auction, included in an FRR Capacity Plan, or offered for sale in any Incremental Auction, for any Delivery Year for which such resource qualifies. Qualified Demand Resources generally fall in one of three categories, i.e., Guaranteed Load Drop, Firm Service Level, or Direct Load Control, as further specified in section G and the PJM Manuals. Qualified Demand Resources may be provided by a Curtailment Service Provider, notwithstanding that such Curtailment Service Provider is not a Party to this Agreement. Such Curtailment Service Providers must satisfy the requirements hereof and the PJM Manuals.

1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and section F hereof, as applicable, the Office of the Interconnection of the Demand Resource that it is placing under the direction of the Office of the Interconnection. A Party must further notify the Office of the Interconnection whether the resource is a Limited Demand Resource, an Extended Summer Demand Resource or an Annual Demand Resource.

2. A Demand Resource must achieve its full load reduction within the following time period:

(a) For the 2014/2015 Delivery Year, Curtailment Service Providers may elect a notification time period from the Office of the Interconnection of 30, 60 or 120 minutes prior to their Demand Resources being required to fully respond to a Load Management Event.

(b) For the 2015/2016 Delivery Year and subsequent Delivery Years, a Demand Resource must be able to fully respond to a Load Management Event within 30 minutes of notification from the Office of the Interconnection. This default 30 minute prior notification shall apply unless a Curtailment Service Provider obtains an exception from the Office of the Interconnection due to physical operational limitations that prevent the Demand Resource from reducing load within that timeframe. In such case, the Curtailment Service Provider shall submit a request for an exception to the 30 minute prior notification requirement to the Office of the Interconnection, at the time the Registration Form for that resource is submitted in accordance with Attachment K-Appendix of this Tariff. The only alternative notification times that the Office of

Interconnection will permit, upon approval of an exception request, are 60 minutes and 120 minutes prior to a Load Management Event. The Curtailment Service Provider shall indicate in writing, in the appropriate application, that it seeks an exception to permit a prior notification time of 60 minutes or 120 minutes, and the reason(s) for the requested exception. A Curtailment Service Provider shall not submit a request for an exception to the default 30 minute notification period unless it has done its due diligence to confirm that the Demand Resource is physically incapable of responding within that timeframe based on one or more of the reasons set forth below and as may be further defined in the PJM Manuals and has obtained detailed data and documentation to support this determination.

In order to establish that a Demand Resource is reasonably expected to be physically unable to reduce load in that timeframe, the Curtailment Service Provider that registered the resource must demonstrate that:

1) The manufacturing processes for the Demand Resource require gradual reduction to avoid damaging major industrial equipment used in the manufacturing process, or damage to the product generated or feedstock used in the manufacturing process;

2) Transfer of load to back-up generation requires time-intensive manual process taking more than 30 minutes;

3) On-site safety concerns prevent location from implementing reduction plan in less than 30 minutes; or,

4) The Demand Resource is comprised of mass market residential customers or Small Commercial Customers which collectively cannot be notified of a Load Management Event within a 30-minute timeframe due to unavoidable communications latency, in which case the requested notification time shall be no longer than 120 minutes.

The Office of the Interconnection may request data and documentation from the Curtailment Service Provider and such Curtailment Service Provider shall provide to the Office of the Interconnection within three (3) business days of a request therefor, a copy of all of the data and documentation supporting the exception request. Failure to provide a timely response to such request shall cause the exception to terminate the following Operating Day.

At its sole option and discretion, the Office of the Interconnection may review the data and documentation provided by the Curtailment Service Provider to determine if the Demand Resource has met one or more of the criteria above. The Office of the Interconnection will notify the Curtailment Service Provider in writing of its determination by no later than ten (10) business days after receipt of the data and documentation.

The Curtailment Service Provider shall provide written notification to the Office of the Interconnection of a material change to the facts that supported its exception request within three (3) business days of becoming aware of such material change in facts, and, if the Office of Interconnection determines that the physical limitation criteria above are no longer being met, the Demand Resource shall be subject to the default notification period of 30 minutes immediately upon such determination.

3. The initiation of load reduction, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.

4. The initiation of load reduction upon the request of the Office of the Interconnection is considered a pre-emergency or emergency action and must be implementable prior to a voltage reduction.

5. A Curtailment Service Provider intending to offer for sale or designate for self-supply, a Demand Resource in any RPM Auction, or intending to include a Demand Resource in any FRR Capacity Plan must demonstrate, to PJM's satisfaction, that such resource shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such resource is committed. As part of such demonstration, each such Curtailment Service Provider shall submit a Demand Resource Sell Offer Plan in accordance with the standards and procedures set forth in section A-1 of Schedule 6, Schedule 8.1 (as to FRR Capacity Plans) and the PJM Manuals, no later than 15 business days prior to, as applicable, the RPM Auction in which such resource is to be offered, or the deadline for submission of the FRR Capacity Plan in which such resource is to be included. PJM may verify the Curtailment Service Provider's adherence to the Demand Resource Sell Offer Plan at any time. A Curtailment Service Provider with a PJM-approved Demand Resource Sell Offer Plan will be permitted to offer up to the approved Demand Resource quantity into the subject RPM Auction or include such resource in its FRR Capacity Plan.

6. Selection of a Demand Resource in an RPM Auction results in commitment of capacity to the PJM Region. Demand Resources that are so committed must be registered to participate in the Full Program Option or as a Capacity Only resource of the Emergency Load Response and Pre-Emergency Load Response Program and thus available for dispatch during PJM-declared pre-emergency events and emergency events.

A-1. A Demand Resource Sell Offer Plan shall consist of a completed template document in the form posted on the PJM website, requiring the information set forth below and in the PJM Manuals, and a Demand Resource Officer Certification Form signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification. The Demand Resource Sell Offer Plan must provide information that supports the Demand Resource Provider's intended Demand Resource Sell Offers and demonstrates that the Demand Resources are being offered with the intention that the MW quantity that clears the auction is reasonably expected to be physically delivered through Demand Resource registrations for the relevant Delivery Year. The Demand Resource Sell Offer Plan shall include all Existing Demand Resources and all Planned Demand Resources that the Demand Resource Provider intends to offer into an RPM Auction or include in an FRR Capacity Plan.

1. Demand Resource Sell Offer Plan Template. The Demand Resource Sell Offer Plan template, in the form provided on the PJM website, shall require the Demand Resource Provider to provide the following information and such other information as specified in the PJM Manuals:

(a) Summary Information. The completed template shall include the Demand Resource Provider's company name, contact information, and the Nominated DR Value in ICAP MWs by Zone/sub-Zone that the Demand Resource Provider intends to offer, stated separately for Existing Demand Resources and Planned Demand Resources. The total Nominated DR Value in MWs for each Zone/sub-Zone shall be the sum of the Nominated DR Value of Existing Demand Resources and the Nominated DR Value of Planned Demand Resources, and shall be the maximum MW amount the Provider intends to offer in the RPM Auction for the indicated Zone/sub-Zone, provided that nothing herein shall preclude the Demand Resource Provider from offering in the auction a lesser amount than the total Nominated DR Value shown in its Demand Resource Sell Offer Plan.

(b) Existing Demand Resources. The Demand Resource Provider shall identify all Existing Demand Resources by identifying end-use customer sites that are currently registered with PJM (even if not registered by such Demand Resource Provider) and that the Demand Resource Provider reasonably expects to have under a contract to reduce load based on PJM dispatch instructions by the start of the auction Delivery Year.

(c) Planned Demand Resources. The Demand Resource Provider shall provide the details of, and key assumptions underlying, the Planned Demand Resource quantities (i.e., all Demand Resource quantities in excess of Existing Demand Resource quantities) contained in the Demand Resource Sell Offer Plan, including:

(i) key program attributes and assumptions used to develop the Planned Demand Resource quantities, including, but not limited to, discussion of:

- method(s) of achieving load reduction at customer site(s);
- equipment to be controlled or installed at customer site(s), if any;
- plan and ability to acquire customers;
- types of customer targeted;
- support of market potential and market share for the target customer base, with adjustments for Existing Demand Resource customers within this market and the potential for other Demand Resource Providers targeting the same customers;
- assumptions regarding regulatory approval of program(s), if applicable; and
- if applicable, Direct Load Control (DLC) program details such as: a description of the cycling control strategy, any assumptions regarding switch operability rate, and a list (and copy) of all load research studies used to develop the estimated nominated ICAP value per customer (i.e., the per-participant impact).

(ii) Zone/sub-Zone information by end-use customer segment for all Nominated DR Values for which an end-use customer site is not identified, to include the number in each segment of end-use customers expected to be registered for the subject Delivery Year, the average Peak



Load Contribution per end-use customer for such segment, and the average Nominated DR Value per customer for such segment. End-use customer segments may include residential, commercial, small industrial, medium industrial, and large industrial, as identified and defined in the PJM Manuals, provided that nothing herein or in the Manuals shall preclude the Provider from identifying more specific customer segments within the commercial and industrial categories, if known.

(iii) Information by end-use customer site to the extent required by subsection A-1(1)(c)(iv) or, if not required by such subsection, to the extent known at the time of the submittal of the Demand Resource Sell Offer Plan, to include: customer EDC account number (if known), customer name, customer premise address, Zone/sub-Zone in which the customer is located, end-use customer segment, current Peak Load Contribution value (or an estimate if actual value not known) and an estimate of expected Peak Load Contribution for the subject Delivery Year, and an estimated Nominated DR Value.

(iv) End-use customer site-specific information shall be required for any Zones or sub-Zones identified by PJM pursuant to this subsection for the portion, if any, of a Demand Resource Provider's intended offer in such Zones or sub-Zones that exceeds a Sell Offer threshold determined pursuant to this subsection, as any such excess quantity under such conditions should reflect Planned Demand Resources from end-use customer sites that the Provider has a high degree of certainty it will physically deliver for the subject Delivery Year. In accordance with the procedures in subsection A-1(3) below, PJM shall identify, as requiring site-specific information, all Zones and sub-Zones that comprise any LDA group (from a list of LDA groups stated in the PJM Manuals) in which [the quantity of cleared Demand Resources from the most recent Base Residual Auction] plus [the quantity of Demand Resources included in FRR Capacity Plans for the Delivery Year addressed by the most recent Base Residual Auction] in any Zone or sub-Zone of such LDA group exceeds the greater of:

- the maximum Demand Resources quantity registered with PJM for such Zone for any Delivery Year from the current (at time of plan submission) Delivery Year and the two preceding Delivery Years; and
- the potential Demand Resource quantity for such Zone estimated by PJM based on an independent published assessment of demand response potential that is reasonably applicable to such Zone, as identified in the PJM Manuals.

