

May 12, 2011

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. ER11-2875-002

Dear Ms. Bose:

PJM Interconnection, L.L.C. (“PJM”), pursuant to the Commission’s April 12, 2011 order in these proceedings,¹ hereby submits revisions to the PJM Open Access Transmission Tariff (“Tariff”) as directed by the April 12 Order. Consistent with the effective date established by the April 12 Order, the enclosed revised Tariff section reflects an effective date of April 13, 2011.

I. Background

On February 11, 2010, PJM filed Tariff revisions pursuant to section 205 of the Federal Power Act (“FPA”), 16 U.S.C. § 824d, to reform and update the minimum offer price rule (“MOPR”) in section 5.14(h) of Tariff Attachment DD (“February 11 Filing”). As explained in the February 11 Filing, the pre-existing provisions of the Reliability Pricing Model (“RPM”), which were intended to ensure that new entrants cannot use offers below competitive levels to suppress clearing prices, were outdated, ambiguous, and ineffective. The February 11 Filing, prompted in part by a complaint filed by the PJM Power Providers Group (“P3”) alleging inadequacies in the current MOPR, proposed various changes to ensure that the MOPR could fulfill its intended purpose.

The April 12 Order accepted PJM’s proposed Tariff changes subject to PJM revising those provisions in certain respects, through a compliance filing within 30 days of the April 12 Order. More specifically, the April 12 Order directed PJM to make the following compliance changes:

¹ *PJM Interconnection, L.L.C.*, 135 FERC ¶ 61,022 (2011) (“April 12 Order”).

- Apply the MOPR to new-entry offers in the Incremental Auctions, as well as offers in the Base Residual Auction;²
- Apply the MOPR to a new-entry resource only until an offer based on that new entry resource clears an RPM Auction;³
- Eliminate an exception based solely on a new entry project's satisfaction of state policy goals;⁴
- Eliminate reliance on FPA § 206 complaints as the vehicle for MOPR exceptions;⁵ and
- Establish a process by which the Independent Market Monitor for the PJM Region ("IMM") and PJM, review whether an offer below the MOPR's minimum-offer screens should nonetheless be permitted.⁶

As explained below, this filing addresses each of these compliance requirements.

II. Satisfaction of the Compliance Requirements of the April 12 Order.

A. Reducing the Time Period that MOPR Can Apply to Any Single New Entry Resource.

1. Commission Directive.

PJM's pre-existing Tariff applied the MOPR only to the first Delivery Year for which a new resource qualified as a Planned Generation Capacity Resource.⁷ Under that

² April 12 Order at P 176. The Base Residual Auction is the principal auction used in RPM to secure capacity commitments, conducted three years before the Delivery Year (a twelve-month period beginning each June 1) for which the capacity is committed. PJM also conducts three Incremental Auctions for each Delivery Year in the course of the three years following the Base Residual Auction.

³ *Id.*

⁴ *Id.* at PP 139-140.

⁵ *Id.* at P 118.

⁶ *Id.* at P 121.

⁷ See Reliability Assurance Agreement among Load-Serving Entities in the PJM Region, at section 1.70 (defining Planned Generation Capacity Resource).

provision, a seller could entirely avoid the MOPR by submitting an offer that is calculated not to clear in that single Delivery Year; the MOPR would then not apply to the seller's offers for that resource for any subsequent years. In the February 11 Filing, citing Commission precedent applying MOPR-type provisions for multiple years, PJM proposed applying the MOPR to a new entrant for a total of three years, beginning with the first RPM Base Residual Auction the planned resource clears.⁸ In the April 12 Order, the Commission found that PJM's pre-existing MOPR provision was unjust and unreasonable, but declined to adopt PJM's proposed revisions.⁹ Instead, the Commission directed PJM to revise the Tariff to apply the MOPR until the resource demonstrates that its capacity is needed by the market at a price near its full entry cost by clearing one RPM auction at an offer price near its full cost of entry.¹⁰

2. PJM Response.

As directed by the April 12 Order, PJM has deleted the language of section 5.14(h)(4) that applies the MOPR to offers based on a planned resource "up to and including the second successive Base Residual Auction after the Base Residual Auction in which such resource first clears;" and has replaced it with language applying the MOPR to a resource in the auctions for the Delivery Year in which it first qualifies as a planned resource and in the auctions for "any subsequent Delivery Year until the offer first clears an RPM Auction."

B. Extension of MOPR to Incremental Auctions.

1. Commission Directive.

The pre-existing Tariff applied the MOPR to offers in the Base Residual Auction, i.e., the three-year forward auction that provides the longest lead time to accommodate new entry. In the February 11 Filing, PJM revised the MOPR to apply it to multiple Delivery Years, but still applied it only to the Base Residual Auction for those years.¹¹ In response, P3 and the IMM both argued that the MOPR should apply in RPM's Incremental Auctions as well as the Base Residual Auction.¹² In the April 12 Order, the Commission agreed with that position.¹³

⁸ February 11 Filing at 19-20.

⁹ *Id.* at P 172.

¹⁰ *Id.* at P 176.

¹¹ *See* February 11 Filing at 19-20.

¹² April 12 Order at PP 162, 171.

¹³ *Id.* at P 176.

