

ATTACHMENT ~~E~~A-1

MASTER STANDARD SERVICE OFFER (“SSO”)

SUPPLY -AGREEMENT

BETWEEN

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

THE TOLEDO EDISON COMPANY

OHIO EDISON COMPANY

AND

EACH SSO SUPPLIER SET FORTH ON APPENDIX A HERETO

MASTER SSO SUPPLY AGREEMENT

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**MASTER SSO SUPPLY AGREEMENT**

**THIS MASTER SSO SUPPLY AGREEMENT** (this “Agreement”) made and entered into this \_\_\_\_ day of \_\_\_\_\_, 20[ ] (the “Effective Date”) by and between The Cleveland Electric Illuminating Company, The Toledo Edison Company and Ohio Edison Company (collectively, the “Companies”), each of which is a corporation organized and existing under the laws of the State of Ohio, and each of the suppliers listed on Appendix A severally, but not jointly (each an “SSO Supplier” and, collectively, the “SSO Suppliers”). The Companies and each SSO Supplier are hereinafter sometimes referred to collectively as the “Parties,” or individually as a “Party.”

WITNESSETH:

**WHEREAS**, each of the Companies is an Ohio public utility engaged, inter alia, in providing SSO Service within its service territory; and

**WHEREAS**, the PUCO found that, commencing on and after June 1, 2011, it would serve the public interest for the Companies to secure SSO Supply through a competitive bidding process; and

**WHEREAS**, on \_\_\_\_\_, 20[ ], the Companies conducted and completed a successful Solicitation for SSO Supply; and

**WHEREAS**, each SSO Supplier was one of the winning bidders in the Solicitation for the provision of SSO Supply; and

**WHEREAS**, the PUCO has authorized the Companies to contract with winning bidders for the provision of SSO Supply to serve SSO Load in accordance with the terms of this Agreement; and

~~**WHEREAS**, as authorized pursuant to FERC’s approval of the FirstEnergy~~

~~application, as issued on December 17, 2009 and clarified on March 10, 2010, the ATSI Utilities' FRR plans for the 2011/2012 and 2012/2013 delivery years were established through the execution of two integration auctions and the ATSI Load Zone became integrated into the PJM Control Area effective as of June 1, 2011; and~~

~~**WHEREAS,** pursuant to the FRR Integration Plan, the Companies procured Capacity to fulfill the Forecast Pool Requirement for the ATSI Load Zone during the Transitional Period through capacity auctions which were administered by PJM in March 2010; and~~

~~**WHEREAS,** pursuant to the FRR Integration Plan, the LSEs operating in the ATSI Load Zone will purchase such Capacity from the Companies in satisfaction of their respective Capacity obligations under the PJM Agreements; and~~

~~**WHEREAS,** during the Transitional Period, each SSO Supplier, as an LSE in the ATSI Load Zone, will satisfy its Capacity obligations under the PJM Agreements associated with its respective SSO Supplier Responsibility Share through the purchase of Capacity from the Companies in accordance with the FRR Integration Plan; and~~

**WHEREAS,** following the termination of the Transitional Period, each SSO Supplier will satisfy its Capacity obligations under the PJM Agreements associated with its respective SSO Supplier Responsibility Share in accordance with the terms and provisions of the PJM Agreements, including through participation in the base residual auction and incremental auctions administered by PJM; and

**WHEREAS,** the Companies and the SSO Suppliers desire to enter into this Agreement setting forth their respective obligations concerning the provision of SSO Supply.

**NOW, THEREFORE**, in consideration of the mutual covenants and promises set forth below, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto, intending to be legally bound, hereby covenant, promise and agree as follows:

**ARTICLE 1: DEFINITIONS**

Any capitalized or abbreviated term not elsewhere defined in this Agreement will have the definition set forth in this Article.

**Ancillary Services** has the meaning set forth in the PJM Agreements.

**Affiliate** means, with respect to any entity, any other entity that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such entity. For this purpose, “control” means the direct or indirect ownership of fifty percent (50%) or more of the outstanding capital stock or other equity interests having ordinary voting power.

**Applicable Legal Authorities** means, generally, those federal and Ohio statutes and administrative rules and regulations that govern the electric utility industry in Ohio.

**ATSI LDA means the ATSI Locational Deliverability Area as defined by the PJM RAA.**

**ATSI Load Zone-~~FE~~ Ohio Aggregate** means that set of electrical locations determined pursuant to the applicable PJM Tariff, rules, agreements and procedures, representing the aggregate area of consumption for the Companies within PJM and used for the purposes of scheduling, reporting withdrawal volumes, and settling Energy transactions at aggregated load levels, to facilitate Energy market transactions.

**Bankrupt** means, with respect to any entity, that such entity (i) voluntarily files a petition or otherwise commences, authorizes or acquiesces in the commencement of a proceeding or cause of action under any bankruptcy, insolvency, reorganization or similar law, or has any such petition filed or commenced against it by its creditors and such petition is not dismissed within sixty (60) calendar days of the filing or commencement; (ii) makes an assignment or any general arrangement for the benefit of its creditors; (iii) otherwise becomes insolvent, however evidenced; (iv) has a liquidator, administrator, receiver, trustee, conservator or similar official appointed with respect to it or any substantial portion of its property or assets; or (v) is generally unable to pay its debts as they become due.

**Bankruptcy Code** means those laws of the United States of America related to

bankruptcy, codified and enacted as Title 11 of the United States Code, entitled “Bankruptcy” and found at 11 U.S.C. § 101 et seq.

**Billing Month** means each calendar month during the Delivery Period.

**Business Day** means any day except a Saturday, Sunday or a day that PJM declares to be a holiday, as posted on the PJM website. A Business Day shall open at 8:00 a.m. and close at 5:00 p.m. prevailing Eastern Time.

**Capacity** means “Unforced Capacity” as set forth in the PJM Agreements, or any successor measurement of the capacity obligation of an LSE as may be employed in PJM (whether set forth in the PJM Agreements or elsewhere).

**Charge** means any fee, charge, PJM charge, the PMEA/FMEA Adjustment if in favor of the Companies, or any other amount that is billable by the Companies to the SSO Supplier under this Agreement.

**Commercial Customer** means a Customer taking service under one of the Companies’ General Service – Small Tariffs.

**Costs** mean, with respect to the Non-Defaulting Party, all reasonable attorney’s fees, brokerage fees, commissions, PJM charges and other similar transaction costs and expenses reasonably incurred by such Party either in terminating any arrangement pursuant to which it has hedged its obligations or entering into new arrangements which replace this Agreement; and all reasonable attorney’s fees and expenses incurred by the Non-Defaulting Party in connection with the termination of this Agreement as between the Companies and the applicable SSO Supplier.

**Credit Limit** means an amount of credit, based on the creditworthiness of an SSO Supplier or its Guarantor, if applicable, determined pursuant to Section 6.6, granted by the Companies to such SSO Supplier to be applied towards the Total Exposure Amount for such SSO Supplier.

**CRES Supplier** means a Person that is duly certified by the PUCO to offer and to assume the contractual and legal responsibility to provide Standard Service Offer pursuant to retail open access programs approved by the PUCO to Customers who are not SSO Customers of the Companies.

**Customer** means any Person who receives distribution service from the Companies in accordance with the Applicable Legal Authorities.

**Default Allocation Assessment** has the meaning set forth in the PJM Agreements.

**Default Damages** means direct damages, calculated in a commercially reasonable manner, that the Non-Defaulting Party incurs as a result of an Event of Default by the Defaulting Party. Default Damages may include: (i) the positive difference (if any) between the Price of SSO Supply hereunder and the price at which the Companies or the



SSO Supplier is able to purchase or sell (as applicable) SSO Supply (or any components of SSO Supply it is able to purchase or sell) from or to third parties including other SSO Suppliers and PJM; (ii) Emergency Energy charges; (iii) additional transmission or congestion costs incurred to purchase or sell SSO Supply; and (iv) Costs.

**Defaulting Party** has the meaning set forth in Section 5.1.

**Delivery Period** means the Original Delivery Period, unless this Agreement is terminated earlier in accordance with the provisions hereof.

**Delivery Point** means the ~~ATSI Load Zone~~ FE Ohio Aggregate as defined within PJM for energy and the ATSI LDA for capacity-

**Delivery Year** has the meaning set forth in the PJM Agreements.

**Early Termination** has the meaning set forth in Section 4.4.

**Early Termination Date** means, as between the Companies and the applicable SSO Supplier, the date upon which an Early Termination becomes effective as specified in Section 5.2(b).

**Effective Date** has the meaning set forth in the preamble.

**Emergency** means (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; (ii) a condition that requires implementation of emergency operations procedures; or (iii) any other condition or situation that the Companies, transmission owner(s) or PJM deems imminently likely to endanger life or property or to affect or impair the Companies' electrical system or the electrical system(s) of other Person(s) to which the Companies' electrical system is directly or indirectly connected (a "Connected Entity"). Such a condition or situation may include potential overloading of the Companies' subtransmission or distribution circuits, PJM minimum generation ("light load") conditions, or unusual operating conditions on either the Companies' or a Connected Entity's electrical system, or conditions such that the Companies are unable to accept Energy from the SSO Supplier without jeopardizing the Companies' electrical system or a Connected Entity's electrical system.

**Emergency Energy** has the meaning set forth in the PJM Agreements.

**Energy** means three-phase, 60-cycle alternating current electric energy, expressed in units of kilowatt-hours or megawatt-hours.

**Excess Collateral** has the meaning set forth in Section 6.7(b).

**Event of Default** has the meaning set forth in Section 5.1.

**FERC** means the Federal Energy Regulatory Commission, or any successor thereto.

**Final Monthly Energy Allocation** or **FMEA** means a quantity of Energy expressed in MWh which, for any Billing Month, is the PMEA adjusted for any billing or metering errors found subsequent to the calculation of PMEA of which PJM is notified prior to the last date on which PJM issues a settlement statement for a previous operating day for the Billing Month.

**Firm Transmission Service** has the meaning ascribed to “Network Integration Transmission Service” under the PJM Agreements. In the event the PJM Agreements are modified such that “Network Integration Transmission Service” is no longer offered, Firm Transmission Service means the type of transmission service offered under the PJM Agreements that is accorded the highest level of priority for scheduling and curtailment purposes.

**FPA** has the meaning set forth in Section 10.3.

~~**FRR Integration Plan** means the plan approved by FERC as issued on December 17, 2009 and clarified on March 10, 2010, pursuant to which the LSEs operating in the ATSI Load Zone shall discharge certain of their Capacity obligations under the PJM Agreements during the Transitional Period.~~

**First Mortgage Bond** – has the meaning ascribed in Section 6.9(c) of this Agreement.

**Forecast Pool Requirement** has the meaning set forth in the PJM Agreements.

**Forward Market Prices** means forward market prices for a specific geographic Market Price Hub.

**Gains** means an amount equal to the present value of the economic benefit to the Non-Defaulting Party, if any, exclusive of Costs, resulting from an Early Termination.

**Generator Attribute Tracking System** or **GATS** means the system owned and operated by PJM Environmental Services, Inc. to provide environmental and emissions attributes reporting and tracking to its subscribers to meet the information disclosure requirements of states that have renewable portfolio standard requirements.

**General Service – Small Tariffs** means Rate Schedules GS, GP, STL, TRF and POL of the Companies’ Tariffs for Electric Service.

**General Service – Large Tariffs** means Rate Schedules GSU and GT of the Companies’ Tariffs for Electric Service.

**Governmental Authority** means any federal, state, local, municipal or other governmental entity, authority or agency, department, board, court, tribunal, regulatory commission, or other body, whether legislative, judicial or executive, together or individually, exercising or entitled to exercise any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power over a Party to this Agreement.

**Guaranty** means the ICT Guaranty or the Total Exposure Amount Guaranty, as applicable.

**Guarantor** means any Person having the authority and agreeing to guarantee an SSO Supplier's financial obligations under this Agreement, provided that such party meets the Companies' creditworthiness requirements for SSO Suppliers.

**ICR Collateral** has the meaning set forth in Section 6.4(d).

**ICRT** has the meaning set forth in Section 6.3.

**ICT Guaranty** means a guaranty, in the form substantially set forth in Appendix E, provided by a Guarantor in favor of the Companies guaranteeing an SSO Supplier's financial obligations in connection with ICT.

**Indemnified Supplier** has the meaning set forth in Section 12.1(b).

**Independent Credit Requirement** or **ICR** means an amount per Tranche required as security under Section 6.3, to mitigate the risk to the Companies of Energy price movements between the date of an Early Termination caused by an Event of Default by an SSO Supplier and the date the final calculation of Default Damages owing to the Companies under Section 5.2(c) is made.

**Independent Credit Threshold** or **ICT** means an amount of credit, based on the creditworthiness of an SSO Supplier or its Guarantor, if applicable, determined pursuant to Section 6.4, granted by the Companies to such SSO Supplier to be applied towards the satisfaction of such SSO Supplier's Independent Credit Requirement.

**Industrial Customer** means a Customer taking service under one of the Companies' General Service – ~~Large-GSU and GT~~ Tariffs.

**Interest Index** means the average Federal Funds Effective Rate, defined below, for the period of time the funds are on deposit. The Federal Funds Effective Rate is published daily on the Federal Reserve website <http://www.federalreserve.gov/releases/h15/update/>.

Field Code Changed

**Kilowatt** or **kW** means a unit of measurement of useful power equivalent to 1,000 watts.

**Kilowatt-hour** or **kWh** means one kilowatt of electric power used over a period of one hour.

**Letter of Credit** means a standby irrevocable letter of credit acceptable to the Companies issued by a bank or other financial institution with a minimum "A" senior unsecured debt rating (or, if unavailable, corporate issuer rating) from S&P or a minimum "A2" senior unsecured debt rating (or, if unavailable, corporate issuer rating) from Moody's, in substantially similar form as set forth in Appendix D and including all of the requirements specifically set forth in Section 6.9(b).

**Load Serving Entity** or **LSE** has the meaning set forth in the applicable PJM Agreements.

**Losses** means an amount equal to the present value of the economic loss to the Non-

Defaulting Party, if any, exclusive of Costs, resulting from an Early Termination.

**Margin** means, at any time, the amount by which the Total Exposure Amount exceeds the Credit Limit of the SSO Supplier or its Guarantor.

**Margin Call** has the meaning set forth in Section 6.6(e).

**Margin Collateral** has the meaning set forth in Section 6.6(e).

**Mark-to-Market Exposure Amount** means an amount calculated daily for each SSO Supplier reflecting the exposure to the Companies due to fluctuations in market prices for Energy as set forth in Section 6.5, minus amounts due to such SSO Supplier pursuant to Section 8.1.