For each such Zone and sub-Zone, the Sell Offer threshold for each Demand Resource Provider shall be the higher of:

- the Demand Resource Provider's maximum Demand Resource quantity registered with PJM for such Zone/sub-Zone over the current Delivery Year (at the time of plan submission) and two preceding Delivery Years;
- the Demand Resource Provider's maximum for any single Delivery Year of [such provider's cleared Demand Resource quantity] plus [such provider's quantity of Demand Resources included in FRR Capacity Plans] from the three forward Delivery Years addressed by the three most recent Base Residual Auctions for such Zone/sub-Zone; and
- 10 MW.

(d) Schedule. The Demand Resource Provider shall provide an approximate timeline for procuring end-use customer sites as needed to physically deliver the total Nominated DR Value (for both Existing Demand Resources and Planned Demand Resources) by Zone/sub-Zone in the Demand Resource Sell Offer Plan. The Demand Resource Provider must specify the cumulative number of customers and the cumulative Nominated DR Value associated with each end-use customer segment within each Zone/sub-Zone that the Demand Resource Provider expects (at the time of plan submission) to have under contract as of June 1 each year between the time of the auction and the subject Delivery Year.

2. Demand Resource Officer Certification Form. Each Demand Resource Sell Offer Plan must include a Demand Resource Officer Certification, signed by an officer of the Demand Resource Provider that is duly authorized to provide such a certification, in the form shown in the PJM Manuals, which form shall include the following certifications:

(a) that the signing officer has reviewed the Demand Resource Sell Offer Plan and the information supplied to PJM in support of the Plan is true and correct as of the date of the certification; and

(b) that the Demand Resource Provider is submitting the Plan with the reasonable expectation, based upon its analyses as of the date of the certification, to physically deliver all megawatts that clear the RPM Auction through Demand Resource registrations by the specified Delivery Year.

As set forth in the form provided in the PJM manuals, the certification shall specify that it does not in any way abridge, expand, or otherwise modify the current provisions of the PJM Tariff, Operating Agreement and/or RAA, or the Demand Resource Provider's rights and obligations thereunder, including the Demand Resource Provider's ability to adjust capacity obligations through participation in PJM incremental auctions and bilateral transactions.

3. Procedures. No later than December 1 prior to the Base Residual Auction for a Delivery Year, PJM shall post to the PJM website a list of Zones and sub-Zones, if any, for which end-use customer site-specific information shall be required under the conditions specified in subsection A-1(1)(c)(iv) above for all RPM Auctions conducted for such Delivery Year. Once so identified, a Zone or sub-Zone shall remain on the list for future Delivery Years until the threshold determined under subsection A-1(1)(c)(iv) above is not exceeded for three consecutive Delivery Years. No later than 15 business days prior to the RPM Auction in which a Demand Resource Provider intends to offer a Demand Resource, the Demand Resource Provider shall submit to PJM a completed Demand Resource Sell Offer Plan template and a Demand Resource Officer Certification Form signed by a duly authorized officer of the Provider. PJM will review all submitted DR Sell Offer Plans. No later than 10 business days prior to the subject RPM Auction, PJM shall notify any Demand Resource Providers that have identified the same end-use customer site(s) in their respective DR Sell Offer Plans for the same Delivery Year. In such event, the MWs associated with such site(s) will not be approved for inclusion in a Sell Offer in an RPM Auction by any of the Demand Resource Providers, unless a Demand Resource Provider provides a letter of support from the end-use customer indicating that it is likely to execute a contract with that Demand Resource Provider for the relevant Delivery Year, or provides other comparable evidence of likely commitment. Such letter of support or other supporting evidence must be provided to PJM no later than 7 business days prior to the subject RPM Auction. If an end-use customer provides letters of support for the same site for the same Delivery Year to multiple Demand Resource Providers, the MWs associated with such end-use customer site shall not be approved as a Demand Resource for any of the Demand Resource Providers. No later than 5 business days prior to the subject RPM Auction, PJM will notify each Demand Resource Provider of the approved Demand Resource quantity, by Zone/sub-Zone, that such Demand Resource Provider is permitted to offer into such RPM Auction.

B. The Unforced Capacity value of a Demand Resource will be determined as:

the product of the Nominated Value of the Demand Resource, times the DR Factor, times the Forecast Pool Requirement. Nominated Values shall be determined and reviewed in accordance with sections I and J, respectively, and the PJM Manuals. The DR Factor is a factor established by the PJM Board with the advice of the Members Committee to reflect the increase in the peak load carrying capability in the PJM Region due to Demand Resources. Peak load carrying capability is defined to be the peak load that the PJM Region is able to serve at the loss of load expectation defined in the Reliability Principles and Standards. The DR Factor is the increase in the peak load carrying capability in the PJM Region due to Demand Resources, divided by the total Nominated Value of Demand Resources in the PJM Region. The DR Factor will be determined using an analytical program that uses a probabilistic approach to determine reliability. The determination of the DR Factor will consider the reliability of Demand Resources, the number of interruptions, and the total amount of load reduction.

C. Demand Resources offered and cleared in a Base Residual or Incremental Auction shall receive the corresponding Capacity Resource Clearing Price as determined in such auction, in accordance with Attachment DD of the PJM Tariff. For Delivery Years beginning with the Delivery Year that commences on June 1, 2013, any Demand

Resources located in a Zone with multiple LDAs shall receive the Capacity Resource Clearing Price applicable to the location of such resource within such Zone, as identified in such resource's offer. Further, the Curtailment Service Provider shall register its resource in the same location within the Zone as specified in its cleared sell offer, and shall be subject to deficiency charges under Attachment DD of this Tariff to the extent it fails to provide the resource in such location consistent with its cleared offer. For either of the Delivery Year commencing on June 1, 2010 or commencing on June 1, 2012, if the location of a Demand Resource is not specified by a Seller in the Sell Offer on an individual LDA basis in a Zone with multiple LDAs, then Demand Resources cleared by such Seller will be paid a DR Weighted Zonal Resource Clearing Price, determined as follows: (i) for a Zone that includes non-overlapping LDAs, calculated as the weighted average of the Resource Clearing Prices for such LDAs, weighted by the cleared Demand Resources registered by such Seller in each such LDA; or (ii) for a Zone that contains a smaller LDA within a larger LDA, calculated treating the smaller LDA and the remaining portion of the larger LDA as if they were separate LDAs, and weight-averaging in the same manner as (i) above.

- D. The Party, Electric Distributor, or Curtailment Service Provider that establishes a contractual relationship (by contract or tariff rate) with a customer for load reductions is entitled to receive the compensation specified in section C for a committed Demand Resource, notwithstanding that such provider is not the customer's energy supplier.
- E. Any Party hereto shall demonstrate that its Demand Resources performed during periods when load management procedures were invoked by the Office of the Interconnection. The Office of the Interconnection shall adopt and maintain rules and procedures for verifying the performance of such resources, as set forth in section K hereof and the PJM Manuals. In addition, committed Demand Resources that do not comply with the directions of the Office of the Interconnection to reduce load during an emergency shall be subject to the penalty charge set forth in Attachment DD to the PJM Tariff.
- F. Parties may elect to place Demand Resources associated with Behind The Meter Generation under the direction of the Office of the Interconnection for a Delivery Year by submitting a Sell Offer for such resource (as Self Supply, or with an offer price) in the Base Residual Auction for such Delivery Year. This election shall remain in effect for the entirety of such Delivery Year. In the event such an election is made, such Behind The Meter Generation will not be netted from load for the purposes of calculating the Daily Unforced Capacity Obligations under this Agreement.
- G. PJM measures Demand Resources in the following three ways:

Direct Load Control (DLC) – Load management that is initiated directly by the Curtailment Service Provider's market operations center or its agent, employing a communication signal to cycle equipment (typically water heaters or central air conditioners). DLC programs are qualified based on load research and customer subscription data. Curtailment Service Providers may rely on the results of load research studies identified in the PJM Manuals to set the per-participant load reduction for DLC

programs. Each Curtailment Service Provider relying on DLC load management must periodically update its DLC switch operability rates, in accordance with the PJM Manuals.

Firm Service Level (FSL) – Load management achieved by an end-use customer reducing its load to a pre-determined level (the Firm Service Level), upon notification from the Curtailment Service Provider’s market operations center or its agent.

Guaranteed Load Drop (GLD) – Load management achieved by an end-use customer reducing its load by a pre-determined amount (the Guaranteed Load Drop), upon notification from the Curtailment Service Provider’s market operations center or its agent. Typically, the load reduction is achieved through running customer-owned backup generators, or by shutting down process equipment.

- H. Each Curtailment Service Provider must satisfy (or contract with another LSE, Curtailment Service Provider, or electric distribution company to provide) the following requirements:
- A point of contact with appropriate backup to ensure single call notification from PJM and timely execution of the notification process;
  - Supplemental status reports, detailing Demand Resources available, as requested by PJM;
  - Entry of customer-specific Demand Resource credit information, for planning and verification purposes, into the designated PJM electronic system.
  - Customer-specific compliance and verification information for each PJM-initiated Demand Resource event, as well as aggregated Provider load drop data for Provider-initiated events, in accordance with established reporting guidelines.
  - Load drop estimates for all Demand Resource events, prepared in accordance with the PJM Manuals.
- I. The Nominated Value of each Demand Resource shall be determined consistent with the process for determination of the capacity obligation for the customer.

The Nominated Value for a Firm Service Level customer will be based on the peak load contribution for the customer, as determined by the 5CP methodology utilized to determine other ICAP obligation values. The maximum Demand Resource load reduction value for a Firm Service Level customer will be equal to Peak Load Contribution – Firm Contract Level adjusted for system losses.

The Nominated Value for a Guaranteed Load Drop customer will be the guaranteed load drop amount, adjusted for system losses, as established by the customer’s contract with the Curtailment Service Provider. The maximum credit nominated shall not exceed the customer’s Peak Load Contribution.

The Nominated Value for a Direct Load Control program will be based on load research and customer subscription. The maximum value of the program is equal to the approved per-participant load reduction multiplied by the number of active participants, adjusted for system losses. The per-participant impact is to be estimated at long-term average local weather conditions at the time of the summer peak.

Customer-specific Demand Resource information (EDC account number, peak load, notification period, etc.) will be entered into the designated PJM electronic system to establish credit values. Additional data may be required, as defined in sections J and K.