2. PJM Response.

PJM has revised section 5.14(h)(4) to replace references to “Base Residual Auction” with “RPM Auction,” which is the previously defined term used to refer generically to a Base Residual Auction or any of the Incremental Auctions.¹⁴ Given that these MOPR reforms have their first application in the Base Residual Auction for the 2014-2015 Delivery Year, the revised Tariff clarifies that the MOPR will apply to any Incremental Auctions beginning with that Delivery Year. There is not a strong need to apply the revised MOPR to the relatively few remaining Incremental Auctions for Delivery Years for which PJM already has conducted the Base Residual Auction,¹⁵ particularly as a price-suppression strategy attempted solely through those incremental auctions would have very little suppressing effect on the price paid by loads. Accordingly, to avoid unneeded administrative burdens and maintain consistent rules for all RPM auctions covering the same Delivery Year, PJM is applying the MOPR revisions to all RPM Auctions for the 2014-15 and subsequent Delivery Years.

C. Elimination of Exception Process for New Entry Projects Justified by State Policy.

1. Commission Directive.

The pre-existing Tariff exempted from the MOPR new entry projects approved by state regulators to resolve expected capacity shortages under certain conditions. The February 11 Filing retained a state-policy exception, but revised it from self-implementing (when the stated conditions are met) to case-by-case approval by the Commission through an FPA section 206 filing. In the April 12 Order, the Commission found that the state-policy exception should simply be eliminated, with no replacement process prescribed by the Tariff.¹⁶ The Commission noted, however, that even without the Tariff reference, a state still could request an exemption for reliability reasons under FPA section 206.¹⁷

2. PJM Response.

To comply with the April 12 Order, PJM is deleting from section 5.14(h)(5) the option for justifying a Sell Offer “based on new entry that is pursuant to a state-mandated

¹⁴ See Tariff, Attachment DD, section 2.60.

¹⁵ There are three such auctions yet to be held for the 2013-14 Delivery Year and two for the 2012-13 Delivery Year.

¹⁶ April 12 Order at PP 139-140

¹⁷ *Id.* at P 139 n.75

requirement that furthers a specific legitimate state objective” and that “would not lead to artificially depressed capacity prices or directly and adversely impact FERC’s ability to set just and reasonable rates” for relevant capacity sales.

D. Replacement of Exception Process Based on Commission Review Under FPA Section 206 with Exception Process Based on PJM and IMM Review.

1. Commission Directive.

The pre-existing Tariff allowed a seller whose offer falls below the MOPR’s minimum offer level to obtain a determination from the Commission prior to the relevant RPM auction that the offer is nonetheless permissible. In the February 11 Filing, PJM proposed to retain this exception process but clarify that the vehicle for obtaining that prior approval from the Commission would be an FPA section 206 filing. In the April 12 Order, the Commission rejected PJM’s proposed exception process and directed PJM instead to file “tariff revisions that allow the IMM and PJM to review such cost justifications.”¹⁸

Specifically, the Commission directed PJM to revise its tariff to include a process by which “a market participant may first submit its proposed offer with full documentation to the IMM for review” with “the opportunity to receive a determination from PJM if the IMM’s findings are adverse to its interests.”¹⁹ The Commission further directed PJM to include in its tariff revisions “an explanation of the information resources that will need to be submitted to the IMM” as well as “the objective standards by which such submittals will be evaluated.”²⁰ In that regard, the Commission found that PJM’s proposed standard that “a sell offer would be permissible when such offer is consistent with the competitive, cost-based, fixed, nominal levelized, net cost of new entry were the resource to rely solely on revenues from PJM-administered markets” is appropriate and ordered PJM to “include this language in its revised tariff.”²¹

2. PJM Response.

As required by the April 12 Order, PJM is revising section 5.14(h)(5) to replace the Commission review process with a procedure for PJM and IMM review of exception requests. PJM is adding several subsections to this portion of the MOPR to prescribe the process and requirements for review of exceptions.

¹⁸ *Id.* at P 118.

¹⁹ *Id.* at P 121.

²⁰ *Id.*

²¹ *Id.* at P 122.

a) Process and Timeline.

PJM is revising the Tariff to allow a Capacity Market Seller to request a MOPR exception up to 60 days before the auction in which it seeks to submit its Sell Offer. This corresponds to the current deadline for sellers to provide data to the IMM to support their proposed offer ceilings. PJM recognizes, however, that sellers contemplating new entry may wish to obtain assurance on their contemplated sell offer as soon as possible, and PJM wishes to encourage and accommodate such requests. PJM is revising the Tariff to clarify, therefore, that a seller may submit an exception request even before the minimum offer level is established under the MOPR for a Delivery Year. Although such offer level is not determined until approximately three months before the Base Residual Auction for a Delivery Year (at the same time Net CONE is determined), as a practical matter, the prior year's minimum offer level will provide an approximate indication of the likely level of the current year's level.²² The revised Tariff makes clear that if a seller submits an early request and PJM subsequently announces a minimum offer level for the Delivery Year that is lower than the seller's contemplated offer, then its offer will be permitted and the seller will need no exception.

The seller initiates the process by submitting its request, with full documentation, as described in revised Tariff and the PJM Manuals, simultaneously to both PJM and the IMM. This allows PJM to review the IMM's findings promptly if needed. The IMM must provide its findings on the request to both PJM and the seller within 30 days of receipt of the request. If the seller is adversely affected by the IMM's findings, it may request review by PJM. The Tariff also clarifies that, as tariff administrator, PJM may elect to review the IMM's findings on its own initiative.²³ PJM must provide the determination of whether the exception is granted (which may include simply affirming that it agrees with the IMM's findings) no later than 45 days after receipt of the request.