**Market Price Hub** means a liquid pricing point located within PJM's geographic footprint.

**Megawatt** or **MW** means one thousand kilowatts.

**Megawatt-hour** or **MWh** means one megawatt of electric power used over a period of one hour.

**Minimum Margin Threshold** means \$250,000.

**Minimum Rating** means a minimum senior unsecured debt rating as defined in Section 6.4(a)(i) of this Agreement.

**Midwest ISO Tariff** means the Open Access Transmission, Energy and Operating Reserve Markets Tariff for the Midwest Independent Transmission System Operator, Inc., or the successor, superseding or amended versions of the Open Access Transmission, Energy and Operating Reserve Markets Tariff that may take effect from time to time.

**NERC** means the North American Electric Reliability Corporation or its successor.

**Non-Defaulting Party** means (i) where an SSO Supplier is the Defaulting Party, each of the Companies; (ii) where any of the Companies is the Defaulting Party with respect to an Event of Default, the SSO Supplier to which the applicable obligation was owed.

**Ohio Sales and Use Taxes** has the meaning set forth in Section 13.8.

**Original Delivery Period** has the meaning set forth in Appendix A.

**Other SSO Supply Agreement** has the meaning set forth in Section 5.3(c).

**Party** has the meaning set forth in the preamble to this Agreement, and includes such Party's successors and permitted assigns.

**Person** means an individual, partnership, joint venture, corporation, limited liability

company, trust, association or unincorporated organization, any Governmental Authority, or any other entity.

**PJM** means PJM Interconnection, L.L.C. or any successor organization thereto.

**PJM Agreements** means the PJM OATT, PJM Operating Agreement, PJM RAA and any other applicable PJM manuals or documents, or any successor, superseding or amended versions thereof that may take effect from time to time.

**PJM Control Area** means the control area recognized by NERC as the PJM Control Area.

**PJM E-Account** means an account obtainable through PJM which provides access to web-based PJM settlement, accounting, marketing and other informational and economic systems.

**PJM OATT** or **PJM Tariff** means the Open Access Transmission Tariff of PJM or the successor, superseding or amended versions of the Open Access Transmission Tariff that may take effect from time to time.

**PJM Operating Agreement** means the Amended and Restated Operating Agreement of PJM or the successor, superseding or amended versions of the Amended and Restated Operating Agreement that may take effect from time to time.

**PJM RAA** means the Reliability Assurance Agreement Among Load Serving Entities in the PJM Region or any successor, superseding or amended versions of the Reliability Assurance Agreement Among Load Serving Entities in the PJM Region that may take effect from time to time.

**PMEA** means a quantity of Energy expressed in MWh which, for any Billing Month, is the preliminary calculation of the SSO Supplier's SSO Supplier Responsibility Share.

**PMEA/FMEA Adjustment** means, for any Billing Month, the monetary amount due to an SSO Supplier or the Companies, as the case may be, in order to reconcile any difference between the PMEA used for the purpose of calculating estimated payments made to such SSO Supplier for a given month and the FMEA used for calculating the final payments due to the SSO Supplier for such month, as more fully described in Article 8.

**Price** means, with respect to each SSO Supplier, the price in \$/MWh set forth in Appendix A, resulting from the Companies' Solicitation for the opportunity to provide SSO Supply. The Price is the basis for financial settlement of SSO Supply supplied by an SSO Supplier for SSO Customers under this Agreement.

**PUCO** means the Public Utilities Commission of Ohio, or any successor thereto.

**Residential Customer** means a Customer taking service under any of the Companies' Residential Tariffs.

**Residential Tariff** means Rate Schedule RS.

**Seasonal Billing Factor** means a numerical factor, as set forth in Appendix B, one amount applicable during the summer months of June through August, and one amount applicable during the non-summer months of September through May, applied to the Price in accordance with the provisions of Article 8 and thereby used to adjust the Companies' payments to SSO Suppliers.

**Settlement Amount** means the net amount of the Losses or Gains, and Costs, expressed in U.S. Dollars, which the Non-Defaulting Party incurs as a result of Early Termination, calculated from the Early Termination Date through the end of the Original Delivery Period. For purposes of calculating the Settlement Amount, the quantity of Energy (and other components of SSO Supply) provided for under this Agreement for the period following the Early Termination Date through the remainder of the Original Delivery Period will be deemed to be those quantities that were delivered on an hourly basis, or would have been delivered on an hourly basis had this Agreement been in effect, during the previous calendar year, adjusted for any SSO Load changes as may have occurred since the previous calendar year as determined by the Companies. The calculation of Settlement Amount with respect to an Early Termination shall exclude Default Damages calculated pursuant to Section 5.2(b).

**Solicitation** means the competitive bidding process by which the counterparty, quantity, pricing and other terms of this Agreement are established.

**SSO Customers** means Residential Customers, Commercial Customers and Industrial Customers, including special contract (SC) Customers, taking SSO Supply from the Companies during the Delivery Period.

**SSO Load** means the full electricity requirements for SSO Service of SSO Customers.

**SSO Service** means Standard Service Offer service that is not provided by a CRES Supplier and excludes the load of customers served via the Percentage of Income Payment Plan ("PIPP").

**SSO Supplier** has the meaning set forth in the preamble.

**SSO Supplier Responsibility Share** means, for each SSO Supplier, the fixed percentage share of the SSO Load for which the SSO Supplier is responsible as set forth in Appendix A. The stated percentage is determined by dividing the number of Tranches won by the SSO Supplier in the Solicitation by the total number of Tranches.

**SSO Supply** means unbundled Energy, Capacity and Ancillary Services, including, to the extent not expressly assumed by the Companies pursuant to Section 2.3, all transmission and distribution losses and congestion and imbalance costs associated with the provision of such services, as measured and reported to PJM, and such other services or products that an SSO Supplier may be required to provide, by PJM or other Governmental Authority, in order to meet the requirements of SSO Service.

**Standard Service Offer** means a market-based standard service offer of all competitive retail electric services necessary to maintain essential electric service to Customers, including unbundled Energy, Capacity, Ancillary Services and Firm Transmission Service, including all transmission and distribution losses, congestion and imbalance costs associated with the provision of the foregoing services, other obligations or responsibilities currently imposed or that may be imposed by PJM, and such other services or products that are provided by a CRES Supplier or an SSO Supplier to fulfill its obligations to serve customer load, as required by Section 4928.141 of the Ohio Revised Code.

**Statement** has the meaning set forth in Section 8.1(a).

**Tangible Net Worth** or **TNW** means total assets less intangible assets and total liabilities. Intangible assets include benefits such as goodwill, patents, copyrights and trademarks, each as would be reflected on a balance sheet prepared in accordance with generally accepted accounting principles.

**Taxes** have the meaning set forth in Section 13.8.

**Term** has the meaning set forth in Section 4.1.

**Termination Payment** has the meaning set forth in Section 5.3(c).

**Total Exposure Amount** means an amount calculated daily for each SSO Supplier reflecting the total credit exposure to the Companies and consisting of the sum of: (i) the Mark-to-Market Exposure Amount arising under this Agreement; (ii) any amount(s) designated as the “mark-to-market exposure amount” (or similar designation) under any Other SSO Supply Agreement; and (iii) the amount designated as the “credit exposure” (or similar designation) under any Other SSO Supply Agreement; provided that in the event the amount calculated for any day is a negative number, it shall be deemed to be zero for such day.

**Total Exposure Amount Guaranty** means a guaranty, in substantially similar form as set forth in Appendix E, provided by a Guarantor in favor of the Companies guaranteeing an SSO Supplier’s financial obligation with respect to its Total Exposure Amount.

**Tranche** means a fixed percentage share of the SSO Load as determined for the purposes of the Solicitation conducted to procure SSO Supply for the SSO Load.

~~**Transitional Period** means the two consecutive Delivery Years beginning June 1, 2011 through May 31, 2013.~~

**UCC** means the Uniform Commercial Code.

## **ARTICLE 2: GENERAL TERMS AND CONDITIONS**

### **2.1 SSO Supplier’s Obligations to Provide SSO Supply**

Each SSO Supplier hereby agrees, severally, but not jointly, as follows:

(a) during the Delivery Period, such SSO Supplier shall sell, deliver and provide SSO Supply on a firm and continuing basis in order to meet its SSO Supplier Responsibility Share, in accordance with this Agreement and the PJM Agreements;

~~(b) in accordance with the FRR Integration Plan, during the Transitional Period, each SSO Supplier shall purchase from the Companies (and, unless the Companies direct otherwise, provide payment for the same to PJM in accordance with Section 8.2(b)) the Capacity necessary to fulfill the Capacity obligation associated with such SSO Supplier's SSO Supplier Responsibility Share pursuant to the PJM Agreements;~~

~~(e)(b)~~ (i) except with respect to Capacity, each SSO Supplier's obligation under Sections 2.1(a) ~~and (b)~~ will result in physical delivery and not financial settlement; (ii) the quantity of SSO Supply that such SSO Supplier must deliver will be determined by the requirements of the SSO Load, which may be different than the amount indicated in the Solicitation; and (iii) this Agreement does not provide for an option by such SSO Supplier with respect to the quantity of SSO Supply to be delivered; and

~~(d)(c)~~ each SSO Supplier shall deliver SSO Supply to the Delivery Point under this Agreement free and clear of any and all liens, security interests, claims and encumbrances or any interest therein or thereto by any Person.

## **2.2 Companies' Obligation to Take SSO Supply**

During the Delivery Period, the Companies shall purchase and accept SSO Supply provided by an SSO Supplier pursuant to Section 2.1.

## **2.3 Firm Transmission Service and other Transmission Charges**

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The Companies shall be responsible for the provision of Firm Transmission Service from the Delivery Point. In addition, the Companies shall be responsible, at their sole cost and expense, for (i) charges and credits assessed under Schedule 1 (Scheduling, System Control and Dispatch Service), Schedule 1A (Transmission Owner Scheduling, System Control and Dispatch Services), Schedule 2 (Reactive Supply and Voltage Control from Generation or Other Sources Services), "Network Integration Transmission Service (NITS)" under the PJM Agreements, Schedule 11 (Transitional Market Expansion Charge) and Schedule 12 (Transmission Enhancement Charge) of the PJM Tariff, and (ii) Midwest ISO Transmission Expansion Plan (MTEP) charges assessed under Schedule 26 of the Midwest ISO Tariff, whether assessed directly by the Midwest Independent Transmission System Operator, Inc., PJM or American Transmission Systems, Incorporated, and (iii) other non-market-based costs, fees or charges imposed on or charged to the Companies by FERC or a regional transmission organization, independent transmission operator, or similar organization approved by FERC. The Companies shall have such responsibility regarding such services and schedules as they may be modified or superseded from time to time. Each SSO Supplier shall be responsible for all other costs and expenses related to transmission and Ancillary Services in connection with the provision of SSO Supply in proportion to its SSO Supplier Responsibility Share. PJM billing statement line items are set forth in Appendix G.

#### **2.4 Other Changes in PJM Charges**

Each SSO Supplier is responsible, at its sole cost and expense, for any changes in PJM products and pricing during the Term.

#### **2.5 Congestion and Congestion Management**

Each SSO Supplier is responsible for any congestion costs incurred to supply its SSO Supplier Responsibility Share.

## **2.6 Record Retention**

The Companies will retain for a period of two (2) years following the expiration of the Term necessary records so as to permit the SSO Suppliers to confirm the validity of payments due to the SSO Suppliers hereunder; provided that, if an SSO Supplier has provided notice within two (2) years of the expiration of the Term that it disputes the validity of any payments, the Companies agree that they will retain all records related to such dispute until the dispute is resolved pursuant to Article 10.

Each SSO Supplier will have the right, upon reasonable notice, to inspect (at the sole cost and expense of such SSO Supplier) the books and records retained by the Companies only insofar as they relate to payments due and owing, or owed and paid, to such SSO Supplier. Such inspection must take place during regular business hours.

## **2.7 PJM E-Accounts**

Each SSO Supplier and the Companies shall work with PJM to establish any PJM E-Accounts necessary for such SSO Supplier to provide SSO Supply. Each SSO Supplier may manage its PJM E-Accounts in its sole discretion; provided such SSO Supplier acts in accordance with the standards set forth in the PJM Agreements.

## **2.8 Reliability Guidelines**

Each Party agrees to adhere to the applicable operating policies, criteria and guidelines of the NERC, PJM, their successors, and any regional or sub-regional requirements.

## **2.9 PJM Membership**

(a) Each SSO Supplier shall be at all times during the Delivery Period (i) a member in good standing of PJM; (ii) qualified by PJM as a “Market Buyer” and “Market Seller” pursuant to the PJM Agreements, and (iii) qualified as a PJM “Load Serving Entity.” During the Delivery Period, each of the Companies shall be a member in good standing of PJM.

(b) Each SSO Supplier shall be responsible, and be liable, to PJM for the performance of its LSE obligations associated with the provision of SSO Supply under this Agreement.

#### **2.10 Declaration of Authority**

The Companies and each SSO Supplier shall have executed the Declaration of Authority in the form attached hereto as Appendix F.

#### **2.11 Regulatory Authorizations**

(a) The Companies and each SSO Supplier shall obtain and maintain throughout the Delivery Period all regulatory authorizations necessary to perform their respective obligations under this Agreement, and with respect to SSO Suppliers only, each SSO Supplier shall have and maintain, throughout the Delivery Period, FERC authorization to make sales of Energy, Capacity, and Ancillary Services at market-based rates within PJM.

(b) Each SSO Supplier shall cooperate in good faith with the Companies in any regulatory compliance efforts as may be required to maintain the ongoing legitimacy and enforceability of the terms of this Agreement and to fulfill any regulatory reporting requirement associated with the provision of SSO Supply before the PUCO, FERC or any other Governmental Authority.

**2.12 Retail Distribution**

The Companies will be responsible for (i) metering, billing and delivery with respect to SSO Customers (and SSO Suppliers will have no responsibility with respect thereto) and (ii) distribution services (and SSO Suppliers will have no responsibility with respect thereto).

**2.13 PJM Member Default Cost Allocation**

In the event PJM imposes a Default Allocation Assessment upon any of the Companies relating to a default during the Term, the Companies may, in their sole discretion, invoice each SSO Supplier, based on its SSO Supplier Responsibility Share, for amounts determined, in the Companies' sole discretion, to be properly payable by such SSO Supplier from the Default Allocation Assessment and each SSO Supplier shall pay such amounts within three (3) Business Days after receipt of such invoice, subject to the dispute resolution procedures set forth in Section 8.1(f).