- J. Nominated Values shall be reviewed based on documentation of customer-specific data and Demand Resource information, to verify the amount of load management available and to set a maximum allowable Nominated Value. Data is provided by both the zone EDC and the Curtailment Service Provider on templates supplied by PJM, and must include the EDC meter number or other unique customer identifier, Peak Load Contribution (5CP), contract firm service level or guaranteed load drop values, applicable loss factor, zone/area location of the load drop, LSE contact information, number of active participants, etc. Such data must be uploaded and approved prior to the first day of the Delivery Year for such resource as a Demand Resource. Curtailment Service Providers must provide this information concurrently to host EDCs.

For Firm Service Level and Guaranteed Load Drop customers, the 5CP values, for the zone and affected customers, will be adjusted to reflect an “unrestricted” peak for a zone, based on information provided by the Curtailment Service Provider. Load drop levels shall be estimated in accordance with guidelines in the PJM Manuals.

For Direct Load Control programs, the Curtailment Service Provider must provide information detailing the number of active participants in each program. Other information on approved DLC programs will be provided by PJM.

- K. Compliance is the process utilized to review Provider performance during PJM-initiated Demand Resource events. Compliance will be established for each Provider on an event specific basis for the Curtailment Service Provider’s Demand Resources dispatched by the Office of the Interconnection during such event. PJM will establish and communicate reasonable deadlines for the timely submittal of event data to expedite compliance reviews. Compliance reviews will be completed as soon after the event as possible, with the expectation that reviews of a single event will be completed within two months of the end of the month in which the event took place. Curtailment Service Providers are responsible for the submittal of compliance information to PJM for each PJM-initiated event during the compliance period.

Compliance for Direct Load Control programs will consider only the transmission of the control signal. Curtailment Service Providers are required to report the time period (during the Demand Resource event) that the control signal was actually sent.

Compliance is checked on an individual customer basis for FSL, by comparing actual load during the event to the firm service level. Curtailment Service Providers must submit actual customer load levels (for the event period) for the compliance report. Compliance for FSL will be based on:

End use customer's current Delivery Year peak load contribution ("PLC") minus the metered load ("Load") multiplied by the loss factor ("LF"). The calculation is represented by:

$$(PLC) - (Load * LF)$$

Compliance is checked on an individual customer basis for GLD, and will be based on:

- (i) the lesser of (a) comparison load used to best represent what the load would have been if PJM did not declare a Load Management Event or the CSP did not initiate a test as outlined in the PJM Manuals, minus the Load and then multiplied by the LF, or (b) the PLC minus the Load multiplied by the LF. A load reduction will only be recognized for capacity compliance if the Load multiplied by the LF is less than the PLC.
- (iii) Curtailment Service Providers must submit actual loads and comparison loads for all hours during the day of the Load Management Event or the Load Management performance test, and for all hours during any other days as required by the Office of the Interconnection to calculate the load reduction. Comparison loads must be developed from the guidelines in the PJM Manuals, and note which method was employed.

Compliance is averaged over the Load Management Event for non-interval metered DLC programs. Compliance is averaged over the Load Management Event, for each FSL and GLD customer dispatched by the Office of the Interconnection for at least 30 minutes of the clock hour (i.e., "partial dispatch compliance hour". The registered capacity commitment for the partial dispatch compliance hour will be prorated based on the number of minutes dispatched during the clock hour and as defined in the Manual. Curtailment Service Provider may submit 1 minute load data for use in capacity compliance calculations for partial dispatch compliance hours subject to PJM approval and in accordance with the PJM Manuals where: (a) metering meets all Tariff and Manual requirements, (b) 1 minute load data shall be submitted to PJM for all locations on the registration, and (c) 1 minute load data measures energy consumption over the minute.

Demand Resources may not reduce their load below zero (i.e., export energy into the system). No compliance credit will be given for an incremental load drop below zero. Compliance will be totaled over all FSL and GLD customers and DLC programs to determine a net compliance position for the event for each Provider by Zone, for all Demand Resources committed by such Provider and dispatched by the Office of the Interconnection in the zone. Deficiencies shall be as further determined in accordance with section 11 of Schedule DD to the PJM Tariff.

L. Energy Efficiency Resources

1. An Energy Efficiency Resource is a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak periods as described herein) reduction in electric energy consumption at the End-Use Customer's retail site that is not reflected in the peak load forecast prepared for the Delivery Year for which the Energy Efficiency Resource is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, dispatch, or operator intervention.
2. An Energy Efficiency Resource may be offered as a Capacity Resource in the Base Residual or Incremental Auctions for any Delivery Year beginning on or after June 1, 2011. No later than 30 days prior to the auction in which the resource is to be offered, the Capacity Market Seller shall submit to the Office of the Interconnection a notice of intent to offer the resource into such auction and a measurement and verification plan. The notice of intent shall include all pertinent project design data, including but not limited to the peak-load contribution of affected customers, a full description of the equipment, device, system or process intended to achieve the load reduction, the load reduction pattern, the project location, the project development timeline, and any other relevant data. Such notice also shall state the seller's proposed Nominated Energy Efficiency Value, which shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday. The measurement and verification plan shall describe the methods and procedures, consistent with the PJM Manuals, for determining the amount of the load reduction and confirming that such reduction is achieved. The Office of the Interconnection shall determine, upon review of such notice, the Nominated Energy Efficiency Value that may be offered in the Reliability Pricing Model Auction.
3. An Energy Efficiency Resource may be offered with a price offer or as Self-Supply. If an Energy Efficiency Resource clears the auction, it shall receive the applicable Capacity Resource Clearing Price, subject to section 5 below. A Capacity Market Seller offering an Energy Efficiency Resource must comply with all applicable credit requirements as set forth in Attachment Q to the PJM Tariff. The Unforced Capacity value of an Energy Efficiency Resource offered into an RPM Auction shall be the Nominated Energy Efficiency value times the DR Factor and the Forecast Pool Requirement.
4. An Energy Efficiency Resource that clears an auction for a Delivery Year may be offered in auctions for up to three additional consecutive Delivery Years, but shall not be assured of clearing in any such auction; provided, however, an Energy Efficiency Resource may not be offered for any Delivery Year in which any part



of the peak season is beyond the expected life of the equipment, device, system, or process providing the expected load reduction; and provided further that a Capacity Market Seller that offers and clears an Energy Efficiency Resource in a BRA may elect a New Entry Price Adjustment on the same terms as set forth in section 5.14(c) of this Attachment DD.

5. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than 30 days prior to each Auction an updated project status and measurement and verification plan subject to the criteria set forth in the PJM Manuals.
6. For every Energy Efficiency Resource clearing an RPM Auction for a Delivery Year, the Capacity Market Seller shall submit to the Office of the Interconnection, by no later than the start of such Delivery Year, an updated project status and detailed measurement and verification data meeting the standards for precision and accuracy set forth in the PJM Manuals. The final value of the Energy Efficiency Resource during such Delivery Year shall be as determined by the Office of the Interconnection based on the submitted data.
7. The Office of the Interconnection may audit, at the Capacity Market Seller's expense, any Energy Efficiency Resource committed to the PJM Region. The audit may be conducted any time including the Performance Hours of the Delivery Year.

## **SCHEDULE 6.2**

### **WHOLESALE LOAD REDUCTION COMMITMENT**

A. Overview. As more fully set forth in this Schedule 6.2 and the PJM Manuals, for the 2018/2019 Delivery Year and subsequent Delivery Years, any Wholesale Entity may submit one or more WLR Bids in a Base Residual Auction to reduce WLR Load by a specified quantity during pre-emergency or emergency actions or to provide a specific quantity of continuous reduction in electric energy consumption during peak periods through a Wholesale Energy Efficiency Load. A Wholesale Entity intending to submit a WLR Bid into an RPM Auction shall provide a WLR Plan to calculate and support the Nominated WLR Quantity, by Zone or sub-Zonal LDA, it proposes to specify in its WLR Bid. WLR Load may only be bid into a Base Residual Auction. In any such Base Residual Auction, the Office of the Interconnection shall shift to the left the Variable Resource Requirement Curve for the PJM Region or a Locational Deliverability Area, as applicable, to reflect the Nominated WLR Quantity, Nominated WEEL Quantity, and WLR Bid Price of any WLR Bids for the PJM Region or such LDA, as applicable, in such RPM Auction. Each such leftward shift shall begin at the price point on the VRR Curve corresponding to the WLR Bid Price of the WLR Bid, and shall uniformly shift the VRR Curve to the left in the amount of the combined sum of the Nominated WLR Quantity and Nominated WEEL Quantity times FPR at that price point and all higher price points. All WLR Bids with WLR Bid Prices at or below the Capacity Resource Clearing Price will clear in a Base Residual Auction, subject to applicable WLR Load Constraints. WLR commitments of qualified WLR Load shall be measured by Firm Service Level or Direct Load Control, as further specified below and the PJM Manuals. Any WLR Provider that commits such WLR Load in an RPM Auction, but fails fully to honor its WLR commitments for a Delivery Year shall be assessed compliance charges as more fully set forth in sections Q, R, and S below.

B. WLR Obligations. WLR Load qualifying under the criteria set forth in this Schedule 6.2 may be bid into the Base Residual Auction, for any Delivery Year for which such WLR Load qualifies.

1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and section G hereof, as applicable, the Office of the Interconnection of the WLR Load that it is placing under the direction of the Office of the Interconnection. A Party must further notify the Office of the Interconnection whether the WLR Load is a Limited WLR Load, an Extended Summer WLR Load, or an Annual WLR Load.

2. WLR Load must be able to fully respond to a pre-emergency or emergency action within 30 minutes of notification from the Office of the Interconnection. This default 30 minute prior notification shall apply unless a WLR Provider obtains an exception from the Office of the Interconnection due to physical operational limitations that prevent any identified portion of the WLR Load from reducing load within that timeframe. In such case, the WLR Provider shall submit a request for an exception to the 30 minute prior notification requirement to the Office of the Interconnection, in accordance with deadlines specified in the PJM Manuals. The only alternative notification times that the Office of Interconnection will permit, upon approval of an exception request, are 60 minutes and 120 minutes prior to a pre-emergency or emergency action. The WLR Provider shall indicate in writing, in the appropriate

application, that it seeks an exception to permit a prior notification time of 60 minutes or 120 minutes, and the reason(s) for the requested exception. A WLR Provider shall not submit a request for an exception to the default 30 minute notification period unless it has done its due diligence to confirm that the identified portion of the WLR Load is physically incapable of responding within that timeframe based on one or more of the reasons set forth below and as may be further defined in the PJM Manuals and has obtained detailed data and documentation to support this determination.