²² The Tariff prescribes changes in this value each year that could be significant but are not likely to be dramatic. The gross CONE component of the Net Asset Class CONE determination could change slightly from year to year based on changes in a utility construction cost index, and the offsetting energy revenue forecast will change as one year of historic data is substituted for another in the three-year rolling average estimating method. Moreover, the uncertainty about these changes diminishes as the year progresses and data, such as actual energy prices and biannual updates to the relevant construction cost indices, becomes available.

²³ This is consistent with Order No. 719. As the Commission explained in accepting PJM's Order No. 719 compliance filing, "[w]hile Order No. 719 permits the MMU to provide inputs into this calculation [of the forced outage rate in an RPM Sell Offer]; it requires that the RTO make the final determination regarding offers and rates." *PJM Interconnection, L.L.C.*, 129 FERC ¶ 61,250, at P 150 (2009).

b) Required Information.

As required by the April 12 Order, PJM is revising the Tariff to include “an explanation of the information resources that will need to be submitted” with a request for an exception to the MOPR.²⁴ In general, the Capacity Market Seller must include in its exception request “documentation to support the fixed development, construction, operation, and maintenance costs of the planned generation resource, as well as estimates of offsetting net revenues.” The revised Tariff requires “[e]stimates of costs or revenues [to] be supported at a level of detail comparable to the cost and revenue estimates used to support” the MOPR’s minimum offer level. While referencing that the PJM Manuals contain more detail, the revised Tariff states that “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;
- the bases and support for the claimed capitalization ratio, rate of return, cost-recovery period, inflation rate, or other parameters used in financial modeling; and
- identification and support for any sunk costs that the Capacity Market Seller has reflected as a reduction to its Sell Offer.

This listing roughly summarizes the information included in PJM’s various studies (as filed with the Commission) to support the gross cost of new entry (both for the RPM demand curve and the MOPR). It also generally corresponds with the structure of the analysis presented by West Deptford Energy, LLC (“WDE”) in the public version of its petition to the Commission in Docket No. ER11-2936-000 for a MOPR exception. Indeed, PJM would commend that analysis to the attention of any other seller seeking an exception from the MOPR.²⁵

²⁴ April 12 Order at P 121.

²⁵ While the public version of the WDE filing omits certain project-specific numbers and documents, those omissions would not be relevant to a seller seeking only a pattern or template for an exception request for its different project.

PJM emphasizes, however, that a seller is not required to follow the analyses PJM has filed in support of PJM's CONE levels, provided the seller satisfies the standard (as discussed below) for a MOPR exception. The Commission has accepted the results of PJM's estimating methods as reasonable but, estimates being estimates, other methodologies could also be reasonable if they are adequately supported and meet the applicable standards.

PJM also emphasizes that the revised Tariff's direction to sellers to provide support for the various components of their cost estimates does not mean that PJM (or the IMM) will conduct a "rate case" type of review of all inputs and assumptions in the seller's exception request, nor does it assign to either PJM or the IMM the quasi-regulatory role of divining a "just and reasonable" rate for the seller. The Commission has not assigned such a regulatory role to PJM (or the IMM); nor could it, under governing precedent.²⁶ Rather, the revised Tariff directs sellers to provide ample data in support of their exception request to facilitate a determination that the seller has met (or has failed to meet) the objective standards for an exception. As an important aid to that analysis, the revised Tariff also requires the request to "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 meets all standards [of section 5.14(h)] for an exception."

In addition to the above information on the project's costs, the revised Tariff also requires the Capacity Market Seller to "identify all revenue sources relied upon in the Sell Offer to offset the claimed fixed costs." As examples of such revenue sources, the revised Tariff lists "long-term power supply contracts, tolling agreements, or tariffs on file with state regulatory agencies." In accordance with the April 12 Order, which assures market participants that rate-base or other self-supply new entry projects are permissible, so long as they show the project is viable under a competitive revenue scenario,²⁷ the revised Tariff requires sellers to "demonstrate that such offsetting revenues are consistent, over a reasonable time period identified by the seller, with the standard" prescribed by the Commission for review of MOPR exceptions. The revised Tariff elaborates that such demonstration may include "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 Office of the Interconnection and the IMM." Revenue projections also should include supporting information relevant to plant

²⁶ See, e.g., *U.S. Telecom Ass'n v. FCC*, 359 F.3d 554, 565 (D.C. Cir. 2004) ("the case law strongly suggests that subdelegations [by federal administrative agencies] to outside parties are assumed to be improper absent an affirmative showing of congressional authorization").

²⁷ April 12 Order at P 194.

performance, e.g., the heat rate, minimum run times, forced outage rates, planned outage schedules, maintenance cycle, and the plant's ability to provide ancillary services.

Thus, as with a seller's support for its cost estimates, exception requests are not limited to the specific method of forecasting revenues used by PJM to set the Net CONE for the RPM demand curve or the MOPR. The April 12 Order properly affirmed PJM's proposal to use an energy revenue forecast based on three years of historic LMP data for purposes of the MOPR screen.²⁸ But as the focus shifts from a generic screen to case-specific support for a sell offer, sellers need not be bound to a single acceptable forecasting method. For example, PJM and its stakeholders actively considered certain forward market estimating methods for the RPM energy revenue offset a few years ago. PJM and its stakeholders were unable to reach agreement on a method to embed in the VRR Curve, but such forecasts may still have value for sellers seeking to support a specific project. Indeed, project developers may well consider such analyses to support their projects in other (non-MOPR) contexts, or may use such forecasts to arrive at a reasonable allocation of pricing risks in long-term agreements for the sale of capacity from the project.