**2.14 Status of SSO Supplier**

In order to meet the Companies' service obligations under Applicable Legal Authorities, it is the intent of the Parties that each SSO Supplier shall be deemed a Load Serving Entity for the duration of the Delivery Period pursuant to the PJM Agreements and Applicable Legal Authorities.

**2.15 Sales for Resale**

All SSO Supply provided by an SSO Supplier to the Companies shall be sales for resale, with the Companies reselling such SSO Supply to SSO Customers.

**ARTICLE 3: REPRESENTATIONS AND WARRANTIES**

**3.1 SSO Supplier's Representations and Warranties**

Each SSO Supplier hereby represents and warrants to the Companies as follows:

(a) it is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and, if organized outside the State of Ohio, is duly registered and authorized to do business and is in good standing in the State of Ohio;

(b) it has all requisite power and authority to execute and deliver this Agreement, to carry on the business to be conducted by it under this Agreement and to enter into and perform its obligations hereunder, including the satisfaction of all applicable PUCO, FERC and PJM requirements;

(c) the execution, delivery and performance of this Agreement are within its powers, have been duly authorized by all necessary action and do not violate any of the terms and conditions in its governing documents, any contracts to which it is a party or any law, rule, regulation, order or decree of any Governmental Authority;

(d) this Agreement is the legal, valid and binding obligation of such SSO Supplier, enforceable in accordance with its terms, except insofar as such enforcement may be affected by bankruptcy, insolvency, moratorium or other laws affecting creditors' rights generally;

(e) as of the commencement of the Original Delivery Period, it has duly obtained all authorizations from any Governmental Authority necessary for it to perform its obligations under this Agreement;

(f) there are no pending, or to its knowledge threatened, actions, suits or proceedings against it or any of its Affiliates, or any legal proceedings before any

Governmental Authority that could reasonably be expected to adversely affect its ability to perform its obligations under this Agreement;

(g) it is not relying upon the advice or recommendations of any other Party in entering into this Agreement, it is capable of understanding, understands and accepts the terms, conditions and risks of this Agreement, and no other Party is acting as a fiduciary for or advisor to it in respect of this Agreement;

(h) no Event of Default with respect to it has occurred and is continuing and no such event or circumstance will occur as a result of its entering into or performing its obligations under this Agreement;

(i) it is a “forward contract merchant” within the meaning of the United States Bankruptcy Code;

(j) it is not in violation of any law, rules, regulations, ordinances or judgments of any Governmental Authority which could reasonably be expected to adversely affect its ability to perform its obligations under this Agreement;

(k) as of the commencement of the Original Delivery Period, it is (i) a member in good standing of PJM; (ii) qualified by PJM as a “Market Buyer” and “Market Seller” pursuant to the PJM Agreements and (iii) qualified as a PJM “Load Serving Entity;”

(l) as of the commencement of the Original Delivery Period, it has duly executed the Declaration of Authority in the form attached hereto as Appendix F, which is in full force and effect; and

(m) as of the commencement of the Original Delivery Period, it has duly obtained all FERC authorization necessary or desirable to make sales of Energy, Capacity, and Ancillary Services at market-based rates within PJM.

### **3.2 Companies' Representations and Warranties**

Each of the Companies hereby represents and warrants to the SSO Suppliers as follows:

(a) it is an electric utility corporation duly organized, validly existing and in good standing under the laws of the State of Ohio;

(b) it has all requisite power and authority to carry on the business to be conducted by it under this Agreement and to enter into and perform its obligations hereunder;

(c) the execution, delivery and performance of this Agreement are within its powers, have been duly authorized by all necessary action and do not violate any of the terms and conditions in its governing documents, any contracts to which it is a party or any law, rule, regulation, order or decree of any Governmental Authority;

(d) this Agreement is the legal, valid and binding obligation of the Company, enforceable in accordance with its terms, except insofar as such enforcement may be affected by bankruptcy, insolvency, moratorium or other laws affecting creditors' rights generally;

(e) as of the commencement of the Original Delivery Period, it has duly obtained all authorizations from any Governmental Authority necessary for it to perform its obligations under this Agreement;

(f) there are no pending, or to its knowledge threatened, actions, suits or proceedings against it or any of its Affiliates, or any legal proceedings before any Governmental Authority that could reasonably be expected to adversely affect its ability to perform its obligations under this Agreement;

(g) it is not relying upon the advice or recommendations of any other Party in entering into this Agreement, it is capable of understanding, understands and accepts the terms, conditions and risks of this Agreement, and no other Party is acting as a fiduciary for or advisor to it in respect of this Agreement;

(h) no Event of Default with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement; and

(i) it is not in violation of any law, rules, regulations, ordinances or judgments of any Governmental Authority which could reasonably be expected to adversely affect its ability to perform its obligations under this Agreement.

### **3.3 Notice**

If a Party becomes aware that any of the representations, warranties, or covenants in this Agreement are no longer true during the Term, such Party must immediately notify the other Parties in accordance with the notice provisions of Section 13.1, provided that if the notifying Party is an SSO Supplier, the SSO Supplier does not have to notify any other SSO Supplier.

## **ARTICLE 4: COMMENCEMENT AND TERMINATION OF AGREEMENT**

### **4.1 Term**



The term of this Agreement will commence upon the Effective Date and continue through the end of the Delivery Period (the “Term”); provided, however, that the provision of SSO Supply by SSO Suppliers will commence on June 1, ~~2011~~ at 12:00:01 a.m. prevailing Eastern Time.

#### **4.2 Effect of Termination on Obligations; Survival**

Termination of this Agreement, including Early Termination as between the Companies and an SSO Supplier for any reason, shall not relieve the Companies or such SSO Supplier of any obligation accruing on or prior to such termination. Any termination of this Agreement, including Early Termination, as between the Companies and an SSO Supplier, shall not relieve or otherwise affect the Companies or other SSO Suppliers with respect to their other obligations under this Agreement, absent a written agreement to the contrary among the remaining parties. All provisions of this Agreement which must, in order to give full force and effect to the rights and obligations of the Parties, survive termination or expiration of this Agreement shall so survive, including Articles 5, 10, 11, 12 and 13 and Sections 2.6, 6.8, 6.11, 8.1(d) and (h), in accordance with the terms thereof.

#### **4.3 Mutual Termination**

The Companies and any SSO Supplier may agree at any time during the Term to terminate their respective rights and obligations hereunder on such terms and under such conditions as they mutually deem to be appropriate as set forth in a mutual termination agreement acceptable in form and substance to the Companies and such SSO Supplier.

#### **4.4 Early Termination**

This Agreement may be terminated as between the Companies and an SSO

Supplier prior to the end of the Term due to the occurrence of an Event of Default and the declaration of an Early Termination Date by the Non-Defaulting Party pursuant to Section 5.2 (an “Early Termination”).

## **ARTICLE 5: BREACH AND DEFAULT**

### **5.1 Events of Default**

An “Event of Default” shall mean with respect to a Party (the “Defaulting Party”) the occurrence of any of the following:

(a) the failure of the Defaulting Party to make, when due, any payment required pursuant to this Agreement (including under Section 8.2(b)) if such failure is not remedied within one (1) Business Day after receipt of written notice of non-payment;

(b) with respect to an SSO Supplier, the failure of the Defaulting Party to provide Margin Collateral, or with respect to any of the Companies, the failure of the Defaulting Party to return Excess Collateral, in each case pursuant to Section 6.7;

(c) failure of the Defaulting Party to comply with its obligations pursuant to Article 6 (except to the extent constituting a separate Event of Default under Section 5.1(b)) if such failure is not remedied within three (3) Business Days of such failure;

(d) any representation or warranty made by the Defaulting Party herein is false or misleading in any material respect when made;

(e) the failure of the Defaulting Party to comply with the requirements of Sections 2.9 and 2.11 if such failure is not remedied within three (3) Business Days of such failure;

(f) PJM has declared the Defaulting Party to be in default of any provision of any PJM Agreement, which default prevents the Defaulting Party's performance hereunder, if such failure is not remedied within three (3) Business Days after written notice;

(g) the failure of the Defaulting Party to perform any material obligation set forth in this Agreement (except to the extent constituting a separate Event of Default) if such failure is not remedied within three (3) Business Days after written notice;

(h) the Defaulting Party becomes Bankrupt;

(i) PJM holds any of the Companies responsible for the provision of SSO Supply, including Energy, Capacity and Ancillary Services, to meet the Defaulting Party's SSO Supplier Responsibility Share under this Agreement;

(j) the occurrence and continuation of: (i) a default, event of default or other similar condition or event in respect of the Defaulting Party or its Guarantor, if applicable, under one or more agreements or instruments, individually or collectively, relating to indebtedness for borrowed money in an aggregate amount of not less than five percent (5%) of such Defaulting Party's or Guarantor's (as the case may be) TNW, which results in such indebtedness becoming immediately due and payable; (ii) a default by the Defaulting Party or its Guarantor, if applicable, in making on the due date therefor one or more payments in respect of any obligation under contract or at law, individually or collectively, in an aggregate amount of not less than five percent (5%) of such Defaulting Party's or Guarantor's (as the case may be) TNW; or (iii) a default, event of default or other similar condition or event by the Defaulting Party under any Other SSO Supply

Agreement or by its Guarantor under any guaranty with respect to any Other SSO Supply Agreement; and

(k) with respect to a Defaulting Party's Guarantor, if any, (i) any representation or warranty made by such Guarantor in connection with this Agreement or any related Guaranty is intentionally or unintentionally false or misleading in any material respect when made or when deemed made or repeated; (ii) the failure of such Guarantor to make any payment required or to perform any other material covenant or obligation in any Guaranty made in connection with this Agreement and such failure shall not be remedied within three (3) Business Days after written notice; (iii) the failure of such Guarantor's Guaranty to be in full force and effect (other than in accordance with its terms) prior to the satisfaction of all obligations of the Defaulting Party under this Agreement without the written consent of the Companies; (iv) such Guarantor repudiates, disaffirms, disclaims, or rejects, in whole or in part, or challenges the validity of the Guaranty; or (v) such Guarantor becomes Bankrupt.

## **5.2 Rights Upon and Event of Default**

If an Event of Default shall have occurred and be continuing, the Non-Defaulting Party shall have the right to:

(a) immediately suspend performance upon written notice to the Defaulting Party; provided, however, that if an SSO Supplier is the Non-Defaulting Party, such SSO Supplier may only suspend performance if the default of the Defaulting Party constitutes an Event of Default under Sections 5.1(a) or (h);

(b) declare an Early Termination and designate by written notice an Early Termination Date which shall be no earlier than the day such designation notice is

effective and no later than twenty (20) calendar days after such notice is effective; provided, however, that if an SSO Supplier is the Non-Defaulting Party, such SSO Supplier may only declare on Early Termination if the default of the Defaulting Party constitutes an Event of Default under Sections 5.1(a) or (h);

(c) calculate and receive from the Defaulting Party payment for any Default Damages which the Non-Defaulting Party incurs as of the date of the event giving rise to the Event of Default, until the earlier of: (i) the Early Termination Date (if applicable); (ii) the date the Event of Default has been cured by the Defaulting Party; or (iii) the date the Non-Defaulting Party waives such Event of Default;

(d) withhold any payments due to the Defaulting Party under this Agreement as a set-off against any Default Damages, or Termination Payment, as applicable, the Defaulting Party is entitled to receive;

(e) draw down, liquidate, set-off against, or demand payment under, any Guaranty, ICR Collateral and Margin Collateral; and

(f) exercise any other remedies at law or in equity.

### **5.3 Default Damages; Settlement Amount; Termination Payment**

(a) **Default Damages.** Subject to Section 5.3(e), the Defaulting Party shall pay Default Damages on or before three (3) Business Days after receipt of an invoice therefore. The invoice shall include a written statement explaining in reasonable detail the calculation of such amount. Neither Party will be liable for Default Damages if this Agreement is terminated by a Governmental Authority.

(b) **Settlement Amount.** If the Non-Defaulting Party has declared an Early Termination Date pursuant to Section 5.2(b), the Non-Defaulting Party shall have the right to (i) accelerate all amounts owing between the Defaulting Party and the Non-Defaulting Party and to liquidate and terminate the undertakings set forth in this Agreement as between the Defaulting Party and the Non-Defaulting Party; and (ii) withhold any payments due to the Defaulting Party under this Agreement pending payment of the Termination Payment. The Non-Defaulting Party will calculate, in a commercially reasonable manner, the Settlement Amount with respect to the Defaulting Party's obligations under the Agreement.

(c) **Termination Payment.** The Non-Defaulting Party will calculate a single payment (the "Termination Payment") by netting out (i) the sum of the Settlement Amount under this Agreement payable to the Defaulting Party, plus similar settlement amounts payable to the Defaulting Party under any other agreements between the Companies and the applicable SSO Supplier for the provision of SSO Supply or similar service (each, an "Other SSO Supply Agreement") being terminated due to the event giving rise to the Event of Default plus, at the option of the Non-Defaulting Party, any cash or other form of security then available to the Non-Defaulting Party under this Agreement or Other SSO Supply Agreements and actually received, liquidated and retained by the Non-Defaulting Party, plus any or all other amounts due to the Defaulting Party under this Agreement and, at the option of the Non-Defaulting Party, Other SSO Supply Agreements, and (ii) the sum of the Settlement Amount under this Agreement payable to the Non-Defaulting Party, plus similar settlement amounts payable to the Non-Defaulting Party under any Other SSO Supply Agreement plus, at the option of the Non-

Defaulting Party, any cash or other form of security then available to the Defaulting Party under this Agreement or Other SSO Supply Agreements and actually received, liquidated and retained by the Defaulting Party, plus any or all other amounts due to the Non-Defaulting Party under this Agreement and, at the option of the Non-Defaulting Party, Other SSO Supply Agreements. The Termination Payment will be due to or due from the Non-Defaulting Party as appropriate; provided, however, that if an SSO Supplier is the Defaulting Party and the Termination Payment is due to such SSO Supplier, the Companies will be entitled to retain a reasonable portion of the Termination Payment, which may be equal to the entire amount of the Termination Payment, as security for additional amounts that may be determined to be due and owing by such SSO Supplier as Default Damages; and further provided that any previously attached security interest of the Companies in such retained amounts will continue. If the Termination Payment has been retained by the Companies as security for additional amounts that may be determined to be due and owing by the SSO Supplier, and if, upon making a final determination of Default Damages and payment therefor, the Termination Payment, or any portion thereof, is to be made to the SSO Supplier, the Companies will pay simple interest on the Termination Payment amount being made to the SSO Supplier for the period of such retention. Simple interest will be calculated at the lower of the Interest Index or six percent (6%) per annum.