In order to establish that any identified portion of a WLR Load is reasonably expected to be physically unable to reduce load in that timeframe, the WLR Provider that registered the load must demonstrate that:

- 1) The manufacturing processes for such load require gradual reduction to avoid damaging major industrial equipment used in the manufacturing process, or damage to the product generated or feedstock used in the manufacturing process;
- 2) Transfer of load to back-up generation requires time-intensive manual process taking more than 30 minutes;
- 3) On-site safety concerns prevent location from implementing reduction plan in less than 30 minutes; or,
- 4) The load is comprised of mass market residential customers or Small Commercial Customers which collectively cannot be notified of a pre-emergency or emergency action within a 30-minute timeframe due to unavoidable communications latency, in which case the requested notification time shall be no longer than 120 minutes.

The Office of the Interconnection may request data and documentation from the WLR Provider and such WLR Provider shall provide to the Office of the Interconnection within three (3) business days of a request therefor, a copy of all of the data and documentation supporting the exception request. Failure to provide a timely response to such request shall cause the exception to terminate the following Operating Day.

At its sole option and discretion, the Office of the Interconnection may review the data and documentation provided by the WLR Provider to determine if the identified portion of the WLR Load has met one or more of the criteria above. The Office of the Interconnection will notify the WLR Provider in writing of its determination by no later than ten (10) business days after receipt of the data and documentation.

The WLR Provider shall provide written notification to the Office of the Interconnection of a material change to the facts that supported its exception request within three (3) business days of becoming aware of such material change in facts, and, if the Office of Interconnection determines that the physical limitation criteria above are no longer being met, the identified portion of the WLR Load shall be subject to the default notification period of 30 minutes immediately upon such determination.

3. The initiation of load reduction, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.

4. The initiation of load reduction upon the request of the Office of the Interconnection is considered a pre-emergency or emergency action and must be implementable prior to a voltage reduction.

5. A WLR Provider intending to bid a WLR Load in a Base Residual Auction must demonstrate, to PJM's satisfaction, that such load shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such load is committed. As part of such demonstration, each such WLR Provider shall submit a WLR Plan in accordance with the standards and procedures set forth in section D of this Schedule 6.2 and the PJM Manuals, no later than 30 calendar days prior to the RPM Auction in which such load is to be bid. PJM may verify the WLR Provider's adherence to the WLR Plan at any time. A WLR Provider with a PJM-approved WLR Plan will be permitted to bid up to the approved WLR quantity into the subject RPM Auction.

6. Clearing a WLR Bid in an RPM Auction shall establish a firm commitment by the WLR Provider to the Nominated WLR Quantity specified in such WLR Bid at each Zone or sub-Zonal LDA during the relevant Delivery Year, but may be transferred or replaced in accordance with section J below. WLR Loads that are so committed must be available at PJM's request during PJM-declared pre-emergency events and emergency events.

C. Agents. A Wholesale Entity may authorize one or more agents to perform any act authorized or required of the Wholesale Entity under this Schedule 6.2, provided that (1) the Wholesale Entity must provide written notification to the Office of the Interconnection, prior to any act of the agent on behalf of the Wholesale Entity, identifying each such agent and the scope of the agent's authority; and (2) as between the Wholesale Entity and the Office of the Interconnection, the Wholesale Entity shall remain solely responsible for all of the duties and obligations of a Wholesale Entity under this Schedule 6.2. Any written instrument establishing the authority of such agent shall provide that any such agent shall comply with the requirements of this Attachment, the Reliability Assurance Agreement, and the Operating Agreement, as applicable.

D. WLR Plan. Any Wholesale Entity seeking to submit a WLR Bid in any Base Residual Auction for a Delivery Year must submit to the Office of the Interconnection a WLR Plan identifying and supporting the Nominated WLR Quantity (calculated in the manner described in section L below) for each Zone or sub-Zonal LDA for which such WLR is committed. Although the WLR Plan may include reasonably supported forecasts and expectations, fulfillment of the WLR Provider's commitment to a Nominated WLR Quantity shall not depend upon, or be conditioned upon, realization of such forecasts or expectations.

A WLR Plan shall consist of a completed template document in the form posted on the PJM website, requiring the information set forth below and in the PJM Manuals. The WLR Plan must provide information that supports the WLR Provider's intended WLR Bids and demonstrates that the WLR Loads are being bid with the intention that the MW quantity that is cleared in the

auction is reasonably expected to be physically delivered through WLR Load registrations for the relevant Delivery Year. The WLR Plan shall include all Existing WLR Loads and all Planned WLR Loads that the WLR Provider intends to bid into an RPM Auction.

1. WLR Plan Template. The WLR Plan template, in the form provided on the PJM website, shall require the WLR Provider to provide the following information and such other information as specified in the PJM Manuals:

(a) Summary Information. The completed template shall include the WLR Provider's company name, contact information, and the Nominated WLR Quantity in ICAP MWs by Zone/sub-Zone that the WLR Provider intends to bid, stated separately for Existing WLR Loads and Planned WLR Loads. The total Nominated WLR Quantity in MWs for each Zone/sub-Zone shall be the sum of the Nominated WLR Quantity of Existing WLR Loads and the Nominated WLR Quantity of Planned WLR Loads, and shall be the maximum MW amount the Provider intends to bid in the RPM Auction for the indicated Zone/sub-Zone, provided that nothing herein shall preclude the WLR Provider from bidding in the auction a lesser amount than the total Nominated WLR Quantity shown in its WLR Plan.

(b) Existing WLR Loads. The WLR Provider shall identify all Existing WLR Loads by identifying end-use customer sites that are currently registered with PJM (even if not registered by such WLR Provider) and that the WLR Provider reasonably expects to have under a contract to reduce load based on PJM instructions by the start of the auction Delivery Year.

(c) Planned WLR Loads. The WLR Provider shall provide the details of, and key assumptions underlying, the Planned WLR Load quantities (i.e., all WLR Load quantities in excess of Existing WLR Load quantities) contained in the WLR Plan, including:

- (i) key program attributes and assumptions used to develop the Planned WLR Load quantities, including, but not limited to, discussion of:
- method(s) of achieving load reduction at customer site(s);
  - equipment to be controlled or installed at customer site(s), if any;
  - plan and ability to acquire customers;
  - types of customer targeted;
  - support of market potential and market share for the target customer base, with adjustments for Existing WLR Load customers within this market and the potential for other WLR Providers targeting the same customers;
  - assumptions regarding regulatory approval of program(s), if applicable; and
  - if applicable, Direct Load Control (DLC) program details such as: a description of the cycling control strategy, any assumptions regarding switch operability rate, and a list (and copy) of all load research studies used to develop the estimated nominated ICAP value per customer (i.e., the per-participant impact).

(ii) Zone/sub-Zone information by end-use customer segment for all Nominated WLR Quantities for which an end-use customer site is not identified, to include the number in each segment of end-use customers expected to be registered for the subject Delivery Year, the average Peak Load Contribution per end-use customer for such segment, and the average Nominated WLR Quantity per customer for such segment. End-use customer segments may include residential, commercial, small industrial, medium industrial, and large industrial, as identified and defined in the PJM Manuals, provided that nothing herein or in the Manuals shall preclude the Provider from identifying more specific customer segments within the commercial and industrial categories, if known.

(iii) Information by end-use customer site to the extent required by subsection D(1)(d)(iv) or, if not required by such subsection, to the extent known at the time of the submittal of the WLR Plan, to include: customer EDC account number (if known), customer name, customer premise address, Zone/sub-Zone in which the customer is located, end-use customer segment, current Peak Load Contribution value (or an estimate if actual value not known) and an estimate of expected Peak Load Contribution for the subject Delivery Year, and an estimated Nominated WLR Quantity.

(iv) Commencing with the Base Residual Auction for the 2022/2023 Delivery Year, end-use customer site-specific information shall be required for any Zones or sub-Zones identified by PJM pursuant to this subsection for the portion, if any, of a WLR Provider's intended bid in such Zones or sub-Zones that exceeds a WLR Bid threshold determined pursuant to this subsection, as any such excess quantity under such conditions should reflect Planned WLR Loads from end-use customer sites that the Provider has a high degree of certainty it will physically deliver for the subject Delivery Year. In accordance with the procedures in subsection D(2) below, PJM shall identify, as requiring site-specific information, all Zones and sub-Zones that comprise any LDA group (from a list of LDA groups stated in the PJM Manuals) in which [the quantity of cleared WLR Loads from the most recent Base Residual Auction] plus [the quantity of WLR Loads included in FRR Capacity Plans for the Delivery Year addressed by the most recent Base Residual Auction] in any Zone or sub-Zone of such LDA group exceeds the greater of:

- the maximum WLR Load quantity registered with PJM for such Zone for any Delivery Year from the current (at time of plan submission) Delivery Year and the two preceding Delivery Years; and
- the potential WLR Load quantity for such Zone estimated by PJM based on an independent published assessment of demand response

potential that is reasonably applicable to such Zone, as identified in the PJM Manuals.

For each such Zone and sub-Zone, the WLR Bid threshold for each WLR Provider shall be the higher of:

- the WLR Provider's maximum WLR Load quantity registered with PJM for such Zone/sub-Zone over the current Delivery Year (at the time of plan submission) and two preceding Delivery Years;
- the WLR Provider's maximum for any single Delivery Year of [such provider's cleared WLR Load quantity] plus [such provider's quantity of WLR Load included in FRR Capacity Plans] from the three forward Delivery Years addressed by the three most recent Base Residual Auctions for such Zone/sub-Zone; and
- 10 MW.

(d) Schedule. The WLR Provider shall provide an approximate timeline for completing its separate arrangements with retail customers in the aggregate amount needed to physically deliver the total Nominated WLR Quantity (for both Existing WLR Loads and Planned WLR Loads) by Zone/sub-Zone in the WLR Plan, including expected progress in completing such separate arrangements, by end-use customer segment within each Zone/sub-Zone, that the WLR Provider expects (at the time of plan submission) as of June 1 each year between the time of the auction and the subject Delivery Year.

2. Procedures. No later than December 1 prior to the Base Residual Auction for a Delivery Year, PJM shall post to the PJM website a list of Zones and sub-Zones, if any, for which end-use customer site-specific information shall be required under the conditions specified in subsection D(1)(c)(iv) above. Once so identified, a Zone or sub-Zone shall remain on the list for future Delivery Years until the threshold determined under subsection D(1)(c)(iv) above is not exceeded for three consecutive Delivery Years. No later than 30 calendar days prior to the RPM Auction in which a WLR Provider intends to bid a WLR Load, the WLR Provider shall submit to PJM a completed WLR Plan template. PJM will review all submitted WLR Plans. No later than 10 business days prior to the subject RPM Auction, PJM shall notify any WLR Providers that have identified the same end-use customer site(s) in their respective WLR Plans for the same Delivery Year. In such event, the MWs associated with such site(s) will not be approved for inclusion in a WLR Bid in an RPM Auction by any of the WLR Providers, unless a WLR Provider provides a letter of support from the end-use customer indicating that it is likely to execute a contract with that WLR Provider for the relevant Delivery Year, or provides other comparable evidence of likely commitment. Such letter of support or other supporting evidence must be provided to PJM no later than 7 business days prior to the subject RPM Auction. If an end-use customer provides letters of support for the same site for the same Delivery Year to multiple WLR Providers, the MWs associated with such end-use customer site shall not be approved as a WLR Load for any of the WLR Providers. No later than 5 business days prior to the subject RPM Auction, PJM will notify each WLR Provider of the approved WLR quantity, by Zone/sub-Zone, that such WLR Provider is permitted to bid into such RPM Auction.