Similarly, while a seller is required to show its project is economic on a nominal levelized basis, the Commission's standard does not dictate the time period a seller must use to make that showing. The revised Tariff, as quoted above, therefore clarifies that sellers must show that their project and its expected revenues meet the Commission's standard over "a reasonable time period identified by the seller."²⁹

Finally, the revised Tariff properly assures that PJM or the IMM can obtain the information needed to evaluate exception requests by noting that a seller shall provide "any additional supporting information reasonably requested by the Office of the Interconnection or the IMM to evaluate the Sell Offer."

²⁸ April 12 Order at P 48.

²⁹ PJM regards the element of time as important in considering a seller's demonstrated sources of revenue relative to the MOPR. For example, a fixed price rate or contract, or a rate or contract with a set premium or discount over a floating index, established for many years forward, affords the seller revenue certainty and serves as a hedge to its investment in the planned resource. An arrangement of this nature, having an extended tenor, will enable a seller to realize a lower real or imputed cost of capital because it eliminates a risk premium that would otherwise reflect the market or price risk to which a seller making spot or relatively short-term sales would be exposed. The MOPR screen, by contrast, changes every year to reflect changes in expected energy revenues and thus cannot be compared "apples to apples" with a long-term fixed price.

c) Objective Standard.

As directed by the April 12 Order, the revised Tariff at section 5.14(h)(5) adopts, verbatim, the governing standard prescribed by the Commission, i.e., a sell offer falling below the MOPR screen is nonetheless permissible if it is shown that the offer “is consistent with the competitive, cost-based, fixed, nominal levelized, net cost of new entry were the resource to rely solely on revenues from PJM-administered markets.”

To provide guidance to market participants as directed by the April 12 Order, the revised Tariff elaborates that a Sell Offer below the MOPR screen can be justified “based on competitive cost advantages relative to the costs estimated for” the MOPR screen, and explains that such competitive cost advantages could include those “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.” Thus, for example, PJM would not second-guess, or look beyond, an attractive cost of capital enjoyed by a seller simply because it is a franchised public utility in jurisdictions with traditional retail rate regulation (or part of a utility holding company with a large balance sheet and high credit rating), or because it is a joint action agency with long-established relationships with its municipal owners/customers, or because it is a public entity offering debt that is federal income tax-free to the holder. These long-standing and well-recognized financial advantages exist to advance public policies having nothing to do with PJM’s capacity market, and are not the sort of suspect cost advantages or price supports that led to the adoption of the MOPR or its reform in this docket.

Additionally, or alternatively, offers below the MOPR screen can be justified “based on net revenues that are reasonably demonstrated [under the MOPR provision] to be higher than estimated for” the MOPR screen. This provision builds on the provisions discussed above that require a seller to identify the revenue sources it is relying upon and to show that they are consistent with the Commission-prescribed standard (relying, if the seller chooses, on forecasts of competitive prices in the PJM region that may use methods other than PJM’s three-year average method). Any such forecast models must be well defined and transparent, i.e., the source of all inputs must be identified, and those sources must be readily available to both PJM and the IMM.

The revised Tariff expressly notes that PJM or the IMM will ask sellers to show that cost advantages or revenues that appear “irregular or anomalous, that do not reflect arm’s-length transactions, or that are not in the ordinary course of the seller’s business” are in fact consistent with the standards of section 5.14(h)(5). This Tariff guidance reinforces the point made above that the MOPR exception review process is not intended to be a full-blown rate case. Thus, while PJM will not seek to second-guess every cost input, it will be alert to claimed cost savings or revenue sources that appear unusual, questionable, or oriented more towards affecting RPM prices than furthering other valid purposes that are typically associated with the particular Capacity Market Seller. When presented with such costs or revenues, PJM’s role (and that of the IMM) will not be to make a policy determination on the economic merit of the cost or revenue item, or to

attempt to divine the seller's intent. Rather, the context in such cases is simply whether to uphold the minimum offer level prescribed for that year by explicit Tariff provisions, or to grant an exception to that minimum level in accordance with the Commission-prescribed objective standard. As the burden is on a seller requesting such an exception, if an item seems suspect or questionable, and the seller does not provide adequate information to support it, the consequence, as the revised Tariff expressly notes, is simply that no exception is granted.

Implicitly, a seller dissatisfied with the treatment of its exception request could pursue appropriate relief from the Commission. However, the April 12 Order did not direct PJM to establish a formal process for Commission review of these determinations. To the contrary, the Commission firmly reminded PJM and the other interested parties that a section 206 complaint is a right created by statute, and not one created by contract.³⁰ Accordingly, PJM has not specified a Commission review process in the revised Tariff. PJM understands that its determination on an exception request may not be the final word on the matter, but PJM need not prescribe in its Tariff how market participants petition the Commission to address an exception.

As to the timing for any such petition, the Commission should take this opportunity to reaffirm its comments on the pre-existing MOPR exception process that the risks of "untimely Commission action on such a filing fall solely on the seller proposing a non-conforming offer;" and that "no RPM auctions need be delayed to accommodate a seller seeking such relief."³¹ As explained above, PJM encourages sellers anticipating they will require a MOPR exception for their project to begin the process as early as possible, and PJM will accommodate such requests. While the enclosed Tariff revisions allow a seller to initiate its exception request with PJM and the IMM as late as 60 days before the auction, a seller that waits that long will have no practical opportunity for recourse to the Commission before the auction if it is not satisfied with PJM's response, and nothing herein requires PJM to delay the RPM auction in such circumstances.