(d) **Notice of Termination Payment.** As soon as practicable after calculation of the Termination Payment, notice must be given by the Non-Defaulting Party to the Defaulting Party of the amount of the Termination Payment and whether the Termination Payment is due to or due from the Non-Defaulting Party. The notice shall include a

written statement explaining in reasonable detail the calculation of such amount. Subject to Section 5.3(e), the Termination Payment must be made by the Party that owes it within three (3) Business Days after such notice is received by the Defaulting Party.

(e) **Disputes With Respect to Default Damages or Termination Payment.**

If the Defaulting Party disputes the Non-Defaulting Party's calculation of the Default Damages or Termination Payment, in whole or in part, the Defaulting Party must, within three (3) Business Days of receipt of the Non-Defaulting Party's calculation of the Default Damages or Termination Payment, provide to the Non-Defaulting Party a detailed written explanation of the basis for such dispute. Any dispute under this Section 5.3(e) shall be subject to the dispute resolution procedures in Article 10; provided, however, that if the Default Damages or Termination Payment is due from the Defaulting Party, the Defaulting Party must first provide commercially reasonable financial assurances to the Non-Defaulting Party in an amount equal to the Default Damages or Termination Payment, as the case may be.

**5.4 Step-up Provision**

If an SSO Supplier defaults in its obligations hereunder resulting in the exercise of the right of Early Termination by the Companies with respect to such SSO Supplier, then the Companies, subject to Applicable Legal Authorities, may offer one or more of the non-defaulting SSO Suppliers the right to assume under this Agreement additional Tranches of SSO Load, subject to further compliance with the creditworthiness provisions of Article 6. The provision of any such offer by the Companies to non-defaulting SSO Suppliers shall indicate the duration of the offer and the manner of acceptance thereof. Following the assumption by an SSO Supplier of additional



Tranches hereunder, such SSO Supplier and the Companies shall execute an amendment to this Agreement modifying Appendix A to reflect the revised SSO Supplier Responsibility Share of the non-defaulting SSO Supplier accepting such offer. An SSO Supplier will not suffer any prejudice under this Agreement or otherwise arising from its election to decline an offer to assume additional Tranches upon the default of another SSO Supplier.

#### **5.5 Setoff of Payment Obligations of the Non-Defaulting Party**

Any payment obligations of the Non-Defaulting Party to the Defaulting Party pursuant to this Agreement or any Other SSO Supply Agreement will be set off: (i) first, to satisfy any payment obligations of the Defaulting Party to the Non-Defaulting Party pursuant to this Agreement or any Other SSO Supply Agreement that are unsecured and not subject to any Guaranty; (ii) second, to satisfy any payment obligations of the Defaulting Party to the Non-Defaulting Party pursuant to this Agreement or any Other SSO Supply Agreement that are unsecured, but which are guaranteed by a Guaranty; and (iii) third, to satisfy any remaining payment obligations of the Defaulting Party to the Non-Defaulting Party pursuant to this Agreement or any Other SSO Supply Agreement.

#### **5.6 Preservation of Rights of Non-Defaulting Party**

The rights of the Non-Defaulting Party under this Agreement, including Sections 5.2, 5.3 and 5.5, will be supplemental to, and not in lieu of, any right of recoupment, lien, or set-off afforded by applicable law, and all such rights are expressly preserved for the benefit of the Non-Defaulting Party.

### **ARTICLE 6: CREDITWORTHINESS; PERFORMANCE ASSURANCE**

#### **6.1 Applicability**

Each SSO Supplier agrees that it will meet the creditworthiness standards of this Article 6 at all times during the Term and will inform the Companies immediately of any changes in its credit rating or financial condition. Without limiting the foregoing, each SSO Supplier shall, upon the written request of the Companies, affirmatively demonstrate to the Companies in a manner satisfactory to the Companies its compliance with the creditworthiness standards set forth hereunder. The Companies may establish less restrictive creditworthiness standards under this Article 6 in a non-discriminatory manner.

## **6.2 Creditworthiness Determination**

The Companies will determine the creditworthiness of an SSO Supplier or its Guarantor, if applicable, whether organized under the laws of the United States or organized under the laws of a foreign jurisdiction, based on its most recent senior unsecured debt rating (or, if unavailable, its corporate issuer rating). The Companies will have full discretion, without liability or recourse to such SSO Supplier or its Guarantor, if applicable, to evaluate the evidence of creditworthiness submitted by such SSO Supplier or Guarantor. The Companies may re-evaluate the creditworthiness of an SSO Supplier or Guarantor from time to time, including whenever they become aware of an adverse change in such SSO Supplier's or Guarantor's credit standing. In addition, the SSO Supplier may petition the Companies to re-evaluate its creditworthiness whenever an event occurs that the SSO Supplier reasonably believes would improve the determination made by the Companies of its or its Guarantor's creditworthiness. The Companies' credit re-evaluation must be completed as soon as practicable, but in no event longer than thirty (30) days after receiving a fully documented request. The Companies shall provide the

rationale for their determination of the credit limit and any resulting security requirement and such determination shall be deemed final and conclusive. The Companies shall perform their credit re-evaluation and associated security calculation in a non-discriminatory manner. Each SSO Supplier or its Guarantor shall provide unrestricted access to its audited financial statements; however, if audited financial statements are not available, the Companies may specify other types of financial statements that will be accepted. If the Companies determine in their sole discretion that they are unable to adequately assess an SSO Supplier's or Guarantor's creditworthiness or the credit rating of an SSO Supplier or its Guarantor is insufficient, such SSO Supplier shall be required to post ICR Collateral in accordance with Section 6.4 and Margin Collateral in accordance with Section 6.7.

### **6.3 Independent Credit Requirement**

The Independent Credit Requirement ("ICR") per Tranche ("ICRT") that will be required of each SSO Supplier under this Agreement will initially be \$~~1.0~~<sup>†</sup> million per Tranche and will decline throughout the Term in accordance with the schedule set forth on Appendix C-1. The ICR under this Agreement for each SSO Supplier is the ICRT times the number of Tranches shown in Appendix A.

### **6.4 Independent Credit Threshold**

Each SSO Supplier that qualifies under the following criteria will be granted an Independent Credit Threshold.

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<sup>†</sup> ~~\$1.0 for 12 Month Procurement; \$1.5 for 24 Month Procurement; and \$2.5 for 36 Month Procurement.~~

(a) For an SSO Supplier or its Guarantor that has been organized under the laws of the United States, the following requirements must be satisfied in order for such SSO Supplier to be granted an ICT:

(i) the SSO Supplier must (1) be rated by at least one of the following rating agencies: Standard & Poor's Rating Services ("S&P"), Moody's Investors Service, Inc. ("Moody's") or Fitch, Inc. ("Fitch"), and (2) have a minimum senior unsecured debt rating (or, if unavailable, corporate issuer rating) of at least "BB-" from S&P, "Ba3" from Moody's or "BB-" from Fitch (a "Minimum Rating"). If the SSO Supplier is rated by only two rating agencies, and the ratings are split, the higher rating will be used. If the SSO Supplier is rated by three rating agencies, and the ratings are split, the lower of the two highest ratings will be used; provided that, in the event that the two highest ratings are common, such common rating will be used. If the SSO Supplier and an Affiliate(s) are both winning bidders in the Solicitation for the provision of SSO Supply, then the SSO Supplier and the Affiliate(s) will proportionally share the maximum level of the ICT using the highest rating as determined for each the SSO Supplier and the Affiliate(s). The maximum level of the ICT will be determined based on the following table:

Credit Rating of the SSO Supplier			Maximum Independent Credit Threshold
S&P	Moody's	Fitch	Percentage of TNW
BBB+ and above	Baa1 and above	BBB+ and above	16%
BBB	Baa2	BBB	10%
BBB-	Baa3	BBB-	8%
BB+	Ba1	BB+	2%
BB	Ba2	BB	1%
BB-	Ba3	BB-	0.5%
Below BB-	Below Ba3	Below BB-	0%

(ii) for SSO Suppliers having a Guarantor, the Guarantor must (1) be rated by at least one of the following rating agencies: S&P, Moody's, or Fitch, and (2) have a minimum senior unsecured debt rating (or, if unavailable, corporate issuer rating) equal to the Minimum Rating. If the Guarantor is rated by only two rating agencies, and the ratings are split, the higher rating will be used. If the Guarantor is rated by three rating agencies, and the ratings are split, the lower of the two highest ratings will be used; provided that, in the event that the two highest ratings are common, such common rating will be used. If the SSO Supplier and an Affiliate(s) are both winning bidders in the Solicitation for the provision of SSO Supply, then the Guarantor of the SSO Supplier and the Affiliate(s) will proportionally share the maximum level of the ICT using the highest rating as determined for each the Guarantor and the Affiliate(s). The maximum level of the ICT that can be granted based on an ICT Guaranty will be determined based on the following table:

Credit Rating of the Guarantor			Maximum Independent Credit Threshold
S&P	Moody's	Fitch	Percentage of TNW
BBB+ and above	Baa1 and above	BBB+ and above	16%
BBB	Baa2	BBB	10%
BBB-	Baa3	BBB-	8%
BB+	Ba1	BB+	2%
BB	Ba2	BB	1%
BB-	Ba3	BB-	0.5%
Below BB-	Below Ba3	Below BB-	0%

The SSO Supplier will be granted an ICT up to the amount of the ICT Guaranty but not exceeding the maximum ICT shown in the table above. If an ICT Guaranty is provided for an unlimited amount, the SSO Supplier will be granted an ICT up to the maximum ICT shown in the table above. The ICT Guaranty tendered by the SSO Supplier to satisfy the ICT requirement arising under this Section 6.4 shall be a separate guaranty from the Total Exposure Amount Guaranty, if any, tendered by the SSO Supplier to satisfy any requirement for a Credit Limit to cover the Total Exposure Amount arising under Section 6.6; provided, however, that a single Guaranty may be provided if such Guaranty is for an unlimited amount.

(b) For an SSO Supplier or its Guarantor that has not been organized under the laws of the United States, the following requirements must be satisfied in order for such SSO Supplier to be granted an ICT:

(i) the SSO Supplier must supply such evidence of creditworthiness as to provide the Companies with comparable assurances of creditworthiness as applicable above for SSO Suppliers that have been organized under the laws of the United States; or

(ii) the Guarantor of an SSO Supplier must supply such evidence of creditworthiness as to provide the Companies with comparable assurances of creditworthiness as applicable above for Guarantors of SSO Suppliers that have been organized under the laws of the United States. The Companies may reject such Guarantors that do not meet the creditworthiness requirements.

(c) All SSO Suppliers or Guarantors of SSO Suppliers that have not been organized under the laws of the United States must, in addition to all documentation required elsewhere in this Section 6.4, supply the following to the Companies as a condition of being granted an ICT:

(i) for an SSO Supplier: (1) a legal opinion of counsel qualified to practice in the foreign jurisdiction in which the SSO Supplier is organized that (A) the SSO Supplier is duly incorporated and existing in such foreign jurisdiction; (B) this Agreement is the binding and enforceable obligation of the SSO Supplier in such foreign jurisdiction and does not violate any local law or the SSO Supplier's organizational or governing documents; and (C) all authorizations, approvals, consents, licenses, exemptions or other requirements of governmental, judicial or public bodies in such foreign jurisdiction have been obtained, and all execution formalities have been duly completed, necessary for the enforcement and validity of the Agreement and the performance by the SSO Supplier of its obligations hereunder; and (2) the sworn certificate of the corporate secretary (or similar officer) of such SSO Supplier that the Person executing the Agreement on behalf of the SSO Supplier has the authority to execute the Agreement and that the governing board of such SSO Supplier has approved the execution of the Agreement. The Companies will have full discretion, without

liability or recourse to the SSO Supplier, to evaluate the sufficiency of the documents submitted by the SSO Supplier; or

(ii) for the Guarantor of an SSO Supplier: (1) a legal opinion of counsel qualified to practice in the foreign jurisdiction in which the Guarantor is organized that (A) the Guarantor is duly incorporated and existing in such foreign jurisdiction; (B) the Guaranty is the binding and enforceable obligation of the Guarantor in such foreign jurisdiction and does not violate any local law or the Guarantor's organizational or governing documents; and (C) all authorizations, approvals, consents, licenses, exemptions or other requirements of governmental, judicial or public bodies in such foreign jurisdiction have been obtained, and all execution formalities have been duly completed, necessary for the enforcement and validity of the Guaranty and the performance by the Guarantor of its obligations thereunder; and (2) the sworn certificate of the corporate secretary (or similar officer) of such Guarantor that the Person executing the Guaranty on behalf of the Guarantor has the authority to execute the Guaranty and that the governing board of such Guarantor has approved the execution of the Guaranty.

The Companies will have full discretion, without liability or recourse to the Guarantor or the SSO Supplier, to evaluate the sufficiency of the documents submitted by such Guarantor.

(d) SSO Suppliers who do not qualify for an ICT or whose ICT plus the amount of any cash or Letter of Credit already posted in accordance with Section 6.9 to satisfy its aggregate ICR under this Agreement and any Other SSO Supply Agreement (the "ICR Collateral") does not meet its aggregate ICR under this Agreement and any Other SSO Supply Agreement, must post ICR Collateral at the time of or prior to the



Effective Date to the extent its aggregate ICR under this Agreement and any Other SSO Supply Agreement exceeds its ICT.

#### **6.5 Mark-to-Market Credit Exposure Methodology**

To calculate the Mark-to-Market Exposure Amount for each SSO Supplier, the following mark-to-market credit exposure methodology will be used. The “mark” for each Billing Month will be determined at the time the Solicitation is completed based on the then prevailing Forward Market Prices. At the time the Solicitation is completed, the Mark-to-Market Exposure Amount for each SSO Supplier shall be equal to zero. Subsequently, the differences between the prevailing Forward Market Prices on a valuation date and the “mark” prices will be used to calculate the Mark-to-Market Exposure Amounts for each SSO Supplier. The total Mark-to-Market Exposure Amount will be equal to the sum of the Mark-to-Market Exposure Amounts for each Billing Month during the Original Delivery Period limited to a rolling forward 24 month period starting from this Agreement's Effective Date, as applicable. Forward Market Prices will be determined by publicly available market quotations obtained by the Companies; provided, however, if such quotations are not publicly available, Forward Market Prices will be determined by the Companies using any method which the Companies deem appropriate and which reasonably reflects forward market pricing conditions in PJM. The methodology for calculation of the Mark-to-Market Exposure Amount is illustrated in the example (using hypothetical numbers) in Appendix C-2, including, but without limiting the preceding sentence, a methodology the Companies expect to use to derive off-peak Forward Market Prices.