E. No Duplicative Load Reduction Bids. WLR Load reflected in a WLR Bid, identified in a WLR Plan, or included in a WLR Load registration for a Delivery Year in support of a Wholesale Load Reduction commitment may not, for such Delivery Year be identified in a PRD Plan or PRD registration of a PRD Provider.

F. Valuation of WLR Load and WEEL. For purposes of determining obligation reductions, credit requirements, compliance charges, and certain other matters hereunder, all WLR Load and WEEL bid into and clears in a Base Residual Auction shall be assigned a WLR Value. For Annual WLR Loads and WEELs, the WLR Value shall be equal to the Capacity Resource Clearing Price for Annual Resources, as determined in such auction in accordance with Attachment DD of the PJM Tariff. For Extended Summer WLR Loads, the WLR Value shall be equal to the price determined by the auction-clearing algorithm as the optimum price at which to recognize the binding of the Sub-Annual WLR Load Constraint or, if such constraint does not bind, such WLR Value shall be the same as the WLR Value determined for Annual WLR Loads and WEELs. For Limited WLR Loads, the WLR Value shall be equal to the price determined by the auction-clearing algorithm as the optimum price at which to recognize the binding of the Limited WLR Load Constraint or, if such constraint does not bind, such WLR Value shall be the same as the WLR Value determined for Extended Summer WLR Loads. Any WLR Loads or WEELs located in a Zone with multiple LDAs shall be assigned the WLR Value for its category of WLR or WEEL applicable to the location of such load within such Zone, as identified in such load's WLR Bid. In such cases, the WLR Provider shall register its load in the same location within the Zone as specified in its cleared bid, and shall be subject to deficiency charges under section Q of this Schedule 6.2 to the extent it fails to provide the load in such location consistent with its cleared bid.

G. Registration. Each WLR Provider that commits Wholesale Load Reductions through a cleared WLR Bid must, no later than one day before the tenth business day prior to the start of the Delivery Year for which such WLR is committed, register with PJM, in the form and manner specified in the PJM Manuals and consistent with its WLR Plan, sufficient WLR Load to satisfy its Nominated WLR Quantity commitment. PJM shall provide notification of such WLR registrations to the applicable electric distribution company(ies). The WLR Provider must maintain its registration of WLR-eligible load at the level of its Zonal or sub-zonal LDA Nominated WLR Quantity commitment during each day of the Delivery Year for which such commitment was made. The WLR Provider may change the end-use customers registered to meet the WLR Provider's commitment during the Delivery Year, but such WLR Provider must always in the aggregate register sufficient WLR Load to meet or exceed the Zonal or sub-Zonal LDA committed Nominated WLR Quantity level. A WLR Provider must timely notify the Office of the Interconnection, in accordance with the PJM Manuals, of all changes in WLR registrations. Such notification must remove from the WLR Provider's registration(s) any end-use customer load that no longer meets the eligibility criteria for WLR, effective as of the first day that such end-use customer load is no longer WLR-eligible.

H. WLR Bids. Each WLR Bid supported by WLR Loads submitted in an RPM Auction must be consistent with the WLR Plan submitted by the WLR Provider for such WLR Bid. A WLR Bid may also be supported by one or more WEELs. Each WLR Bid must specify: the relevant Zone or sub-Zonal LDA, if applicable; a Nominated WLR Quantity or Nominated



WEEL Quantity; a WLR Bid Price, which may be comprised of a range of up to ten pairs of WLR commitment levels and associated Bid Prices; provided however that the Office of the Interconnection may interpolate WLR commitment levels based on clearing prices between prices specified by the WLR Provider.

A WLR Load with the potential to qualify as two or more of a Limited WLR Load, Extended Summer WLR Load, or Annual WLR Load may submit separate but coupled WLR Bids for each WLR Load type for which it qualifies at different bid prices and the auction clearing algorithm will select the WLR Bid that yields the least-cost solution. For such coupled WLR Load bids, the bid price of an Annual WLR Load bid must be at least \$.01 per MW-day greater than the bid price of a coupled Extended Summer WLR Load bid and the bid price of a Extended Summer WLR Load bid must be at least \$.01 per MW-day greater than the bid price of a coupled Limited WLR Load bid.

Each WLR Provider submitting a WLR Bid shall comply with any applicable RPM Credit requirements as specified in Attachment Q of this Tariff.

I. LSE Capacity Obligation Reduction. The Obligation Peak Load of a Load Serving Entity that serves WLR Load or Wholesale Energy Efficiency Load in any Zone or sub-Zonal LDA shall be as determined in Schedule 8 to this Agreement; provided, however, that such Load Serving Entity shall receive, for each day during a Delivery Year that a Wholesale Load Reduction and/or a Wholesale Energy Efficiency Load commitment is effective as to registered WLR Loads and Wholesale Energy Efficiency Loads approved by PJM consistent with a post-installation report provided in accordance with section U.7 below served by such Load Serving Entity a specified quantity of reduction in the Obligation Peak Load of such Load Serving Entity, determined for each such Zone in accordance with the procedures hereunder and as further detailed in the PJM Manuals.

The reduction to a Load Serving Entity's Obligation Peak Load associated with each WLR Load and WEEL committed for that day that has a WLR Value equal to the Capacity Resource Clearing Price for Annual Resources shall be based on the Nominated WLR Quantity or Nominated WEEL Quantity, respectively, determined based on the ratio of the WLR Value for such WLR Load and WEEL to the Final Zonal Capacity Price as further detailed in the PJM Manuals. The reduction to a Load Serving Entity's Obligation Peak Load associated with each WLR Load and WEEL committed for that day that has a WLR Value lower than the Capacity Resource Clearing Price for Annual Resources shall be based on a proportion of the Nominated WLR Quantity or Nominated WEEL Quantity, respectively, determined based on the ratio of the WLR Value for such WLR Load and WEEL to the Final Zonal Capacity Price, and as further detailed in the PJM Manuals. In no event shall the Obligation Peak Load of any Load Serving Entity be reduced to less than zero.

J. Transfers and Replacements of WLR Commitments.

(1) WLR Transfers Between Wholesale Entities. A WLR Provider may transfer all or part of its WLR commitment for a Delivery Year as to WLR Load in a Zone or sub-Zonal LDA to another Wholesale Entity acting as a WLR Provider in the same Zone or sub-Zonal LDA, provided that the transferee WLR Provider is the Load Serving Entity that shall serve such WLR Load, through notice of such transfer provided by both the transferor and transferee WLR Providers to the Office of the Interconnection in the form and manner specified in the PJM Manuals. From and after the effective date of such transfer, and to the extent of such transfer,

the transferor WLR Provider shall be relieved of its WLR commitment and credit requirements, shall not be liable for WLR compliance charges, and shall not be entitled to the capacity obligation reduction otherwise provided by section I hereof; and the transferee WLR Provider, to the extent of such transfer, shall assume such WLR commitment, credit requirements, and obligation for compliance charges and shall be entitled to the capacity obligation reduction provided by section I as to such WLR Load.

(2) Replacement of WLR or WEEL Commitment by Capacity Resource. A WLR Provider may replace all or part of its WLR commitment for a Delivery Year as to WLR Load in a Zone or sub-Zonal LDA by clearing a Buy Bid for replacement capacity in an Incremental Auction under the terms and conditions of Attachment DD to the Tariff, by entering a Locational UCAP transaction in accordance with the terms of Attachment DD to the Tariff, or through a bilateral transaction under section 4.6 of Attachment DD to the Tariff. A WEEL Provider may replace all or part of its WEEL commitment for a Delivery Year as to WEEL in a Zone or sub-Zonal LDA by clearing a Buy Bid for replacement capacity in an Incremental Auction under the terms and conditions of Attachment DD to the Tariff, by entering a Locational UCAP transaction in accordance with the terms of Attachment DD to the Tariff, or through a bilateral transaction under section 4.6 of Attachment DD to the Tariff. The Unforced Capacity required in such case shall equal the Nominated WLR Quantity, or Nominated WEEL Quantity, sought to be replaced, times the Forecast Pool Requirement. The rights and responsibilities, following such replacement, of the WLR Provider, or WEEL Provider, and the Capacity Market Seller providing replacement capacity shall be as specified in any required notice to the Office of the Interconnection or as otherwise prescribed by the Tariff for such replacements.

K. WLR Load Compliance Measurement. Based on information provided by the WLR Provider, in accordance with the requirements of this Schedule 6.2 and the PJM Manuals, with respect to the separate arrangements with end-use customers on which the WLR Provider intends to rely to fulfill its WLR commitment, PJM shall measure WLR Loads in the following ways:

Direct Load Control (“DLC”) – Load management that is initiated directly by the WLR Provider’s market operations center or its agent, employing a communication signal to cycle equipment (typically water heaters or central air conditioners). DLC programs are qualified based on load research and customer subscription data. WLR Providers may rely on the results of load research studies identified in the PJM Manuals to set the per-participant load reduction for DLC programs; provided, however, that load research studies supporting Annual WLR Loads must demonstrate such load reduction capability for non-summer months. Each WLR Provider relying on DLC load management must periodically update its DLC switch operability rates, in accordance with the PJM Manuals.

Firm Service Level (“FSL”) – Load management achieved by an end-use customer reducing its load to a pre-determined level (the Firm Service Level), upon notification from the WLR Provider’s market operations center or its agent.

Customer Baseline Load (“CBL”) – Load management achieved by an end-use customer as measured by comparing actual metered load to an end-use customer’s Customer Baseline Load or alternative CBL determined in accordance with the provisions of section O below.

Notwithstanding any such measurement of load management by any end-use customer identified by the WLR Provider, the WLR Provider shall remain solely and exclusively responsible for providing any Wholesale Load Reduction committed hereunder by such WLR Provider.

L. Nominated WLR Quantities.

(a) Any Nominated WLR Quantity committed by a WLR Provider hereunder shall comprise a commitment by such WLR Provider to an aggregate reduction of a specified quantity of the wholesale load to be served by the Load Serving Entity that is responsible for serving such loads.