Also unstated in these specific compliance Tariff changes, but no less relevant, are the avenues already available to PJM or the IMM to alert the Commission or its enforcement staff to concerns arising from their review of any MOPR exception request. If, in the course of that review, whether or not the request meets the specific standards for a MOPR exception, PJM obtains information indicating that a market participant may be violating an order, regulation, conduct standard, or market rule, PJM will refer that matter to the Commission. The IMM is similarly obliged to make a referral to the Commission under such circumstances.

³⁰ April 12 Order at P 140.

³¹ *PJM Interconnection, L.L.C.*, 122 FERC ¶ 61,264, at P 34 (2008).

III. Correspondence

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

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IV. Description of Submittal and Effective Date

Along with this transmittal letter, PJM submits electronic versions of the revisions to the Tariff in both marked (showing the changes) and clean forms. In accordance with the effective date established by the April 12 Order, the enclosed revised Tariff section has an effective date of April 13, 2011.³²

V. 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,³³ PJM will post a copy of this filing to the FERC filings section of its internet site, located at the following link:

³² While the MOPR revisions approved in this proceeding apply to the May 2011 Base Residual Auction conducted for the 2014-2015 Delivery Year, these compliance changes are being filed after that auction. To the extent any Capacity Market Sellers sought a MOPR exception for their offers in that auction, PJM has coordinated with the IMM to process such exception requests in accordance with the relevant requirements of the April 12 Order.

³³ See 18 C.F.R §§ 35.2(e) and 385.2010(f)(3).

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<http://www.pjm.com/documents/ferc-manuals.aspx> with a specific link to the newly-filed document, and will send an e-mail on the same date as this filing to all PJM Members and all state utility regulatory commissions in the PJM Region³⁴ alerting them that this filing has been made by PJM today and is available by following such link.

VI. Conclusion

Accordingly, PJM respectfully requests that the Commission accept the enclosed Tariff revisions, effective April 13, 2011.

Respectfully submitted,

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

CERTIFICATE OF SERVICE

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

Dated at Washington, D.C., this 12th day of May, 2011.

/s/ Paul M. Flynn
Paul M. Flynn

Marked Version

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 sum of the following: (1) the marginal value of system capacity for the PJM Region, without considering locational constraints, (2) the Locational Price Adder, if any in such LDA, (3) the Annual Resource Price Adder, if any, and (4) the Extended Summer Resource Price Adder, if any, all as determined by the Office of the Interconnection based on the optimization algorithm. If a Capacity Resource is located in more than one Locational Deliverability Area, it shall be paid the highest Locational Price Adder in any applicable LDA in which the Sell Offer for such Capacity Resource cleared. The Annual Resource Price Adder is applicable for Annual Resources only. The Extended Summer Resource Price Adder is applicable for Annual Resources and Extended Summer Demand Resources.

b) Resource Make-Whole Payments

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

c) New Entry Price Adjustment

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

1. Such Capacity Market Seller provides notice of such election at the time it submits its Sell Offer for such resource in the BRA for the first Delivery Year for which such resource is eligible to be considered a Planned Generation Capacity Resource;
2. Acceptance of such Sell Offer in such BRA increases the total Unforced Capacity in the LDA in which such Resource will be located from a megawatt quantity below the

LDA Reliability Requirement to a megawatt quantity corresponding to a point on the VRR Curve where price is no greater than 0.40 times the applicable Net CONE divided by (one minus the pool-wide average EFORD); and

3. 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 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; or B) 0.90 times the then-current Net CONE, on an Unforced Capacity basis, for such LDA.

If the Sell Offer is submitted consistent with the foregoing conditions, then:

- (i) in the first Delivery Year, the Resource sets the Capacity Resource Clearing Price for the LDA and all resources in the LDA receive the Capacity Resource Clearing Price.
- (ii) in the subsequent two BRAs, if the Resource clears, it shall receive the Capacity Resource Clearing Price for such LDA. If the Resource does not clear, it shall be deemed resubmitted at the highest price per MW at which the 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 it 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 that is entitled to compensation for such first year pursuant to section 5.14(b) of this Attachment. The Capacity Resource Clearing Price, and the resources cleared, shall be re-determined to reflect such resubmission. In such case, the Resource submitted under this provision shall be paid for the entire committed quantity 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).

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.

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.

4) On or before October 1, 2011, PJM shall file with FERC under FPA section 205 revisions to this section 5.14(c) as determined necessary by PJM following a stakeholder process, to address concerns expressed by some parties that this provision in its current form may not provide adequate long-term revenue assurances to support new entry. Any such changes also shall honor concerns expressed by FERC and others that any such revisions must not lead to undue price discrimination between existing and new resources.

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 as described in sections 5.13 and 5.15) equal to such LSE's Daily Unforced Capacity Obligation in a Zone during such Delivery Year multiplied by the applicable Final Zonal Capacity Price in such Zone. PJMSettlement shall be the Counterparty to the LSEs' obligations to pay, and payments of, Locational Reliability Charges.