## 6.6 **Credit Limit**

The following criteria constitute the Companies' creditworthiness requirements for the SSO Suppliers to cover the Total Exposure Amount:

(a) for SSO Suppliers to be granted a Credit Limit without delivering a Total Exposure Amount Guaranty or other performance assurances acceptable to the Companies, in the case of an SSO Supplier organized under the laws of the United States, the SSO Supplier must (1) be rated by at least one of the following rating agencies: S&P, Moody's, or Fitch, and (2) have a minimum senior unsecured debt rating (or, if unavailable, corporate issuer rating) equal to the Minimum Rating. If the SSO Supplier is rated by only two rating agencies, and the ratings are split, the higher rating will be used. If the SSO Supplier is rated by three rating agencies, and the ratings are split, the lower of the two highest ratings will be used; provided that, in the event that the two highest ratings are common, such common rating will be used. If the SSO Supplier and an Affiliate(s) are both winning bidders in the Solicitation for the provision of SSO Supply, then the SSO Supplier and the Affiliate(s) will proportionally share the maximum level of the Credit Limit using the highest rating as determined for each the SSO Supplier and the Affiliate(s). The maximum level of the Credit Limit to cover the Total Exposure Amount will be determined based on the following table:

Credit Rating of the SSO Supplier			Maximum Credit Limit (calculated as the lesser of the percentage of TNW and the Credit Limit Cap below)	
S&P	Moody's	Fitch	Percentage of TNW	Credit Limit Cap
BBB+ and above	Baa1 and above	BBB+ and above	16%	\$75,000,000
BBB	Baa2	BBB	10%	\$50,000,000
BBB-	Baa3	BBB-	8%	\$25,000,000
BB+	Ba1	BB+	2%	\$10,000,000
BB	Ba2	BB	1%	\$5,000,000
BB-	Ba3	BB-	0.5%	\$5,000,000
Below BB-	Below Ba3	Below BB-	0%	\$0

The SSO Supplier will be required to post cash, letter of credit in an acceptable form as defined in Section 6.9 (b) below (see standard format in Appendix D), or First Mortgage Bonds delivered or pledged as provided for in Section 6.9(c) below for the Margin due the Company as set forth in Section 6.7 of this Agreement; or

(b) for SSO Suppliers delivering a Total Exposure Amount Guaranty, in the case of a Guarantor organized under the laws of the United States, the Guarantor providing the Total Exposure Amount Guaranty must (1) be rated by at least one of the following rating agencies: S&P, Moody's, or Fitch, and (2) have a minimum senior unsecured debt rating (or, if unavailable, corporate issuer rating) equal to the Minimum Rating. If the Guarantor is rated by only two rating agencies, and the ratings are split, the higher rating will be used. If the Guarantor is rated by three rating agencies, and the ratings are split, the lower of the two highest ratings will be used; provided that, in the event that the two highest ratings are common, such common rating will be used. If the SSO Supplier and an Affiliate(s) are both winning bidders in the Solicitation for the provision of SSO Supply, then the Guarantor of the SSO Supplier and the Affiliate(s) will

proportionally share the maximum level of the Credit Limit using the highest rating as determined for each the Guarantor and the Affiliate(s). The maximum level of the Credit Limit to cover the Total Exposure Amount that could be granted based on the Total Exposure Amount Guaranty will be determined based on the following table:

Credit Rating of the Guarantor			Maximum Credit Limit (calculated as the lesser of the percentage of TNW and the Credit Limit Cap below)	
S&P	Moody's	Fitch	Percentage of TNW	Credit Limit Cap
BBB+ and above	Baa1 and above	BBB+ and above	16%	\$75,000,000
BBB	Baa2	BBB	10%	\$50,000,000
BBB-	Baa3	BBB-	8%	\$25,000,000
BB+	Ba1	BB+	2%	\$10,000,000
BB	Ba2	BB	1%	\$5,000,000
BB-	Ba3	BB-	0.5%	\$5,000,000
Below BB-	Below Ba3	Below BB-	0%	\$0

(c) For an SSO Supplier or Guarantor, if applicable, that has not been organized under the laws of the United States, the following standards will apply:

(i) the SSO Supplier must supply such evidence of creditworthiness as to provide the Companies with comparable assurances of creditworthiness as applicable above for SSO Suppliers that have been organized under the laws of the United States; or

(ii) if the SSO Supplier is providing a Total Exposure Amount Guaranty, the Guarantor of an SSO Supplier must supply such evidence of creditworthiness as to provide the Companies with comparable assurances of creditworthiness as applicable above for Guarantors of SSO Suppliers that have been organized under the laws of the United States. The Companies may reject Total

Exposure Amount Guaranties from Guarantors that do not meet the creditworthiness requirements.

(d) All SSO Suppliers or Guarantors of SSO Suppliers, if applicable, that have not been organized under the laws of the United States must, in addition to all documentation required elsewhere in this Section 6.6, supply the following to the Companies:

(i) for an SSO Supplier: (1) a legal opinion of counsel qualified to practice in the foreign jurisdiction in which the SSO Supplier is organized that (A) the SSO Supplier is duly incorporated and existing in such foreign jurisdiction; (B) this Agreement is the binding and enforceable obligation of the SSO Supplier in such foreign jurisdiction and does not violate any local law or the SSO Supplier's organizational or governing documents; and (C) all authorizations, approvals, consents, licenses, exemptions or other requirements of governmental, judicial or public bodies in such foreign jurisdiction have been obtained, and all execution formalities have been duly completed, necessary for the enforcement and validity of the Agreement and the performance by the SSO Supplier of its obligations hereunder; and (2) the sworn certificate of the corporate secretary (or similar officer) of such SSO Supplier that the Person executing the Agreement on behalf of the SSO Supplier has the authority to execute the Agreement and that the governing board of such SSO Supplier has approved the execution of the Agreement. The Companies will have full discretion, without liability or recourse to the SSO Supplier, to evaluate the sufficiency of the documents submitted by the SSO Supplier; or

(ii) for the Guarantor of an SSO Supplier: (1) a legal opinion of counsel qualified to practice in the foreign jurisdiction in which the Guarantor is organized that (A) the Guarantor is duly incorporated and existing in such foreign jurisdiction; (B) the Guaranty is the binding and enforceable obligation of the Guarantor in such foreign jurisdiction and does not violate any local law or the Guarantor's organizational or governing documents; and (C) all authorizations, approvals, consents, licenses, exemptions or other requirements of governmental, judicial or public bodies in such foreign jurisdiction have been obtained, and all execution formalities have been duly completed, necessary for the enforcement and validity of the Guaranty and the performance by the Guarantor of its obligations thereunder; and (2) the sworn certificate of the corporate secretary (or similar officer) of such Guarantor that the Person executing the Guaranty on behalf of the Guarantor has the authority to execute the Guaranty and that the governing board of such Guarantor has approved the execution of the Guaranty. The Companies will have full discretion, without liability or recourse to the Guarantor or the SSO Supplier, to evaluate the sufficiency of the documents submitted by such Guarantor.

For an SSO Supplier with a Total Exposure Amount Guaranty, the SSO Supplier will be granted a Credit Limit up to the amount of the Total Exposure Amount Guaranty, but not exceeding the Credit Limit shown in the table above. The Total Exposure Amount Guaranty shall be provided to the Companies on or prior to the Effective Date, but may be modified in any amended or substitute Total Exposure Amount Guaranty provided to the Companies during the Term. The SSO Supplier, however, may not increase or substitute its Total Exposure Amount Guaranty for the purpose of increasing

its applicable Credit Limit during the time period after the Companies have made a demand of the SSO Supplier to cover Margin (a “Margin Call”) but before the SSO Supplier has provided the Companies with cash credited to a deposit account of the Companies or a Letter of Credit in accordance with Section 6.9, in each case in an amount equal to the Margin (the “Margin Collateral”). Notwithstanding anything herein to contrary, the SSO Supplier may increase the limit of its Total Exposure Amount Guaranty after satisfying a Margin Call. Upon the Companies’ receipt of an amended or substitute Total Exposure Amount Guaranty increasing the limit of the Total Exposure Amount Guaranty, the SSO Supplier may request a return of Margin Collateral in accordance with Section 6.7. The SSO Suppliers will be required to post cash, letter of credit in an acceptable form as defined in Section 6.9 (b) below (see standard format in Appendix D), or First Mortgage Bonds delivered or pledged as provided for in Section 6.9(c) below for the Margin due the Companies as set forth in Section 6.7 of this Agreement; or

(e) Under no circumstances shall the Credit Limit plus any other credit limit granted to the SSO Supplier under any Other SSO Supply Agreement exceed the Credit Limit hereunder.

#### **6.7 Posting Margin Collateral and Return of Excess Collateral**

(a) If at any time and from time to time during the Delivery Period, Margin exists with respect to an SSO Supplier, then the Companies on any Business Day may make a Margin Call of such SSO Supplier; provided however that the Companies may not make a Margin Call unless the Margin exceeds the Minimum Margin Threshold. Upon receipt of a Margin Call, the applicable SSO Supplier shall provide to the

Companies Margin Collateral, which shall comprise of cash, a Letter of Credit, or First Mortgage Bonds delivered or pledged as provided for in Section 6.9(c) below. The Margin Collateral shall be in an amount equal to the Margin less the amount of any Margin Collateral already posted by the SSO Supplier in which the Companies have a first priority, perfected security interest to secure the obligations of the SSO Supplier under this Agreement and any Other SSO Supply Agreement. For the avoidance of doubt, any ICR Collateral posted pursuant to Section 6.4 shall not constitute Margin Collateral.

If an SSO Supplier receives a Margin Call from the Companies by 1:00 p.m. prevailing Eastern Time on a Business Day, then such SSO Supplier shall post Margin Collateral the following Business Day if posting cash and the second Business Day following the Margin Call if posting a Letter of Credit or, with respect to Surplus Margin only, delivering or pledging First Mortgage Bonds (as defined in Section 6.9(c) below), unless in each case the Companies agree in writing to extend the period to provide Margin Collateral. If the SSO Supplier receives a Margin Call after 1:00 p.m. prevailing Eastern Time on a Business Day, whether posting cash, a Letter of Credit, or First Mortgage Bond delivered or pledged as provided for in Section 6.9(c) below, then the SSO Supplier must post Margin Collateral on the second Business Day following the Margin Call unless the Companies agree in writing to extend the period to provide Margin Collateral. The Companies will not unreasonably deny a request for a one-day extension of such period.

Margin Collateral being held by the Companies not needed to satisfy the Margin (“Excess Collateral”), will be returned to the SSO Supplier upon receipt of a written



request from the SSO Supplier; provided, however, that the SSO Supplier may not request Excess Collateral until such Excess Collateral exceeds the Minimum Margin Threshold. If the SSO Supplier posted cash and notice is received by 1:00 p.m. prevailing Eastern Time on a Business Day, the Excess Collateral will be returned by the following Business Day and if the SSO Supplier posted cash and notice is received by the Companies after 1:00 p.m. prevailing Eastern Time on a Business Day, the Excess Collateral will be returned by the second Business Day following the date of notice. If the SSO Supplier posted a Letter of Credit, the Excess Collateral shall be returned on the next Business Day following the Business Day on which the amendment to the Letter of Credit is received from the issuing bank, unless in each case the SSO Supplier agrees in writing to extend such period for returning the Excess Collateral. The SSO Supplier will not unreasonably deny a request for a one-day extension of the period for returning the Excess Collateral. If the SSO Supplier is otherwise entitled to deliver or pledge its or its Guarantor's First Mortgage Bonds to cover Surplus Margin, but cannot do so within the second Business Day time period or any extension thereof, the SSO Supplier may initially post cash or a letter of credit to satisfy such obligation, which cash or letter of credit shall be returned by the Companies upon the subsequent delivery or pledge of its or its Guarantor's First Mortgage Bonds in accordance with the provisions of Section 6.9(c) hereof.

#### **6.8 Grant of Security Interest; Remedies**

To secure its obligations under this Agreement, the SSO Supplier hereby grants to the Companies a present and continuing security interest in, and lien on (and right of setoff against), its right, title and interest, whether now owned or hereafter acquired or

arising, in (i) all deposit accounts in the name of any Company or partially in the name of any Company or held for the benefit of any Company and all funds credited to any and all of the foregoing, (ii) all securities, instruments (including promissory notes), money (each of the foregoing terms as defined in the UCC), cash and other tangible property delivered to and held by any Company (or its agents or custodians) and (iii) all proceeds (as defined in the UCC) of any and all of the foregoing. The SSO Supplier agrees to take such action as reasonably required to create and perfect the Companies' first priority security interest in, and lien on (and right of setoff against), such collateral and any and all proceeds resulting therefrom or from the liquidation thereof. Upon or at any time after the occurrence or deemed occurrence and during the continuation of an Event of Default where an SSO Supplier is the Defaulting Party or an Early Termination Date (whether or not such SSO Supplier was the Defaulting Party), the Companies may do any one or more of the following in any order: (i) exercise any of the rights and remedies of the Companies, including the right to set-off and liquidation, against any and all ICR Collateral, Margin Collateral or other collateral of such SSO Supplier in the possession of the Companies, whether held in connection with this Agreement or any Other SSO Supply Agreement, including any such rights and remedies under law then in effect, free from any claim or right of any nature whatsoever of such SSO Supplier; (ii) draw on any outstanding Letter of Credit provided by such SSO Supplier and (iii) exercise any and all rights remedies available to it under and against any First Mortgage Bonds delivered or pledged in accordance with Section 6.9(c). The Companies will apply the proceeds of the collateral realized upon the exercise of such rights or remedies to reduce such SSO Supplier's obligation under this Agreement and under any Other SSO Supply Agreement,

and such SSO Supplier shall remain liable for any amounts owing to the Companies after such application, subject to the Companies' obligation to return any surplus proceeds remaining after all such obligations are satisfied in full.

All notices, demands or requests regarding credit requirements and credit-related security or deposit transfers shall be sent in accordance with Section 13.1.

**6.9 Acceptable Forms of Security**

At each SSO Supplier's choice, the following are deemed to be acceptable for posting Margin Collateral or ICR Collateral, if required:

- (a) cash credited to a deposit account of the Companies; and
- (b) a Letter of Credit, which shall state that such Letter of Credit will renew automatically for successive one-year or shorter periods, until terminated upon at least ninety (90) days' prior written notice from the issuing financial institution. If the Companies receive notice from the issuing financial institution that the Letter of Credit is being cancelled, the SSO Supplier will be required to provide a substitute Letter of Credit from an alternative bank satisfying the minimum credit rating set forth in the definition of "Letter of Credit". The receipt of the substitute Letter of Credit must be effective as of the cancellation date and delivered to the Companies thirty (30) days before the cancellation date of the original Letter of Credit. If the SSO Supplier fails to supply a substitute Letter of Credit as required, then the Companies will have the right to draw on the existing Letter of Credit and to hold the amount as Margin Collateral or ICR Collateral, as applicable.