The Nominated WLR Quantity that may be claimed from, or provided by, a Firm Service Level customer will be based on the peak load contribution for the customer, as determined by the methodology utilized to determine ICAP obligation values. The maximum contribution to a WLR Load reduction value that may be claimed from, or provided by, a Firm Service Level customer will be equal to the Peak Load Contribution minus the Firm Contract Level, adjusted for system losses.

The Nominated WLR Quantity that may be claimed from, or provided by, a Direct Load Control program must be demonstrated based on load research and customer subscription. The maximum value of such a program shall be equal to the approved per-participant load reduction multiplied by the number of active participants, adjusted for system losses. The per-participant impact is to be estimated at long-term average local weather conditions at the time of the summer peak.

Information specific to any end-user identified by the WLR Provider hereunder (EDC account number, peak load, notification period, etc.) shall be entered by such WLR Provider into the designated PJM electronic system to establish the portion of the Nominated WLR Quantity associated with such customer. Additional data may be required, as defined in the PJM Manuals.

(b) The maximum portion of any Nominated WLR Quantities that may be claimed from any given end-use customer shall be verified and established prior to the start of the Delivery Year through information provided by the WLR Provider and the EDC for the Zone in which such customer is located. As set forth in the PJM Manuals, WLR Providers shall provide, on templates supplied by PJM, the LSE serving the load at the site being registered, the EDC meter number, or other unique customer identifier, Peak Load Contribution ("PLC"), contract firm service level values, applicable loss factor, zone/area location of the load, contact information, number of active participants, etc. Such data must be uploaded and approved prior to the first day of the Delivery Year. For Direct Load Control programs, the WLR Provider must provide information detailing the number of active participants in each program. WLR Providers must provide such information concurrently to host EDCs.

M. WLR Performance Verification and Support. WLR Providers shall be responsible for verifying the performance of their WLR Loads during each pre-emergency or emergency action

declared by the Office of the Interconnection. Performance will be established for each WLR Provider on an event specific basis for the WLR Provider's WLR Loads, including any identified portion thereof, requested to reduce demand by PJM during such event. WLR Providers shall demonstrate that the identified WLR Loads reduced demand by the committed megawatt amount below the PLC assigned to such WLR Loads. Such compliance will be determined based on a comparison of the PLC assigned to the identified WLR Loads and the actual energy consumed of the identified WLR Loads. PJM will set forth in the PJM Manuals reasonable deadlines for the timely submittal of event data to expedite performance reviews. Performance reviews will be completed as soon after the event as possible, with the expectation that reviews of a single event will be completed within two months of the end of the month in which the event occurred. WLR Providers are responsible for the submittal of the actual energy usage for their registered WLR Loads to PJM for each PJM-initiated event during the compliance period. A WLR Provider must also provide load drop estimates for all pre-emergency or emergency actions, prepared in accordance with the PJM Manuals.

N. Compliance Measurement. A WLR Load may not in the aggregate reduce its load below zero (i.e., export energy into the system). No contribution toward satisfaction of a Nominated WLR Quantity shall be given for an incremental load drop below zero. Compliance will be totaled over all customers and programs identified by the WLR Provider to determine a net Wholesale Load Reduction for the event for each WLR Provider by Zone, for all WLR Loads committed by such WLR Provider and that were addressed in a request to reduce demand by the Office of the Interconnection in the zone. Performance shortfalls shall be as further determined in accordance with section S of this Schedule 6.2.

For pre-emergency or emergency actions occurring during the months of June through October and the following May of the 2018/2019 Delivery Year and subsequent Delivery Years:

The contribution to the Wholesale Load Reduction of any Direct Load Control programs identified by the WLR Provider shall consider only the transmission of the control signal. WLR Providers are required to report the time period (during the pre-emergency or emergency action) that the control signal was actually sent.

The contribution to the Wholesale Load Reduction of any individual FSL customer identified by the WLR Provider shall be determined by comparing such customer's actual load during the event to the customer's firm service level. WLR Providers must submit actual customer load levels (for the entire day on which the event occurred) for the compliance report. The contribution to the Wholesale Load Reduction for any identified FSL customer shall be based on such customer's current Delivery Year peak load contribution ("PLC") minus such customer's metered load ("Load") multiplied by the loss factor ("LF").

The contribution to the Wholesale Load Reduction from any identified non-interval metered DLC programs shall be averaged over the pre-emergency or emergency action. The contribution to the Wholesale Load Reduction from any identified FSL customers shall be averaged over the pre-emergency or emergency action by the Office of the Interconnection for at least 30 minutes of the clock hour (i.e., "partial dispatch compliance hour"). The registered load reduction commitment for the partial dispatch compliance hour will be prorated based on the number of

minutes for which load reduction was requested during the clock hour and as defined in the Manual. The WLR Provider may submit one-minute load data for use in capacity compliance calculations for partial dispatch compliance hours subject to PJM approval and in accordance with the PJM Manuals where: (a) metering meets all Tariff, RAA, and Manual requirements, (b) one-minute load data shall be submitted to PJM for all locations on the registration, and (c) one-minute load data measures energy consumption over the minute.

For pre-emergency or emergency action occurring during the months of November through April of the 2018/2019 Delivery Year and subsequent Delivery Years:

The contribution to the Wholesale Load Reduction of any Direct Load Control programs will consider only the transmission of the control signal. WLR Providers are required to report the time period (during the pre-emergency or emergency action) that the control signal was actually sent.

The contribution to the Wholesale Load Reduction of any individual FSL customer identified by the WLR Provider shall be determined by comparing such customer's actual metered load to such customer's Customer Baseline Load ("CBL") determined in accordance with subsection O(1) below or an alternative Customer Baseline methodology determined in accordance with subsection O(2) below. WLR Providers must submit actual customer load levels (for the entire day on which the pre-emergency or emergency action occurred and for all days needed to calculate the customer baseline) for the compliance report.

O. Customer Baseline Load.

(1) The CBL of any end-use customer identified by the WLR Provider shall be determined using the following formula for such customer's Non-Variable Loads:

(a) The CBL for weekdays shall be the average of the highest 4 out of the 5 most recent load weekdays in the 45 calendar day period preceding the relevant load reduction event.

i. For the purposes of calculating the CBL for weekdays, weekdays shall not include:

1. NERC holidays;

2. Weekend days;

3. Event days. For the purposes of this section an event day shall be any day in which a pre-emergency or emergency action is declared and PJM requests WLR Providers to reduce their wholesale loads.

4. Any weekday where the average daily event period usage is less than 25% of the average event period usage for the five days.

- ii. If a 45-day period does not include 5 weekdays that meet the conditions in subsection (a)(i) of this section, provided there are 4 weekdays that meet the conditions in subsection (a)(i) of this section, the CBL shall be based on the average of those 4 weekdays. If there are not 4 eligible weekdays, the CBL shall be determined in accordance with subsection (iii) of this section.
- iii. subsection (a)(i)(3) above notwithstanding, if a 45-day period does not include 4 weekdays that meet the conditions in subsection (a)(i) of this section, event days will be used as necessary to meet the 4 day requirement to calculate the CBL, provided that any such event days shall be the highest load event days within the relevant 45-day period.

(b) The CBL for weekend days and NERC holidays shall be determined in accordance with the following provisions:

- i. The CBL for Saturdays and Sundays/NERC holidays shall be the average of the highest 2 load days out of the 3 most recent Saturdays or Sundays/NERC holidays, respectively, in the 45 calendar day period preceding the relevant load reduction event, provided that the following days shall not be used to calculate a Saturday or Sunday/NERC holiday CBL:
  - 1. Event days. For the purposes of this section an event day shall be any day in which a pre-emergency or emergency action is declared and PJM requests WLR Providers to reduce their wholesale loads.
  - 2. Any Saturday or Sunday/NERC holiday where the average daily event period usage is less than 25% of the average event period usage level for the three days;
  - 3. Any Saturday or Sunday/NERC holiday that corresponds to the beginning or end of daylight savings.
- ii. If a 45-day period does not include 3 Saturdays or 3 Sundays/NERC holidays, respectively, that meet the conditions in subsection (b)(i) of this section, provided there are 2 Saturdays or Sundays/NERC holidays that meet the conditions in subsection (b)(i) of this section, the CBL will be based on the average of those 2 Saturdays or Sundays/NERC holidays. If there are not 2 eligible Saturdays or Sundays/NERC holidays, the CBL shall be determined in accordance with subsection (iii) of this section.
- iii. Subsection (b)(i)(1) above notwithstanding, if a 45-day period does not include 2 Saturdays or Sundays/NERC holidays, respectively, that meet the conditions in subsection (b)(i) of this section, event days will be used as necessary to meet the 2 day requirement to calculate the CBL, provided that any such event days shall be the highest load event days within the relevant 45-day period.

(c) CBLs established pursuant to this section for any end-use customer identified by a WLR Provider shall represent such customers' actual load patterns. If the Office of the Interconnection determines that a CBL or alternative CBL does not accurately represent a customer's actual load patterns, the CBL shall be revised accordingly pursuant to subsection (2) below. Consistent with this requirement, if a WLR Provider chooses to derive any part of its Wholesale Load Reduction from an end-use customer that is measured using a Customer Baseline Load, the WLR Provider shall inform the Office of the Interconnection of any change in the operations of such end-use customer that would result in the adjustment of more than half the hours in such customer's Customer Baseline Load by twenty percent or more for more than twenty days.

(2) Alternative CBL Methodologies.

(a) During the WLR registration process pursuant to section G of this Schedule, the relevant WLR Provider or PJM ("Interested Parties") may propose an alternative CBL calculation that more accurately reflects the relevant end-use customer's consumption pattern relative to the CBL determined pursuant to subsection (a) above. In support of such proposal, the Interested Party shall demonstrate that the alternative CBL method shall result in an hourly relative root mean square error of twenty percent or less compared to actual hourly values, as calculated in accordance with the technique specified in the PJM Manuals. Any proposal made pursuant to this section shall be provided to the other Interested Party.

(b) The Interested Parties shall have 30 days to agree on a proposal issued pursuant to subsection (a) of this section. The 30-day period shall start the day the proposal is provided to the other Interested Party. If both Interested Parties agree on a proposal issued pursuant to this section, that alternative CBL calculation methodology shall be effective consistent with the date of the relevant WLR registration.