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;

and 4) an adjustment, if required, to account for Resource Make-Whole Payments, 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); and (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). 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, through May 31, 2012, calculate and post the Final Zonal Capacity Price after all ILR resources are certified for the Delivery Years and, thereafter, shall calculate and post such price 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 (for the Delivery Years through May 31, 2012) to reflect the certified ILR compared to the ILR Forecast previously used for such Delivery Year, and any decreases in the Nominated Demand Resource Value of any existing Demand Resource cleared in the Base Residual Auction and Second Incremental Auction. For such purpose, for the three consecutive Delivery Years ending May 31, 2012 only, the Forecast ILR allocated to loads located in the AEP transmission zone that are served under the Reliability Pricing Model shall be in proportion for each such year to the load ratio share of such RPM loads compared to the total peak loads of such zone for such year; and any remaining ILR Forecast that otherwise would be allocated to such loads shall be allocated to all Zones in the PJM Region pro rata based on their Preliminary Zonal Peak Load Forecasts.

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 Planned Generation Capacity Resources

(1) For purposes of this section, the Net Asset Class Costs of New Entry shall be asset-class estimates of competitive, cost-based nominal levelized -Cost of New Entry, net of energy and ancillary service revenues. Determination of the gross Cost of New Entry component of the Net Asset Class Cost of New Entry shall be consistent with the methodology used to

determine the Cost of New Entry set forth in Section 5.10(a)(iv)(A) of this Attachment. The gross Cost of New Entry component of Net Asset Class Cost of New Entry shall be, for purposes of the Delivery Year commencing on June 1, 2014, the values indicated in the table below for each CONE Area for a combustion turbine generator (“CT”) and a combined cycle generator (“CC”), respectively, and shall be adjusted for subsequent Delivery Years in accordance with subsection (h)(2) below. The estimated energy and ancillary service revenues for each type of plant shall be determined as described in subsection (h)(3) below. Notwithstanding the foregoing, the Net Asset Class Cost of New Entry shall be zero for: (i) Sell Offers based on nuclear, coal or Integrated Gasification Combined Cycle facilities; or (ii) Sell Offers based on hydroelectric, wind, or solar facilities.

	CONE Area 1	CONE Area 2	CONE Area 3	CONE Area 4	CONE Area 5
CT \$/MW-yr	138,646	128,226	131,681	128,226	128,340
CC \$/MW-yr	175,250	154,870	164,375	154,870	154,870

(2) Beginning with the Delivery Year that begins on June 1, 2015, the 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 based on changes in the Applicable H-W Index, in the same manner as set forth for the cost of new entry in section 5.10(a)(iv)(B), provided, however, that nothing herein shall preclude the Office of the Interconnection from filing to change the Net Asset Class Cost of New Entry for any Delivery Year pursuant to appropriate filings with FERC under the Federal Power Act.

(3) 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 6.980 MMbtu/Mwh, the variable operations and maintenance expenses for such resource shall be \$3.23 per MWh, the Peak-Hour Dispatch scenario shall be modified to dispatch the CC 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.

(4) Any Sell Offer that is based on a Planned Generation Capacity Resource submitted in an ~~RPM Base-Residual~~ Auction for the first Delivery Year in which such resource qualifies as ~~a Planned Generation Capacity~~ such a ~~R~~Resource, or submitted in any ~~Base Residual~~ ~~RPM~~ Auction ~~for that or any subsequent Delivery Year until the offer first clears an RPM Auction up to and including the second successive Base Residual Auction after the Base Residual Auction in which such resource first clears,~~ in any LDA for which a separate VRR Curve ~~has been~~ is established for use in the Base Residual Auction for the Delivery Year relevant

to the RPM Auction in which such offer is submitted, and that is less than 90 percent of the applicable Net Asset Class Cost of New Entry or, if there is no applicable Net Asset Class Cost of New Entry, less than 70 percent of the Net Asset Class Cost of New Entry for a combustion turbine generator as provided in subsection (h)(1) above shall be set to equal 90 percent of the applicable Net Asset Class Cost of New Entry (or set equal to 70 percent of such cost for a combustion turbine, where there is no otherwise applicable net asset class figure), unless the Capacity Market Seller obtains the prior determination from ~~FERC~~the Office of the Interconnection described in subsection (5) hereof. This provision applies to Sell Offers submitted in Incremental Auctions for Delivery Years beginning on or after June 1, 2014.

(5) A Sell Offer meeting the criteria in subsection (4) shall be permitted and shall not be re-set to the price level specified in that subsection if the Capacity Market Seller ~~submits to FERC a filing under section 206 of the Federal Power Act sufficiently in advance of the Base Residual Auction to obtain~~ a determination from ~~FERC~~the Office of the Interconnection prior to ~~such the RPM a~~uction in which it seeks to submit the Sell Offer, that such Sell Offer is permissible because it is ~~either (A) consistent with the competitive, cost-based, fixed, nominal levelized, net cost of new entry were the resource to rely solely on revenues from PJM-administered markets (i.e., were all output from the unit sold in PJM-administered spot markets, and the resource received no out-of-market payments); or (B) the Sell Offer is based on new entry that is pursuant to a state-mandated requirement that furthers a specific legitimate state objective and that the Sell Offer would not lead to artificially depressed capacity prices or directly and adversely impact FERC's ability to set just and reasonable rates for capacity sales in the PJM Region or any affected Locational Deliverability Area.~~ The following process and requirements shall apply to requests for such determinations:

(i) The Capacity Market Seller may request such a determination at any time, but no later than 60 days prior to the auction in which it seeks to submit its Sell Offer, by submitting simultaneously to the Office of the Interconnection and the Market Monitoring Unit a request with full documentation as described below and in the PJM Manuals. A Capacity Market Seller may request such a determination before the minimum offer level specified in subsection (4) is established for the relevant Delivery Year, based on the minimum offer level established for the prior Delivery Year or other reasonable estimate of the minimum offer level expected for the relevant Delivery Year. In such event, if the minimum offer level 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 planned 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 an 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 Office of the Interconnection and the Market Monitoring Unit. 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. In addition to the documentation identified herein and in the PJM Manuals, the Capacity Market Seller shall provide any additional supporting information requested by the Office of the Interconnection or the Market Monitoring Unit to evaluate the Sell Offer.