If the credit rating of a bank or other financial institution from which an SSO Supplier has obtained a Letter of Credit falls below the levels set forth in the definition of

“Letter of Credit”, the SSO Supplier will immediately notify the Companies and, within one (1) Business Day of the failure of the financial institution to meet the required credit rating, obtain a suitable Letter of Credit from another bank or other financial institution that meets those standards, unless such period is extended in writing by Companies; or

(c) with respect to Surplus Margin only the delivery or pledge of First Mortgage Bonds of the SSO Supplier or its Guarantor, which First Mortgage Bonds shall conform to the requirements set forth in Appendix H and otherwise be in form, amount and substance satisfactory to the Companies in their sole discretion. For purposes of this subsection (c), (i) “Surplus Margin” means Margin in excess of \$400 million that has been secured by cash or letter of credit as defined in section (a) and (b) above and “First Mortgage Bonds” means obligations of such SSO Supplier or Guarantor, as the case may be, evidenced by a first mortgage bond or other similar instrument and secured by a first priority lien on all or substantially all of the property, plant and equipment and related assets of such SSO Supplier or Guarantor.

Notwithstanding anything in this Agreement to the contrary, the Companies may exercise any rights or claims to any collateral posted, delivered or pledged to them under this Agreement, before, after, concurrently with, or to the exclusion of, any other collateral posted, delivered or pledged, and in particular are not required to exercise any remedies whatsoever against any First Mortgage Bonds prior to applying any cash collateral against, or making a drawing under any letter of credit in respect of, any liabilities of the SSO Supplier hereunder or its Guarantor under the Guaranty to the Companies or any of them.

**6.10 Reporting; Maintenance of Creditworthiness.**

(a) Each SSO Supplier must promptly notify the Companies of any change in its or its Guarantor's credit rating or financial condition. The SSO Supplier or Guarantor must also furnish evidence of an acceptable credit rating or financial condition upon the request of the Companies.

(b) If the lowest credit rating (whether corporate issuer rating or unsecured senior debt rating) used to determine the SSO Supplier's ICT or its Credit Limit adversely changes, the Companies will require ICR Collateral or Margin Collateral from such SSO Supplier in accordance with Sections 6.4, 6.6 and 6.7. The additional security must be in a form acceptable to the Companies, as specified in Section 6.9.

**6.11 Interest on Cash Held by Companies**

The Companies will pay simple interest calculated at the lower of the Interest Index or six percent (6%) per annum on all cash held by the Companies pursuant to this Agreement. If applicable, each Billing Month the SSO Supplier will prepare a statement of interest amounts due from the Companies. The statement will be sent to the Companies within three (3) Business Days after the end of the Billing Month via overnight mail or other expeditious means. The Companies will make interest payments on the first Business Day after the fifth (5<sup>th</sup>) day of each calendar month.

**6.12 No Endorsement of SSO Supplier**

The Companies' determination of an SSO Supplier's creditworthiness pursuant to the process set forth in this Article 6 will not be deemed to constitute an express or implied warranty or guarantee of any kind with respect to the financial or operational qualifications of such SSO Supplier. The Companies will treat all SSO Suppliers in a

non-discriminatory manner and shall provide no preference to any SSO Supplier.

**ARTICLE 7: SCHEDULING, FORECASTING AND INFORMATION SHARING**

**7.1 Scheduling**

(a) Each SSO Supplier shall schedule SSO Supply and make all necessary arrangements for the delivery of SSO Supply through the PJM Office of Interconnection pursuant to the PJM Agreements.

(b) The Companies will provide to each SSO Supplier and to PJM all information required by PJM for the purpose of calculating each SSO Supplier's SSO Supply obligations, including the magnitude and location of each SSO Supplier's SSO Supply obligation, as required by the PJM Office of Interconnection.

**7.2 Load Forecasting**

The Companies shall not be required to provide to any SSO Supplier any load forecasting services.

**ARTICLE 8: BILLING AND SETTLEMENT**

**8.1 Companies Statement**

Subject to Section 8.2, the Companies and each SSO Supplier shall pay all amounts due to each other hereunder in accordance with the following provisions:

(a) for each Billing Month, the Companies will prepare and provide an invoice to each SSO Supplier, which will show (i) amounts due to the SSO Supplier equal to the Price multiplied by the applicable Seasonal Billing Factor multiplied by the PMEA, (ii) the PMEA/FMEA Adjustment from such Billing Month, if any, and (iii) all Charges due

to the Companies incurred during the Billing Month (the “Statement”). The Companies will determine the total amount payable by one Party to the other Party by netting the aggregate amounts due and owing to one Party against the aggregate amounts due and owing to the other Party, with the Party, if any, owing the greater aggregate amount paying the other Party the difference between the amounts owed. For any amounts due and owing the Companies, the Companies will specify in each Statement how the amounts will be allocated among the Companies. In the case of the PMEA/FMEA Adjustment, the allocation will be based on the respective SSO Loads of the Companies.

(b) The Statement will be sent to each SSO Supplier within six (6) Business Days after the end of the Billing Month as provided in Section 13.1.

(c) The Companies or the SSO Supplier, as the case may be, will make payment on the first (1<sup>st</sup>) Business Day after the nineteenth (19<sup>th</sup>) day of each calendar month.

(d) All payments shall be subject to adjustment for any arithmetic errors, computation errors, or other errors, provided that the errors become known within one (1) year of the earlier of (i) end of the Term or (ii) the Early Termination Date.

(e) The Companies or the SSO Supplier, as the case may be, shall make payments of funds by electronic transfer to a bank designated by the Companies and the SSO Supplier, as applicable.

(f) If a good faith dispute arises between the Companies and the SSO Supplier regarding a Statement, the disputing Party shall be obligated to pay only the undisputed portion of the Statement, if any, and shall present the dispute in writing and submit

supporting documentation to the non-disputing Party within one hundred twenty (120) calendar days from the date of the Statement in dispute. Statement disputes must be addressed promptly, and in accordance with the dispute resolution procedures set forth in Article 10. Upon resolution of a Statement dispute, any payments made to either Party will include simple interest on the payment at the lower of the Interest Index or six percent (6%) per annum payable from the date that notice of a Statement dispute was received by the non-disputing Party.

(g) If payment is made to the SSO Supplier after the due date shown on the Statement, a late fee will be added to the unpaid balance until the entire Statement is paid. This late fee will be calculated at the prime rate J.P. Morgan Chase (or, if not available, another financial institution selected by the Companies) charges commercial borrowers.

(h) In the event of a good faith dispute regarding any Statement, each SSO Supplier will have the right to verify, at its sole expense, the accuracy of the Statement or the calculation of the payment due by obtaining copies of the relevant portions of the books and records of the applicable Company. The right of verification will survive for one (1) year following the earlier of (i) the end of the Term or (ii) the Early Termination Date.

(i) Notwithstanding anything to the contrary contained in this Section 8.1, the determination of the allocation among the Companies of amounts due and owing to the Companies, as set forth in a Statement, will be final and binding, absent manifest error.



## 8.2 **PJM Billing; Third Party Billing**

(a) The Companies and each SSO Supplier shall direct PJM to invoice the Companies and such SSO Supplier for PJM charges and credits relating to such SSO Supplier's and the Companies' rights and obligations under this Agreement. If PJM is unable to invoice charges or credits in accordance with the foregoing sentence, the Companies shall rectify such PJM invoice discrepancy in the Statement sent pursuant to Section 8.1.

~~(b) For Capacity purchased by an SSO Supplier pursuant to Section 2.1(b), such SSO Supplier shall, unless the Companies direct otherwise, be invoiced and submit payment for such Capacity directly to PJM in accordance with the billing practices set forth in the PJM Agreements.~~

~~(e)~~(b) The Parties agree that the PJM invoice may change from time to time. Allocation of any charges that are reflected in a PJM invoice that are not included on or are inconsistent with Appendix G will be determined pursuant to Sections 2.3, 2.4, 2.5, and 13.12.

~~(d)~~(c) The Companies shall have no responsibility for billing between an SSO Supplier and any other third party. The Companies shall be solely responsible for billing SSO Customers for SSO Supply.

## ARTICLE 9: **SYSTEM OPERATION**

### 9.1 **Disconnection and Curtailment by the Companies**

Each of the Companies shall have the right, without incurring any liability to any SSO Supplier, to disconnect (or otherwise curtail, interrupt or reduce deliveries from) the

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SSO Suppliers or to disconnect (or otherwise curtail, interrupt or reduce deliveries to) any Customer whenever one of the Companies determines in its discretion acting in good faith that such a disconnection, curtailment, interruption or reduction is necessary to facilitate construction, installation, maintenance, repair, replacement or inspection of any of the Companies' facilities; or due to any other reason affecting the safe and reliable operation of any of the Companies' or a Customer's facilities, including Emergencies, forced outages or potential overloading of any of the Companies' transmission or distribution circuits, potential damage to any Customer's facilities or any risk of injury to persons, or when any of the Companies are directed by PJM. The Companies shall not show any preference for any entity affiliated with it in connection with any such disconnection, curtailment or reduction.

## **9.2 Loss of Service to SSO Customers**

The Parties agree and acknowledge that service to SSO Customers may be lost due to storms, weather, accidents, breakage of equipment or other events beyond the reasonable control of the Companies affecting the transmission and distribution facilities of the Companies. No Party will have any liability to any other Party for the occurrence of such events. In no event will a loss of service to a Customer affect a Party's obligation to make any payments then due or becoming due with respect to performance rendered prior to such loss of service.

## **9.3 PJM Requirements**

The Parties acknowledge and agree that, as members of PJM, each of them is bound by the PJM Agreements and any other operating instructions, policies and procedures set forth by PJM. Each SSO Supplier acknowledges and agrees that it will

cooperate with the Companies, PJM and the applicable balancing authority and reliability coordinator so that the Companies will be in compliance with all PJM emergency operations procedures, which include procedures pertaining to minimum and maximum generation Emergencies, and measures requiring involuntary Customer participation, such as supply voltage reduction or full interruption of Customer load by either manual or automatic means.

#### **9.4 Compliance with Governmental Directives**

Each SSO Supplier acknowledges and agrees that the Companies may need to act in response to directives by a Governmental Authority that may affect SSO Supply or SSO Load. Each SSO Supplier agrees to cooperate fully with the Companies in order to comply with such directives.

### **ARTICLE 10: DISPUTE RESOLUTION**

#### **10.1 Informal Resolution of Disputes**

Any dispute arising out of or relating to this Agreement shall be subject to the dispute resolution procedures specified in this Article 10. If any dispute arises between any Parties in connection with this Agreement, such Parties in dispute shall first attempt in good faith to resolve such dispute between themselves. The disputing Parties shall comply in good faith with the procedures in this Section 10.1 before commencing litigation under Section 10.2. When any such dispute arises, a disputing Party shall deliver a notice of dispute to the other Party subject to the dispute in accordance with the notice procedures set forth in Section 13.1, such notice of dispute to include the nature of the dispute, the amount involved, if any, and the remedies sought. Within ten (10) Business Days after the receipt of such notice, members of the senior management of the

Parties in dispute shall meet in person or by telephone to discuss the dispute. If such Parties have not resolved such dispute or if a meeting of senior management has not occurred within thirty (30) Business Days after receipt of the notice of dispute, then any such Party may bring such action at law or in equity as it deems necessary or desirable, in accordance with the provisions of Section 10.2. Any amounts that are owed by one Party to another Party as a result of resolution of a dispute pursuant to this Section 10.1 shall be paid within two (2) Business Days of such resolution and the payment shall include interest calculated at the Interest Index from the original due date through the date of payment.

#### **10.2 Formal Dispute Resolution**

After the requirements of Section 10.1 have been satisfied, all disputes between the Parties, except where this Agreement requires otherwise, shall be submitted to an Ohio State court of competent jurisdiction or to a federal court of competent jurisdiction situated in the State of Ohio, which courts shall have exclusive jurisdiction to settle disputes arising under or related to this Agreement.

#### **10.3 Recourse to Agencies or Courts of Competent Jurisdiction**

Notwithstanding Section 10.2, nothing in this Agreement shall restrict the rights of either Party to file a complaint with the FERC under relevant provisions of the Federal Power Act (“FPA”) or with the PUCO under relevant provisions of the Applicable Legal Authorities. The Parties’ agreement under this Section 10.3 is without prejudice to any Parties’ right to contest the jurisdiction of the FERC or PUCO to which a complaint is brought.

**ARTICLE 11:        LIMITATION OF LIABILITY; RISK OF LOSS**

**11.1    Limitation of Liability**

Except to the extent expressly set forth in this Agreement, including Article 12, as between the Companies and each SSO Supplier, each Party will be liable to the other for direct damages incurred as a result of such Party's failure to comply with this Agreement and no Party will have any liability to the other Party for consequential, indirect, special or punitive damages, including lost profits or lost revenues, arising out of such Party's failure to comply with its obligations under this Agreement. Notwithstanding anything to the contrary in this Agreement, nothing herein shall impose any obligations or liability from one SSO Supplier to any other SSO Supplier, except as provided in Article 12.

**11.2    Risk of Loss**

Title to and risk of loss with respect to SSO Supply shall pass from each SSO Supplier to the Companies when such SSO Supply is delivered to the Delivery Point. Until title passes, each SSO Supplier shall be deemed in exclusive control of SSO Supply provided by it and shall bear sole responsibility for any damage or injury caused thereby, subject to the provisions of Section 12.1. After title to such SSO Supply passes to the Companies, the Companies shall be deemed in exclusive control of such SSO Supply and shall bear sole responsibility for any damage or injury caused thereby, subject to the provisions of Section 12.1. Notwithstanding the foregoing, nothing contained in this Agreement is intended to create or increase liability of the Companies to any third party beyond such liability, if any, as would otherwise exist under the PJM Agreements or other applicable law if the Companies had not taken title.

**ARTICLE 12: INDEMNIFICATION**

**12.1 Indemnification**

(a) Each SSO Supplier must defend (at the Companies' option), indemnify and hold harmless the Companies, their shareholders, board members, directors, officers and employees, agents and attorneys from and against any and all third party (including PJM and each other SSO Supplier) claims or liabilities for losses, penalties, expenses, damage to property, injury to or death of any Person including a Party's employees or any third parties, that were caused by or occur in connection with an act or omission of such SSO Supplier with respect to an obligation arising under or in connection with this Agreement (including such SSO Supplier's failure to submit payments to PJM pursuant to Section 8.2(b)), or for which such SSO Supplier has otherwise assumed liability under the terms of this Agreement, except to the extent that a court of competent jurisdiction determines that the losses, penalties, expenses or damages were caused wholly or in part by the gross negligence or willful misconduct of any of the Companies. The Companies may, at their own expense, retain counsel and participate in the defense of any such suit or action.