(c) If agreement is not reached pursuant to subsection (2)(b) above, the Office of the Interconnection shall determine a CBL methodology that shall result, as nearly as practicable, in an hourly relative root mean square error of twenty percent or less compared to actual hourly values within 20 days from the expiration of the 30-day period established by subsection (b). A CBL established by the Office of the Interconnection pursuant to this subsection (c) shall be binding upon both Interested Parties unless the Interested Parties reach agreement on an alternative CBL methodology prior to the expiration of the 20-day period established by this subsection (c).

(d) The Office of the Interconnection shall periodically publish alternative CBL methodologies established pursuant to this section in the PJM Manuals.

(e) Customer Baseline Levels established pursuant to this subsection O.2 shall be adjusted by the Symmetric Additive Adjustment. Unless an alternative formula is approved by the Office of the Interconnection, the Symmetric Additive Adjustment shall be calculated using the following formula:

Step 1: Calculate the average usage over the 3 hour period ending 1 hour prior to the start of event.

Step 2: Calculate the average usage over the 3 hour period in the CBL that corresponds to the 3 hour period described in Step 1.

Step 3: Subtract the results of Step 2 from the results of Step 1 to determine the symmetric additive adjustment (this may be positive or negative).

Step 4: Add the symmetric additive adjustment (i.e. the results of Step 3) to each hour in the CBL that corresponds to each event hour.

Following a pre-emergency or emergency action, the Office of the Interconnection shall make available the metered data to the appropriate electric distribution company for optional review and will have ten business days to provide the Office of the Interconnection with notification of any issues related to the metered data or calculations.

P. Non-Hourly Metered Customer Pilot. Non-hourly metered customers may participate in the Wholesale Load Reduction program on a pilot basis under the following circumstances. The customer's WLR Provider must propose an alternate method for measuring hourly demand reductions. The Office of the Interconnection shall approve alternate measurement mechanisms on a case-by-case basis for a time period specified by the Office of the Interconnection ("Pilot Period"). Load reductions by non-hourly metered customers using alternate measurement mechanisms on a pilot basis shall be limited to a combined total of 500 MW of reductions in the Wholesale Load Reduction program. With the sole exception of the requirement for hourly metering, non-hourly metered customers shall be subject to the rules and procedures for participation in the Wholesale Load Reduction program. Following completion of a Pilot Period, the alternate method shall be evaluated by the Office of the Interconnection to determine whether such alternate method should be included in the PJM Manuals as an accepted measurement mechanism for load reductions in the Wholesale Load Reduction program.

Q. WLR Deficiency Charge. Any WLR Provider that does not register and maintain the sufficient WLR Load in a Zone or sub-Zonal LDA to satisfy in full its Nominated WLR Quantity commitment in such Zone or sub-Zonal LDA on each day of the Delivery Year for which such commitment is made shall be assessed a WLR Deficiency Charge for each day that the registered WLR Load is less than the committed Nominated WLR Quantity. Any WEEL Provider with a WEEL for which the post-installation measurement and verification report, submitted to PJM in accordance with section U.7 below, demonstrates a continuous reduction in electric energy consumption less than the committed Nominated WEEL Quantity for such WEEL shall be assessed a WLR Deficiency Charge for each day of the Delivery Year that the WEEL is less than the committed Nominated WEEL Quantity. Such daily WLR Deficiency Charge shall equal:

$$[\text{MW Shortfall}] * [\text{Forecast Pool Requirement}] * [(\text{applicable WLR Value in } \$/\text{MW-day}) \\ + \text{higher of } (0.2 * \text{applicable WLR Value}) \text{ or } (\$20/\text{MW-day})]$$

Where: MW Shortfall = for WLR Loads, Daily Nominated WLR Quantity committed in the Base Residual Auction, as adjusted for any replacement and/or transfers of WLR Load, for the



relevant Zone or sub-Zonal LDA – the Daily Nominated WLR Quantity supported by WLR Load registrations for such Zone or sub-Zonal LDA; for WEEL, Daily Nominated WEEL Quantity committed in the Base Residual Action, as adjusted for any replacement and/or transfers of WEEL, for the relevant Zone or sub-Zonal LDA – the Daily Nominated WEEL Quantity supported by the post-installation measurement and verification report; and

The applicable WLR Value is the WLR Value assigned to the committed Nominated WLR Quantity or Nominated WEEL Quantity pursuant to section F hereof. The MW Shortfall may be reduced through replacement of the WLR or WEEL by any Capacity Resource effected in accordance with the terms of this RAA or the Tariff. The WLR Provider also may register additional WLR Load to satisfy its WLR commitment.

However, WLR Load that is subject to a charge under this section that is also subject to a charge under section S of this Schedule 6.2 for failing to provide the committed quantity of load reduction during one or more pre-emergency or emergency actions occurring during the period of WLR Load deficiency addressed by this section shall be assessed a charge equal to the greater of the WLR Deficiency Charge determined under this section and the non-performance charge determined under section S hereof, but shall not be assessed a charge under both this section and section S for such simultaneous occurrence of a WLR Loads deficiency and under-compliance.

R. WLR Test Failure Charge. WLR Providers that registered WLR Load shall be subject to test at least once per year to demonstrate the ability of the registered WLR Load to reduce as committed, and such WLR Providers shall be assessed a WLR Test Failure Charge to the extent of failure by the registered WLR Load during such test to reduce, on an aggregate basis equal to the Nominated WLR Quantity, in accordance with the following:

- (i) If the Office of the Interconnection does not declare during the relevant Delivery Year a pre-emergency or emergency action that requires the registered WLR Load to reduce as committed, then the WLR Provider must demonstrate that its registered WLR Load was tested for a one-hour period during any hour when a pre-emergency or emergency action may be called during the months in which it is committed to reduce load upon request. If a pre-emergency or emergency action that requires PJM to request the WLR Load to reduce as committed is called during the relevant Delivery Year, then no WLR Test Failure Charges will be assessed hereunder.
- (ii) All WLR Load registered in a Zone must be tested simultaneously for each type of WLR Load except that, when less than 25 percent (by megawatts) of a WLR Provider's total WLR Load registered in a Zone fails a test, the WLR Provider may conduct a re-test limited to all registered WLR Load that failed the prior test, provided that such re-test must be at the same time of day and under approximately the same weather conditions as the prior test, and provided further that all affiliated registered WLR Load must test simultaneously, where affiliated means registered WLR Load that has any ability to shift load and that is owned or controlled by the same entity. If less than 25 percent of a WLR Provider's total registered WLR Load in a Zone fails the test and the WLR Provider chooses to conduct a re-test, the WLR Provider may elect to maintain the performance compliance result achieved during the test if the WLR Provider: (1) notifies the

Office of the Interconnection 48 hours prior to the re-test under this election; and (2) the WLR Provider retests affiliated registered WLR Load under this election as set forth in the PJM Manuals.

- (iii) A WLR Provider that registered WLR Load shall be assessed a WLR Test Failure Charge equal to the net WLR Load's capability testing shortfall in a Zone or sub-Zonal LDA during such test in the aggregate of all of such WLR Provider's registered WLR Load in such Zone times the WLR Test Failure Charge Rate. The net capability testing shortfall in such Zone shall be the following megawatt quantity, converted to an Unforced Capacity basis using the applicable Forecast Pool Requirement: [megawatts of committed load reduction minus the total megawatts of load reduction actually provided by the identified WLR Load in aggregate in such Zone during such test].

The net WLR Load capability testing shortfall in such Zone shall be reduced by the WLR Provider's summer daily average of the MW shortfalls determined for WLR Non-Performance Charge purposes under section S of this Schedule 6.2 in such Zone for such WLR Provider's registered WLR Loads.

The WLR Test Failure Charge Rate shall equal the applicable WLR Value for such WLR Load in such Zone plus the greater of (0.20 times the applicable WLR Value for such WLR Load in such Zone or \$20/MW-day) times the number of days in the Delivery Year.

Such charge shall be assessed daily and charged monthly (or otherwise in accordance with customary PJM billing practices in effect at the time); provided, however, that a lump sum payment may be required to reflect amounts due, as a result of a test failure, from the start of the Delivery Year to the day that charges are reflected in regular billing.

S. WLR Non-Performance Charge. A WLR Provider or a WEEL Provider that fails to provide the committed quantity of load reduction when requested by PJM during a PJM declared pre-emergency or emergency event will be subject to a WLR Non-Performance Charge.

(a) The Office of the Interconnection shall separately evaluate compliance of each WLR Provider's WLR Load that was committed for a Delivery Year, in accordance with procedures set forth in this Schedule 6.2 and the PJM Manuals. Such compliance shall be evaluated separately by pre-emergency or emergency action in each CAA for the WLR Load of a WLR Provider to the extent such provider was requested to perform by the Office of Interconnection. To the extent a WLR Load cannot respond, another WLR Load in the same geographic location defined by the PJM request instruction with the same designated lead time and comparable load reduction commitment may be substituted. Any WLR Load used as a substitute during a pre-emergency or emergency action will have the same obligation to respond to future pre-emergency or emergency action(s) as if it did not respond to such pre-emergency or emergency action. WLR Providers that committed WLR Loads that cannot demonstrate the hourly performance of such load in real-time based on the WLR commitment shall be assessed a WLR Non-Performance Charge; provided, however, that such under compliance shall be determined

on an aggregate basis for all WLR Loads committed by the same WLR Provider in a CAA that were the subject of a request to perform.

(b) For pre-emergency or emergency actions occurring in a Zone during the months of June through September, i.e., the “on-peak” period, the WLR Non-Performance Charge for a WLR Provider shall equal the lesser of (1/the number of pre-emergency or emergency actions during the on-peak period for which such WLR Provider was requested to provide WLR, or 0.50) times the applicable WLR Value, for the relevant WLR Loads of such WLR Provider, multiplied by the net under-compliance in such on-peak period, if any, for such WLR Provider resulting from all WLR Load it has committed for such Delivery Year for such Zone, that was the subject of a request to perform, for each pre-emergency or emergency action called by the Office of the Interconnection. Net CAA under compliance for the pre-emergency or emergency action will be prorated to individual under compliant registrations in the CAA based on performance of each registration in order to determine net under compliance. For pre-emergency or emergency actions occurring in a Zone or sub-Zonal LDA during the off-peak period, which includes all hours specified in the Reliability Assurance Agreement definitions of Extended Summer WLR Load or Annual WLR Load, as applicable, but does not include all hours in the on-peak period, the WLR Non-Performance Charge for a WLR Provider for the off-peak period shall equal 1/52 times the applicable WLR Value for the relevant WLR Loads of such WLR Provider that were the subject of a request to perform, multiplied by the net under-compliance in such off-peak period, if any, for such WLR Provider resulting from all WLR Loads it has committed for such Delivery Year for such Zone or sub-Zonal LDA, that were the subject of a request to perform, for each pre-emergency or emergency action called by the Office of the Interconnection.