(iii) A Sell Offer evaluated hereunder shall be permitted if the information provided reasonably demonstrates that the Sell Offer’s competitive, cost-based, fixed, nominal levelized, net cost of new entry is below the minimum offer level prescribed by subsection (4), based on competitive cost advantages relative to the costs estimated for subsection (4), 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 estimated for subsection (4). 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 an exception hereunder by the Office of the Interconnection.

(iv) the determination required under this subsection shall be provided to the Capacity Market Seller in writing by the Office of the Interconnection no later than 45 days after receipt of the request. The Market Monitoring Unit shall first review the information and documentation in support of the request and shall provide its findings in accordance with the standards and criteria hereunder in writing simultaneously to the Capacity Market Seller and the Office of the Interconnection no later than 30 days after receipt of such request. If the findings of the Market Monitoring Unit are adverse to the Capacity Market Seller, such Capacity Market Seller may request, through written notice within 5 days of its receipt of the Market Monitoring Unit's findings, review by the Office of the Interconnection, provided, however, that the Office of the Interconnection as Tariff administrator may elect to review any Market Monitoring Unit determination hereunder on its own initiative.

(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

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

(Export Reserved Capacity + 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.

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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 sum of the following: (1) the marginal value of system capacity for the PJM Region, without considering locational constraints, (2) the Locational Price Adder, if any in such LDA, (3) the Annual Resource Price Adder, if any, and (4) the Extended Summer Resource Price Adder, if any, all as determined by the Office of the Interconnection based on the optimization algorithm. If a Capacity Resource is located in more than one Locational Deliverability Area, it shall be paid the highest Locational Price Adder in any applicable LDA in which the Sell Offer for such Capacity Resource cleared. The Annual Resource Price Adder is applicable for Annual Resources only. The Extended Summer Resource Price Adder is applicable for Annual Resources and Extended Summer Demand Resources.

b) Resource Make-Whole Payments

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

c) New Entry Price Adjustment

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

1. Such Capacity Market Seller provides notice of such election at the time it submits its Sell Offer for such resource in the BRA for the first Delivery Year for which such resource is eligible to be considered a Planned Generation Capacity Resource;
2. Acceptance of such Sell Offer in such BRA increases the total Unforced Capacity in the LDA in which such Resource will be located from a megawatt quantity below the

LDA Reliability Requirement to a megawatt quantity corresponding to a point on the VRR Curve where price is no greater than 0.40 times the applicable Net CONE divided by (one minus the pool-wide average EFORD); and

3. 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 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; or B) 0.90 times the then-current Net CONE, on an Unforced Capacity basis, for such LDA.

If the Sell Offer is submitted consistent with the foregoing conditions, then:

- (i) in the first Delivery Year, the Resource sets the Capacity Resource Clearing Price for the LDA and all resources in the LDA receive the Capacity Resource Clearing Price.
- (ii) in the subsequent two BRAs, if the Resource clears, it shall receive the Capacity Resource Clearing Price for such LDA. If the Resource does not clear, it shall be deemed resubmitted at the highest price per MW at which the 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 it 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 that is entitled to compensation for such first year pursuant to section 5.14(b) of this Attachment. The Capacity Resource Clearing Price, and the resources cleared, shall be re-determined to reflect such resubmission. In such case, the Resource submitted under this provision shall be paid for the entire committed quantity 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).

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.

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.

4) On or before October 1, 2011, PJM shall file with FERC under FPA section 205 revisions to this section 5.14(c) as determined necessary by PJM following a stakeholder process, to address concerns expressed by some parties that this provision in its current form may not provide adequate long-term revenue assurances to support new entry. Any such changes also shall honor concerns expressed by FERC and others that any such revisions must not lead to undue price discrimination between existing and new resources.

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 as described in sections 5.13 and 5.15) equal to such LSE's Daily Unforced Capacity Obligation in a Zone during such Delivery Year multiplied by the applicable Final Zonal Capacity Price in such Zone. PJMSettlement shall be the Counterparty to the LSEs' obligations to pay, and payments of, Locational Reliability Charges.

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;

and 4) an adjustment, if required, to account for Resource Make-Whole Payments, 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); and (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). 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, through May 31, 2012, calculate and post the Final Zonal Capacity Price after all ILR resources are certified for the Delivery Years and, thereafter, shall calculate and post such price 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 (for the Delivery Years through May 31, 2012) to reflect the certified ILR compared to the ILR Forecast previously used for such Delivery Year, and any decreases in the Nominated Demand Resource Value of any existing Demand Resource cleared in the Base Residual Auction and Second Incremental Auction. For such purpose, for the three consecutive Delivery Years ending May 31, 2012 only, the Forecast ILR allocated to loads located in the AEP transmission zone that are served under the Reliability Pricing Model shall be in proportion for each such year to the load ratio share of such RPM loads compared to the total peak loads of such zone for such year; and any remaining ILR Forecast that otherwise would be allocated to such loads shall be allocated to all Zones in the PJM Region pro rata based on their Preliminary Zonal Peak Load Forecasts.