(b) The Companies and each SSO Supplier must defend (at the option of the Indemnified Supplier), indemnify and hold harmless each other SSO Supplier (the "Indemnified Supplier"), its shareholders, board members, directors, officers, employees, agents and attorneys from and against any and all third party (including another SSO Supplier) claims or liabilities for losses, penalties, expenses, damage to property, injury to or death of any Person including a Party's employees or any third parties, that were caused by or occur in connection with an act or omission of the Companies or such SSO Supplier with respect to an obligation arising under or in connection with this Agreement,

or for which any of the Companies or such SSO Supplier has otherwise assumed liability under the terms of this Agreement, except to the extent that a court of competent jurisdiction determines that the losses, penalties, expenses or damages were caused wholly or in part by the gross negligence or willful misconduct of the Indemnified Supplier. The Indemnified Supplier may, at its own expense, retain counsel and participate in the defense of any such suit or action.

(c) The obligation of a Party to defend, indemnify, and hold harmless another Party under this Article will not be limited in any way by any limitation on the amount or type of damages, compensation, or benefits payable by or for either Party under any statutory scheme, including any Worker's Compensation Acts, Disability Benefit Acts or other Employee Benefit Acts.

(d) If a Party intends to seek indemnification under Sections 12.1(a) or 12.1(b), as applicable, from any other Party, the Party seeking indemnification shall give the other Party notice of such claim within thirty (30) days of the later of the commencement of, or the Party's actual knowledge of, such claim or action. Such notice shall describe the claim in reasonable detail, and shall indicate the amount, estimated if necessary, of the claim that has been, or may be, sustained by said Party. To the extent the other Party will have been actually and materially prejudiced as a result of the failure to provide such notice, such notice will be a condition precedent to any liability of the other Party under the provisions for indemnification contained in this Agreement. No Party may settle or compromise any claim without the prior consent of the Companies (for an indemnification under Section 12.1(a)) or the Indemnified Parties involved (for an

indemnification under Section 12.1(b)); provided, however, such consent shall not be unreasonably withheld or delayed.

**ARTICLE 13: MISCELLANEOUS PROVISIONS**

**13.1 Notices**

All notices, demands or requests required or permitted under this Agreement must be in writing and must be personally delivered or sent by email, overnight express mail, courier service or facsimile transmission (provided that in the case of an email or facsimile, the original shall then be transmitted by any of the other aforementioned delivery methods) addressed as follows:

If to an SSO Supplier:

Notification information for each SSO Supplier is set forth on Appendix A.

If to the Company:

In the case of all notices except those required under Article 6, to:

William R. Ridmann  
Vice President, Rates & Regulatory Affairs  
FirstEnergy Corp.  
76 South Main Street, 8th Floor  
Akron, OH 44308  
Telephone: 330-761-4154  
Facsimile: 330-761-4281  
wrridmann@firstenergycorp.com

Copy to:

Associate General Counsel  
FirstEnergy Corp.  
76 South Main Street  
Akron, OH 44308  
Facsimile: 330-384-3875

In the case of all notices required under Article 6, to:



WAC-C2

Thomas R. Sims  
~~Senior Business~~Credit Risk Analyst  
FirstEnergy Corp.  
~~76 South Main Street~~341 White Pond Drive, 17th Floor~~A-~~  
Akron, OH ~~44308~~44320  
Telephone: 330-~~384315~~-~~38086983~~  
Facsimile: 330-~~255-1662~~436-1901  
simst@firstenergycorp.com

Copy to:

William R. Ridmann  
Vice President, Rates & Regulatory Affairs  
FirstEnergy Corp.  
76 South Main Street, 8th Floor  
Akron, OH 44308  
Telephone: 330-761-4154  
Facsimile: 330-761-4281  
wrridmann@firstenergycorp.com

and:

Dean W. Stathis  
Director, Regulated Commodity Sourcing  
2800 Pottsville Pike  
Reading PA 19612-6001  
Telephone: 610-921-6766  
Facsimile: 610-939-8542  
dstathis@firstenergycorp.com

and:

Associate General Counsel  
FirstEnergy Corp.  
76 South Main Street  
Akron, OH 44308  
Facsimile: 330-384-3875

or to such other person or such other address as a Party may designate by like notice to the other Party. Notice received after the close of the Business Day will be deemed received on the next Business Day. Notice by email or facsimile transmission

will be deemed to have been received by the recipient on the date the recipient confirms receipt either orally or in writing.

**13.2 No Waiver or Prejudice of Rights**

The failure of a Party to insist in one or more instances upon strict performance of any provisions of this Agreement, or to take advantage of any of its rights hereunder, may not be construed as a waiver of any such provisions or the relinquishment of any such right or any other right hereunder, which will remain in full force and effect. No term or condition of this Agreement will be deemed to have been waived and no breach excused unless such waiver or consent to excuse is in writing and signed by the Party claimed to have waived or consented to excuse.

**13.3 Assignment**

(a) The Companies may not assign this Agreement or their rights or obligations hereunder without the prior written consent of the other SSO Suppliers, which consent may not be unreasonably withheld; provided, however, that the Companies or any Company may, without the consent of the other SSO Suppliers:

(i) transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements;

(ii) transfer or assign this Agreement to any Person having a Minimum Rating; and

(iii) transfer or assign this Agreement to any Person succeeding to all or substantially all of the assets of a Company.

(b) In the case of an assignment pursuant to Section 13.3(a)(ii) and (iii) above, the Companies may assign their obligations under this Agreement and shall be relieved of such obligations upon the assignment and assumption of the assignee of such obligations and SSO Supplier's receipt of notice thereof, except for such obligations of the Companies which have arisen prior to the date of the assignment.

(c) An SSO Supplier may not assign this Agreement or its rights or obligations hereunder without the prior written consent of the Companies, which consent may not be unreasonably withheld, it being understood that any assignee of such SSO Supplier must meet the creditworthiness requirements set forth in Article 6; provided, however, that such SSO Supplier may, without the consent of the Companies (and without relieving itself from liability hereunder) pledge or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements; provided further, however, that if any of the lenders receiving the collateral assignment foreclose or otherwise exercise remedies against the SSO Supplier, such lenders may not transfer, pledge or assign this Agreement to a Person who does not meet the creditworthiness requirements set forth in Article 6. For the avoidance of doubt, an SSO Supplier is not required to obtain the consent of any other SSO Supplier under this Section 13.3.

#### **13.4 Governing Law**

To the extent not subject to the jurisdiction of the FERC, questions including those concerning the formation, validity, interpretation, execution, amendment, termination and construction of this Agreement will be governed by the laws of the State of Ohio, without regard to principles of conflicts of law.

**13.5 Third Party Beneficiaries**

This Agreement is intended solely for the benefit of the Parties hereto. Nothing in this Agreement may be construed to create any duty, or standard of care with reference to, or any liability to, any Person not a Party to this Agreement.

**13.6 Unenforceability or Invalidity**

Should any provision of this Agreement be held invalid or unenforceable, such provision will be invalid or unenforceable only to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable any other provision hereof, unless it materially changes the agreement of the Parties.

**13.7 Entire Agreement**

Each of the Parties acknowledges that it has read this Agreement, understands it, and agrees to be bound by its terms. This Agreement is intended by the Parties as a final expression of their agreement with respect to the subject matter hereof. The Parties further agree that this Agreement is the complete and exclusive statement of agreement with respect to the subject matter hereof and supersedes all proposals (oral or written), understandings, representations, conditions, warranties, covenants and all other communications between the Parties relating thereto.

**13.8 Taxes**

All present and future federal, state, municipal or other taxes imposed by any taxing authority by reason of the provision of SSO Supply by an SSO Supplier under this Agreement (collectively, the “Taxes”) will be the liability of the SSO Supplier, except for Ohio sales and use taxes imposed under Ohio Rev. Code Ann. Tit. 57, Chapters 5739, 5740 and 5741 (the “Ohio Sales and Use Taxes”), which will be the Companies’

responsibility. Should an SSO Supplier be required to remit any Ohio Sales and Use Taxes directly to the applicable taxing authority, other than Ohio Sales and Use Taxes previously collected by the SSO Supplier on behalf of the Companies, the Companies will defend and indemnify the SSO Supplier for such Ohio Sales and Use Taxes and will pay to the SSO Supplier all such tax amounts upon demand. Each SSO Supplier shall pay all Taxes (other than Ohio Sales and Use Taxes) to the applicable taxing authority to the extent required or permitted by law. If any transaction is exempt from the payment of any such Taxes, the affected SSO Supplier will, if requested, provide the Companies with valid tax exemption certificates. Should the Companies be required to remit any Taxes directly to any applicable taxing authority (other than Ohio Sales and Use Taxes and other Taxes previously collected by the Companies directly from an SSO Supplier), the SSO Supplier will defend and indemnify the Companies and will pay to the Companies all such Tax amounts upon demand.

Each Party shall provide to the other Party all information, data and exemption certificates as such other Party may from time to time reasonably request and otherwise fully cooperate with such other Party in connection with the reporting of (i) any Taxes payable by an SSO Supplier; (ii) any Tax audit; or (iii) any assessment, refund claim or proceeding relating to Taxes. Each Party shall cooperate with the other Party and take any action reasonably requested, which does not cause the Party to incur any material cost or inconvenience, in order to minimize any Taxes payable.

### **13.9 Rules of Interpretation**

The following principles shall be observed in the interpretation and construction of this Agreement:

(a) unless otherwise stated, the terms “include” and “including” when used in this Agreement shall be interpreted to mean by way of example only and shall not be considered limiting in any way;

(b) all titles and headings used herein are for convenience and reference purposes only, do not constitute a part of this Agreement and shall be ignored in construing or interpreting the obligations of the parties under this Agreement;

(c) references to the singular include the plural and vice versa;

(d) any references to “and” or “or” shall mean “and/or” as the context so requires;

(e) references to Articles, Sections, Appendices and the preamble are, unless the context indicates otherwise, references to Articles, Sections, Appendices and the preamble of this Agreement;

(f) any reference to laws, rules, regulations, ordinances or decrees in this Agreement shall mean such law, rules, regulations, ordinances and decrees as may be amended, modified, replaced, codified or superseded from time to time; and

(g) this Agreement shall not be interpreted or construed to create an association, joint venture, or partnership between the Parties (or any of them), or to impose any partnership obligation or liability upon any Party.

#### **13.10 Confidentiality**

(a) Each Party shall hold in confidence and not release or disclose any document or information furnished by the other Party in connection with this Agreement, unless (i) compelled to disclose such document or information by judicial, regulatory or

administrative process or other provisions of law or it reasonably believes it is necessary or advisable to disclose such document or information in connection with any PUCO or FERC regulatory proceeding; (ii) such document or information is generally available to the public; or (iii) such document or information was available to the receiving Party on a non-confidential basis from a third party, provided that the receiving Party does not know that such third party is prohibited from transmitting the document or information to the receiving Party by a contractual, legal or fiduciary obligation.

(b) Notwithstanding any other provision of this Section 13.10, a Party may disclose to its employees, representatives, agents and rating agencies all documents and information furnished by the other Party in connection with this Agreement, provided that they have been advised of the confidentiality provisions of this Section 13.10, and further provided that in no event shall a document or information be disclosed in violation of the standard of conduct requirements established by FERC.

(c) Each SSO Supplier agrees that the SSO Supplier's data and information submitted in the Solicitation will be disclosed if required by any federal, state or local agency (including the PUCO) or by a court of competent jurisdiction. However, the Companies will endeavor to notify the SSO Supplier in advance of such disclosure. In any event, none of the Companies, nor any of their employees or agents, will be responsible to the SSO Suppliers or any other party, or liable for any disclosure of such data or information. Notwithstanding the above, the Companies reserve the right to use and communicate publicly to third parties any and all information and data submitted as part of the Solicitation in any proceedings before FERC, the PUCO, and any other

regulatory body and the courts, if the Companies deem it necessary or advisable, without the prior consent of, or notice to, any such SSO Supplier.

(d) The Parties agree that monetary damages may be inadequate to compensate a Party for the other Party's breach of its obligations under this Section 13.10. Each Party accordingly agrees that the other Party shall be entitled to equitable relief, by way of injunction or otherwise, if the Party breaches or threatens to breach its obligations under this Section 13.10, which equitable relief shall be granted without bond or proof of damages, and the receiving Party shall not plead in defense that there would be an adequate remedy at law.

### **13.11 Amendment**

Except as provided in Sections 5.4 and 13.12, this Agreement shall not be amended, modified, terminated, discharged or supplanted, nor any provision hereof waived, unless mutually agreed in writing by the Parties. Except as provided in Section 13.12, the rates, terms and conditions contained in this Agreement are not subject to change under Sections 205 and 206 of the Federal Power Act absent the mutual written agreement of the Parties. Absent the agreement of all Parties, the standard of review for changes to this Agreement proposed by a Party, a non-Party or the FERC acting sua sponte shall be the "public interest" standard of review set forth in United Gas Pipe Line Co. v. Mobile Gas Service Corp., 350 U.S. 332 (1956), and Federal Power Commission v. Sierra Pacific Power Co., 350 U.S. 348 (1956) and affirmed by Morgan Stanley Capital Group, Inc. v. Public Utility District No. 1 of Snohomish County, Washington, et al., 554 U.S. \_\_\_, 128 S. Ct. 2733 (June 26, 2008).



**13.12 PJM Agreement Modifications**

(a) If the PJM Agreements are amended or modified so that any term, schedule or section reference herein to such agreements is changed, such term, schedule or section reference herein shall be deemed automatically (and without any further action by the Parties) to refer to the new term, schedule or section in the PJM Agreements which replaces that originally referred to in this Agreement.

(b) If the applicable provisions of the PJM Agreements referenced herein, or any other PJM rules relating to the implementation of this Agreement, are changed materially from those in effect on the Effective Date, the Parties shall cooperate to make conforming changes to this Agreement to fulfill the purposes of this Agreement.

**13.13 Agent**

The Companies shall have the right at any time and from time to time during the Term to appoint an agent to act on their behalf to exercise or pursue any of their rights or remedies and to perform any of their obligations or duties under this Agreement. The Companies shall give each SSO Supplier thirty (30) days prior written notice before the appointment of an agent.

**13.14 Counterparts**

This Agreement may be executed in counterparts, each of which will be considered an original, but all of which will constitute one instrument.