(c) If a pre-emergency or emergency action is comprised of both an on-peak period and an off-peak period then such WLR Non-Performance Charge will be the higher of the charges calculated under the prior two subsections (a) and (b). The total WLR Non-Performance Charge for the Delivery Year is not to exceed the applicable WLR Value times the Nominated WLR Quantity associated with such WLR Loads.

(d) The net CAA undercompliance for each such pre-emergency or emergency action shall be the following megawatt quantity, converted to an Unforced Capacity basis using the applicable Forecast Pool Requirement: (i) the megawatts of load reduction capability committed by such WLR Provider on the day of the pre-emergency or emergency action for all WLR Load requested to reduce minus (ii) the megawatts of load reduction actually provided by all such WLR Load requested to reduce during such pre-emergency or emergency action. The WLR Non-Performance Charge for a WLR Load shall be based on the applicable WLR Value assigned to the load in the RPM Auction in which it was committed, including any adjustment pursuant to section F of this Schedule 6.2. The total charge per megawatt that may be assessed on a WLR Provider in a Delivery Year shall be capped at the applicable WLR Value for the WLR Load committed by such WLR Provider.

(e) WLR Non-Performance Charge Billing. The WLR Non-Performance Charges for a pre-emergency or emergency action for Limited WLR Loads are assessed daily and initially billed by the later of the month of October during such Delivery Year or the third billing month following the pre-emergency or emergency action that gave rise to such charge. The initial billing for a pre-emergency or emergency action for Limited WLR Loads will reflect the amounts due from

the start of the Delivery Year to the last day that is reflected in the initial billing. The remaining charges for such pre-emergency or emergency action will be assessed daily and billed monthly through the remainder of the Delivery Year. The WLR Non-Performance Charges for a pre-emergency or emergency action for Annual or Extended Summer WLR Loads are assessed daily and billed by the later of the month of June following such Delivery Year or the third billing month following the pre-emergency or emergency action that gave rise to such charge. The billing for the pre-emergency or emergency action for Annual or Extended Summer WLR Loads will be in a lump sum and reflect the accrued charges for the entire Delivery Year.

T. Distribution of Revenue Collected From WLR Charges. The revenue collected from assessment of the charges assessed under sections Q, R, and S of this Schedule 6.2 shall be distributed on a pro-rata basis to all entities that committed Capacity Resources in the RPM Auctions for the Delivery Year for which the compliance charge is assessed, pro rata based on each such entity's revenues from Capacity Market Clearing Prices in such auctions, net of any compliance charges incurred by such entity.

U. Wholesale Energy Efficiency Loads.

1. A Wholesale Energy Efficiency Load, or "WEEL," is a project, including installation of more efficient devices or equipment or implementation of more efficient processes or systems, exceeding then-current building codes, appliance standards, or other relevant standards, designed to achieve a continuous (during peak summer and winter periods as described herein) reduction in electric energy consumption at the End-Use Customer's retail site that is not reflected in the peak load forecast prepared for the Delivery Year for which the Wholesale Energy Efficiency Load is proposed, and that is fully implemented at all times during such Delivery Year, without any requirement of notice, request to reduce, or operator intervention. Any Wholesale Entity may submit one or more WLR Bids supported by one or more WEELs in a Base Residual Auction to reduce load by a specified quantity during the specified Delivery Year.
2. A WEEL Provider may bid WEEL into the Base Residual Auction for any Delivery Year beginning on or after June 1, 2018. No later than 30 days prior to the auction in which the load reduction is to be bid, the WEEL Provider shall submit to the Office of the Interconnection a notice of intent to bid the load reduction into such auction and a measurement and verification plan. The notice of intent shall include all pertinent project design data, including but not limited to the peak-load contribution of affected customers, a full description of the equipment, device, system or process intended to achieve the load reduction, the load reduction pattern, the project location, the project development timeline, and any other relevant data. Such notice also shall state the seller's proposed Nominated WEEL Quantity, which shall be the expected average load reduction between the hour ending 15:00 EPT and the hour ending 18:00 EPT during all days from June 1 through August 31, inclusive, of such Delivery Year that is not a weekend or federal holiday.

The measurement and verification plan shall describe the methods and procedures, consistent with the PJM Manuals, for determining the amount of the load reduction and confirming that such reduction is achieved. The Office of the Interconnection shall determine, upon review of such notice, the Nominated WEEL Quantity that may be bid in the Base Residual Auction.

3. WEEL may only be bid into a Base Residual Auction through a WLR Bid. In any such Base Residual Auction, the Office of the Interconnection shall shift to the left the Variable Resource Requirement Curve for the PJM Region or a Locational Deliverability Area, as applicable, to reflect the Nominated WEEL Quantity and WLR Bid Price of any WEEL bids for the PJM Region or such LDA, as applicable, in such RPM Auction. Each such leftward shift shall begin at the price point on the VRR Curve corresponding to the WLR Bid Price of the bid, and shall uniformly shift the VRR Curve to the left in the amount of the Nominated WEEL Quantity times FPR at that price point and all higher price points.
4. If a WEEL clears in the auction, it shall be assigned the applicable WLR Value as determined in accordance with section F above, subject to section U.7 below, for use in determining the LSE Capacity Obligation Reduction in section I above. A WEEL Provider bidding a WEEL must comply with all applicable credit requirements as set forth in Attachment Q to the PJM Tariff.
5. A WEEL cleared in an auction for a Delivery Year may be bid in Base Residual Auctions for up to three additional consecutive Delivery Years (if the reduction in electric energy consumption is not reflected in the peak load forecast prepared for the Delivery Year for which the WEEL is committed), but shall not be assured of clearing in any such auction; provided, however, a WEEL may not be bid for any Delivery Year in which any part of the peak season is beyond the expected life of the equipment, device, system, or process providing the expected load reduction.
6. For every WEEL Provider clearing one or more WEELs in an RPM Auction for a Delivery Year, the WEEL Provider shall submit to the Office of the Interconnection, by no later than 30 days prior to each Auction an updated project status and measurement and verification plan subject to the criteria set forth in the PJM Manuals.
7. For every WEEL Provider clearing one or more WEELs in an RPM Auction for a Delivery Year, the WEEL Provider shall submit to the Office of the Interconnection, by no later than the start of such Delivery Year, an updated project status and detailed measurement and verification data meeting the standards for precision and accuracy set forth in the PJM Manuals. The final value of the WEEL during such Delivery Year shall be as determined by the Office of the Interconnection based on the data submitted in such post-installation measurement and verification report.

8. The Office of the Interconnection may audit, at the WEEL Provider's expense, any WEEL committed to the PJM Region. The audit may be conducted any time including the Performance Hours of the Delivery Year.

## Attachment E

<b>Tariff / RAA Section</b>	<b>Section Name and Description</b>
Tariff, Attachment DD, section 1 (Options A&B)	Introduction
Tariff, Attachment DD, section 2.2B (Option A)	Definition of Base Capacity Demand Resource Constraint
Tariff, Attachment DD, section 2.2F (Option A)	Definition of Base Capacity Resource Constraint
Tariff, Attachment DD, section 2.25 (Options A & B)	Definition of Sub-Annual Resource Constraint
Tariff, Attachment DD, section 2.36C (Options A & B)	Definition of Limited Resource Constraint
Tariff, Attachment DD, section 2.41A (Options A & B)	Definition of Locational UCAP
Tariff, Attachment DD, section 2.41E (Options A & B)	Definition of Minimum Extended Summer Resource Requirement
Tariff, Attachment DD, section 4.6(d) (Options A & B)	Bilateral Capacity Transactions – general bilateral transaction provision, detailing that only bilateral transactions for the physical transfer of capacity are valid
Tariff, Attachment DD, section 5.1 (Options A & B)	Introduction to section on Capacity Resource Commitment
Tariff, Attachment DD, section 5.2 (Options A & B)	Nomination of Self Supplied Capacity Resources – setting forth the rules and procedures for committing Self-Supply resource
Tariff, Attachment DD, section 5.3A (Options A & B)	Locational UCAP Bilateral Transactions – setting forth the rules and procedures for committing resources as Locational UCAP through bilateral transactions



Tariff, Attachment DD, section 5.5 (Options A & B)	Eligibility for Participation in RPM Auctions – providing generally which resources are eligible to participate in an RPM Auction
Tariff, Attachment DD, section 5.5A(a) (Option A)	(Capacity Resource Types) – Capacity Performance Resources.
Tariff, Attachment DD, section 5.5A(b) (Option A)	(Capacity Resource Types) – Base Capacity Resource.
Tariff, Attachment DD, section 5.6.1(i) (Options A & B)	(Sell Offer) Specifications – describing items that need to be included in a Sell Offer, including identification of DR resource, Nominated DR Value, DR coupling rules, etc.
Tariff, Attachment DD, section 5.10(c) (Option A)	(Auction Clearing Requirements) Resource Requirements and Constraints – providing that PJM will establish clearing constraints prior to each RPM Auction.
Tariff, Attachment DD, section 5.12(a) (Options A & B)	(Conduct of RPM Auctions) Base Residual Auction – describing what the optimization algorithm will consider
Tariff, Attachment DD, proposed section 5.12(b)(ix) (Options A & B)	(Conduct of RPM Auctions) Scheduled Incremental Auctions – describing what the optimization algorithm will consider
Tariff, Attachment DD, section 5.12(c) (Options A & B)	(Conduct of RPM Auctions) Conditional Incremental Auction – describing what the optimization algorithm will consider
Tariff, Attachment DD-1 (Options A & B)	Procedures for Demand Resources and Energy Efficiency – setting forth rules and procedures for Demand Resource to provide capacity
RAA, Article 1, section 1.1A (Options A & B)	Annual Demand Resource

RAA, Article 1, section 1.1B (Option A)	Definition of Annual Energy Efficiency Resource
RAA, Article 1, section 1.2A (Option A)	Definition of Base Capacity Demand Resource
RAA, Article 1, section 1.2B (Option A)	Definition of Base Capacity Energy Efficiency Resource
RAA, Article 1, section 1.8 (Options A & B)	Definition of Capacity Resources
RAA, Article 1, section 1.13 (Options A & B)	Definition of Demand Resource
RAA, Article 1, section 1.20A (Options A & B)	Definition of Energy Efficiency Resource
RAA, Article 1, section 1.20C (Options A & B)	Definition of Extended Summer Demand Resource
RAA, Article 1, section 1.43A (Options A & B)	Definition of Limited Demand Resource
RAA, Schedule 6 (Options A & B)	Procedures for Demand Resources and Energy Efficiency – setting forth rules and procedures for Demand Resource to provide capacity