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 Planned Generation Capacity Resources

(1) For purposes of this section, the Net Asset Class Costs of New Entry shall be asset-class estimates of competitive, cost-based nominal levelized Cost of New Entry, net of energy and ancillary service revenues. Determination of the gross Cost of New Entry component of the Net Asset Class Cost of New Entry shall be consistent with the methodology used to

determine the Cost of New Entry set forth in Section 5.10(a)(iv)(A) of this Attachment. The gross Cost of New Entry component of Net Asset Class Cost of New Entry shall be, for purposes of the Delivery Year commencing on June 1, 2014, the values indicated in the table below for each CONE Area for a combustion turbine generator (“CT”) and a combined cycle generator (“CC”), respectively, and shall be adjusted for subsequent Delivery Years in accordance with subsection (h)(2) below. The estimated energy and ancillary service revenues for each type of plant shall be determined as described in subsection (h)(3) below. Notwithstanding the foregoing, the Net Asset Class Cost of New Entry shall be zero for: (i) Sell Offers based on nuclear, coal or Integrated Gasification Combined Cycle facilities; or (ii) Sell Offers based on hydroelectric, wind, or solar facilities.

	CONE Area 1	CONE Area 2	CONE Area 3	CONE Area 4	CONE Area 5
CT \$/MW-yr	138,646	128,226	131,681	128,226	128,340
CC \$/MW-yr	175,250	154,870	164,375	154,870	154,870

(2) Beginning with the Delivery Year that begins on June 1, 2015, the 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 based on changes in the Applicable H-W Index, in the same manner as set forth for the cost of new entry in section 5.10(a)(iv)(B), provided, however, that nothing herein shall preclude the Office of the Interconnection from filing to change the Net Asset Class Cost of New Entry for any Delivery Year pursuant to appropriate filings with FERC under the Federal Power Act.

(3) 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 6.980 MMBtu/Mwh, the variable operations and maintenance expenses for such resource shall be \$3.23 per MWh, the Peak-Hour Dispatch scenario shall be modified to dispatch the CC 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.

(4) Any Sell Offer that is based on a Planned Generation Capacity Resource submitted in an RPM Auction for the first Delivery Year in which such resource qualifies as a Planned Generation Capacity Resource, or submitted in any RPM Auction for that or any subsequent Delivery Year until the offer first clears an RPM Auction, in any LDA for which a separate VRR Curve is established for use in the Base Residual Auction for the Delivery Year relevant to the RPM Auction in which such offer is submitted, and that is less than 90 percent of the applicable Net Asset Class Cost of New Entry or, if there is no applicable Net Asset Class

Cost of New Entry, less than 70 percent of the Net Asset Class Cost of New Entry for a combustion turbine generator as provided in subsection (h)(1) above shall be set to equal 90 percent of the applicable Net Asset Class Cost of New Entry (or set equal to 70 percent of such cost for a combustion turbine, where there is no otherwise applicable net asset class figure), unless the Capacity Market Seller obtains the prior determination from the Office of the Interconnection described in subsection (5) hereof. This provision applies to Sell Offers submitted in Incremental Auctions for Delivery Years beginning on or after June 1, 2014.

(5) A Sell Offer meeting the criteria in subsection (4) shall be permitted and shall not be re-set to the price level specified in that subsection if the Capacity Market Seller obtains a determination from the Office of the Interconnection 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, nominal levelized, net cost of new entry were the resource to rely solely on revenues from PJM-administered markets. The following process and requirements shall apply to requests for such determinations:

(i) The Capacity Market Seller may request such a determination at any time, but no later than 60 days prior to the auction in which it seeks to submit its Sell Offer, by submitting simultaneously to the Office of the Interconnection and the Market Monitoring Unit a request with full documentation as described below and in the PJM Manuals. A Capacity Market Seller may request such a determination before the minimum offer level specified in subsection (4) is established for the relevant Delivery Year, based on the minimum offer level established for the prior Delivery Year or other reasonable estimate of the minimum offer level expected for the relevant Delivery Year. In such event, if the minimum offer level 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 planned 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 an 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 Office of the Interconnection and the Market Monitoring Unit. 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. In addition to the documentation identified herein and in the PJM Manuals, the Capacity Market Seller shall provide any additional supporting information requested by the Office of the Interconnection or the Market Monitoring Unit to evaluate the Sell Offer.

(iii) A Sell Offer evaluated hereunder shall be permitted if the information provided reasonably demonstrates that the Sell Offer's competitive, cost-based, fixed, nominal levelized, net cost of new entry is below the minimum offer level prescribed by subsection (4), based on competitive cost advantages relative to the costs estimated for subsection (4), 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 estimated for subsection (4). 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 an exception hereunder by the Office of the Interconnection.

(iv) the determination required under this subsection shall be provided to the Capacity Market Seller in writing by the Office of the Interconnection no later than 45 days after receipt of the request. The Market Monitoring Unit shall first review the information and documentation in support of the request and shall provide its findings in accordance with the standards and criteria hereunder in writing simultaneously to the Capacity Market Seller and the Office of the Interconnection no later than 30 days after receipt of such request. If the findings of the Market Monitoring Unit are adverse to the

Capacity Market Seller, such Capacity Market Seller may request, through written notice within 5 days of its receipt of the Market Monitoring Unit's findings, review by the Office of the Interconnection, provided, however, that the Office of the Interconnection as Tariff administrator may elect to review any Market Monitoring Unit determination hereunder on its own initiative.

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.