**IN WITNESS WHEREOF**, the Parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the date first set forth above.

THE TOLEDO EDISON COMPANY

OHIO EDISON COMPANY

**By** \_\_\_\_\_

Name:

Title:

**By:** \_\_\_\_\_

Name:

Title:

THE CLEVELAND ELECTRIC  
ILLUMINATING COMPANY

**By** \_\_\_\_\_

Name:

Title:

[SSO SUPPLIER SIGNATURES APPEAR ON SUCCEEDING PAGES]

Attachment E

[SSO SUPPLIER]

**By:** \_\_\_\_\_

Name:

Title:

**APPENDIX A<sup>2</sup>**

**SSO SUPPLIER RESPONSIBILITY SHARE**

SSO Supplier	Price (\$/MWh)	SSO Supplier Responsibility Share Percentage (%)	No. of Tranches
_____	_____/MWh	_____%	_____

Original Delivery Period: June 1, 20[\_\_\_], 12:00:01 A.M. through [\_\_\_\_\_].

Address for Notice:

1. In the case of all notices except those required under Article 6:

Name:  
Address:  
Telephone:  
Facsimile:  
E-mail:

copy to:

Name:  
Address:  
Telephone:  
Facsimile:  
E-mail:

2. In the case of all notices required under Article 6:

Name:  
Address:  
Telephone:  
Facsimile:  
E-mail:

\_\_\_\_\_  
<sup>2</sup> Appendix A to be completed for each SSO Supplier.

Attachment E

copy to:

Name:

Address:

Telephone:

Facsimile:

E-mail:

**[SSO SUPPLIER]**

**BY:**

**Name:**

**Title:**

**APPENDIX B**

**SEASONAL BILLING FACTOR**

The Seasonal Billing Factors are as follows:

June 1 through August 31	[Seasonal Billing Factor]
September 1 through December 31 and January 1 through May 31	[Seasonal Billing Factor]

**APPENDIX C-1****SCHEDULE FOR ICRT**

Month	12-Month Procurement (\$/tranche)
June <del>2011</del> 2013	\$1,000,000
July <del>2011</del> 2013	\$1,000,000
August <del>2011</del> 2013	\$1,000,000
September <del>2011</del> 2013	\$1,000,000
October <del>2011</del> 2013	\$600,000
November <del>2011</del> 2013	\$600,000
December <del>2011</del> 2013	\$600,000
January <del>2012</del> 2014	\$600,000
February <del>2012</del> 2014	\$200,000
March <del>2012</del> 2014	\$200,000
April <del>2012</del> 2014	\$200,000
May <del>2012</del> 2014	\$200,000

## APPENDIX C-2

### EXAMPLE MARK-TO-MARKET EXPOSURE AMOUNT CALCULATION

The following is an illustration of the methodology the Companies will use to determine the Mark-to-Market Exposure Amounts for each SSO Supplier, including a methodology the Companies expect to use to derive off-peak Forward Market Prices. Notwithstanding the foregoing, if the Companies are unable to obtain publicly available market quotations for Forward Market Prices, Forward Market Prices will be determined by the Companies using any method which the Companies deem appropriate and which reasonably reflects forward market pricing conditions in PJM.

On the closing day of the Solicitation, the following parameters are determined by the Companies:

1. The expected On-Peak SSO Load per Tranche;
2. The expected Off-Peak SSO Load per Tranche;
3. Prevailing On-Peak Forward Market Prices for each month during the Original Delivery Period; and
4. Ratios of Off-Peak to On-Peak monthly Forward Market Prices for each month during the Original Delivery Period (to be used to determine the Off-Peak Forward Market Prices from the On-Peak Forward Market Prices).

The Forward Market Prices prevailing on the closing day of the Solicitation are used to establish the "mark" for each month during the Original Delivery Period. Table 1 contains hypothetical initial On-Peak Forward Market Prices for a 12-month Original Delivery Period from June ~~2011-2013~~ through May ~~2012~~2014. The initial Off-Peak Forward Market Prices are determined by multiplying the On-Peak Forward Market Prices for each Billing Month in Table 1 by the ratios of off-peak to on-peak prices for



each Billing Month in Table 2. Table 3 contains the hypothetical "marks" established on the day the Solicitation is completed using the Forward Market Prices established in Tables 1 and 2. The "marks" will not change over the Original Delivery Period.

For each calculation of the Mark-to-Market Exposure Amount, the Companies will determine the Forward Market Prices for each month during the Original Delivery Period. Table 4 contains hypothetical Forward Market Prices as of the first day of the Original Delivery Period. Table 5 contains a calculation of the Mark-to-Market Exposure Amount as of the first date of the Delivery Period for the twelve-month Original Delivery Period based on the difference between the hypothetical "marks" set forth in Table 3 and the hypothetical Forward Market Prices set forth in Table 4.

**MARK-TO-MARKET EXAMPLE**

All Energy prices are based on a Market Price Hub

*Table 1 – Hypothetical Initial Market Price Data*

**On-Peak Forward Market Price Quotes on the Solicitation Closing Date**

Month	Jun- <del>11</del> 13	Jul- <del>11</del> 13	Aug- <del>11</del> 13	Sep- <del>11</del> 13	Oct- <del>11</del> 13	Nov- <del>11</del> 13
On-Peak	\$46.39	\$56.39	\$56.39	\$44.56	\$40.90	\$44.03

Month	Dec- <del>11</del> 13	Jan- <del>12</del> 14	Feb- <del>12</del> 14	Mar- <del>12</del> 14	Apr- <del>12</del> 14	May- <del>12</del> 14
On-Peak	\$43.11	\$53.11	\$51.69	\$50.40	\$50.40	\$48.43

*Table 2 - Off-peak Forward Market Price Factors*

The Companies' Pre-determined Ratio of Off-Peak to On-Peak Prices

Month	Ratio of Off-Peak to On-Peak Price
January	<u>0.75</u>
February	<u>0.75</u>
March	<u>0.75</u>
April	<u>0.75</u>
May	<u>0.75</u>
June	<u>0.65</u>
July	<u>0.65</u>
August	<u>0.65</u>
September	<u>0.65</u>
October	<u>0.75</u>
November	<u>0.75</u>
December	<u>0.75</u>

**Table 3 – Hypothetical Closing Day "Marks"  
"Marks" Set on the Solicitation Closing Date**  
Energy (MWh/Tranche)

Hypothetical prices for June ~~2011-2013~~ through May ~~2012-2014~~ so as to correspond to a one-year Original Delivery Period.

	On-Peak Volume	Off-Peak Volume	On-Peak Price	Off-Peak Price
Jun- <del>11</del> <u>13</u>	<u>5,681</u>	<u>6,083</u>	\$46.39	<u>\$30.15</u> <del>\$21.34</del>
Jul- <del>11</del> <u>13</u>	<u>6,934</u>	<u>6,123</u>	\$56.39	<u>\$36.65</u> <del>\$25.38</del>
Aug- <del>11</del> <u>13</u>	<u>6,756</u>	<u>5,832</u>	\$56.39	<u>\$36.65</u> <del>\$27.63</del>
Sep- <del>11</del> <u>13</u>	<u>5,411</u>	<u>5,500</u>	\$44.56	<u>\$28.96</u> <del>\$24.51</del>
Oct- <del>11</del> <u>13</u>	<u>5,776</u>	<u>5,069</u>	\$40.90	<u>\$30.68</u> <del>\$26.59</del>
Nov- <del>11</del> <u>13</u>	<u>5,289</u>	<u>5,795</u>	\$44.03	<u>\$33.02</u> <del>\$25.98</del>
Dec- <del>11</del> <u>13</u>	<u>6,115</u>	<u>6,585</u>	\$43.11	<u>\$32.33</u> <del>\$28.45</del>
Jan- <del>12</del> <u>14</u>	<u>6,539</u>	<u>6,422</u>	\$53.11	<u>\$39.83</u> <del>\$35.05</del>
Feb- <del>12</del> <u>14</u>	<u>6,058</u>	<u>6,019</u>	\$51.69	<u>\$38.77</u> <del>\$34.12</del>
Mar- <del>12</del> <u>14</u>	<u>5,704</u>	<u>6,140</u>	\$50.40	<u>\$37.80</u> <del>\$33.26</del>
Apr- <del>12</del> <u>14</u>	<u>5,619</u>	<u>5,188</u>	\$50.40	<u>\$37.80</u> <del>\$29.74</del>
May- <del>12</del> <u>14</u>	<u>5,329</u>	<u>5,343</u>	\$48.43	<u>\$36.32</u> <del>\$21.79</del>

**Table 4 – Hypothetical Forward Market Prices on Day 1 of the Delivery Period**  
On-Peak Forward Market Quotes on Day 1 of the Delivery Period

Month	Jun- <del>11</del> <u>13</u>	Jul- <del>11</del> <u>13</u>	Aug- <del>11</del> <u>13</u>	Sep- <del>11</del> <u>13</u>	Oct- <del>11</del> <u>13</u>	Nov- <del>11</del> <u>13</u>
On-Peak	\$46.39	\$57.39	\$56.39	\$46.56	\$40.90	\$45.03

  

Month	Dec- <del>11</del> <u>13</u>	Jan- <del>12</del> <u>14</u>	Feb- <del>12</del> <u>14</u>	Mar- <del>12</del> <u>14</u>	Apr- <del>12</del> <u>14</u>	May- <del>12</del> <u>14</u>
On-Peak	\$44.11	\$53.11	\$51.69	\$50.40	\$50.40	\$48.43

**Table 5 – MtM on Day 1 of the Delivery Period****Hypothetical Mark-to-Market set on Day 1 of the Delivery Period  
Energy (MWh/tranche)**

Data for June ~~2011~~ 2013 through May ~~2012~~ 2014 so as to correspond to a one-year Original Delivery Period

	On-Peak Load per Tranche (MWh)	Off-Peak Load per Tranche (MWh)	Mark for On-Peak Prices	Current Day 1 On-Peak Prices	Change in On-Peak Price	Change in Off-Peak Price	MtM
Jun- <del>11</del> <u>13</u>	<u>5,681</u>	<u>6,083</u>	\$46.39	\$46.39	\$-	\$-	\$-
Jul- <del>11</del> <u>13</u>	<u>6,934</u>	<u>6,123</u>	\$56.39	\$57.39	\$1.00	<u>\$0.65</u>	<u>\$10,914</u>
Aug- <del>11</del> <u>13</u>	<u>6,756</u>	<u>5,832</u>	\$56.39	\$56.39	\$-	\$-	
Sep- <del>11</del> <u>13</u>	<u>5,411</u>	<u>5,500</u>	\$44.56	\$46.56	\$2.00	<u>\$1.30</u>	<u>\$17,972</u>
Oct- <del>11</del> <u>13</u>	<u>5,776</u>	<u>5,069</u>	\$40.90	\$40.90	\$-	\$-	
Nov- <del>11</del> <u>13</u>	<u>5,289</u>	<u>5,795</u>	\$44.03	\$45.03	\$1.00	<u>\$0.75</u>	<u>\$ 9,635</u>
Dec- <del>11</del> <u>13</u>	<u>6,115</u>	<u>6,585</u>	\$43.11	\$43.11	\$-	\$-	
Jan- <del>12</del> <u>14</u>	<u>6,539</u>	<u>6,422</u>	\$53.11	\$53.11	\$-	\$-	
Feb- <del>12</del> <u>14</u>	<u>6,058</u>	<u>6,019</u>	\$51.69	\$51.69	\$-	\$-	
Mar- <del>12</del> <u>14</u>	<u>5,704</u>	<u>6,140</u>	\$50.40	\$50.40	\$-	\$-	
Apr- <del>12</del> <u>14</u>	<u>5,619</u>	<u>5,188</u>	\$50.40	\$50.40	\$-	\$-	
May- <del>12</del> <u>14</u>	<u>5,329</u>	<u>5,343</u>	\$48.43	\$48.43	\$-	\$-	
						<b>Total</b>	<b>\$ <u>38,521</u></b>

**APPENDIX D**

**FORM OF SSO SUPPLIER LETTER OF CREDIT**

\_\_\_\_\_ (Date)

Letter of Credit No. \_\_\_\_\_

To: The Cleveland Electric Illuminating Company, The Toledo Edison Company and Ohio Edison Company (“Beneficiaries”)

1. We hereby establish in your favor this irrevocable transferable Letter of Credit (this “Letter of Credit”) for the account of \_\_\_\_\_ (the “Applicant”), in the aggregate amount of \$\_\_\_\_\_, effective immediately and available to you at sight upon demand at our counters at \_\_\_\_\_ and expiring 364 days from date of issuance or any extension thereof (in the form of Annex 5), unless terminated earlier or automatically extended, in accordance with the provisions hereof or otherwise extended.
2. This Letter of Credit is issued at the request of the Applicant, and we hereby irrevocably authorize you to draw on us, in accordance with the terms and conditions hereof, up to the maximum amount of this Letter of Credit, subject to reduction as provided in paragraph 12 hereof. This Letter of Credit may be drawn upon an Event of Default under that certain Master SSO Supply Agreement between the Applicant and you, dated \_\_\_\_\_.
3. A partial or full drawing hereunder may be made by you on any Business Day on or prior to the expiration of this Letter of Credit by delivering, by no later than 11:00

A.M. (prevailing Eastern Time<sup>1</sup>) on such Business Day to \_\_\_\_\_  
\_\_\_\_ (Bank), \_\_\_\_\_ (address), (i) a notice  
executed by you in the form of Annex 1 hereto, appropriately completed and duly  
signed by an Authorized Officer of each of the Beneficiaries and (ii) your draft in the  
form of Annex 2 hereto, appropriately completed and duly signed by an Authorized  
Officer of each of the Beneficiaries. "Authorized Officer" shall mean President,  
Treasurer, any Vice President, any Assistant Treasurer or any other person holding an  
equivalent title.

4. We may, but shall not be obligated to, accept any request to issue a substitute letter of credit. Such request shall be in an Availability Certificate in the form of Annex 3 hereto by you to us for exchange for a new letter of credit in the amount set forth in an Availability Certificate, which amount shall not exceed the present value of this Letter of Credit. Upon acceptance by us of any such request to issue a substitute letter of credit for exchange, the new letter of credit shall be issued in the amount as set forth in the Availability Certificate.
5. We hereby agree to honor a drawing hereunder made in compliance with the terms and provisions of this Letter of Credit by transferring in immediately available funds the amount specified in the draft delivered to us in connection with such drawing to such account at such bank in the United States as you may specify in your draft delivered to us pursuant to Paragraph 3 hereof, by 3:00 P.M. prevailing Eastern Time on the date of such drawing, if delivery of this requisite document is made prior to 11:00 A.M. (prevailing Eastern time) on a business day pursuant to Paragraph 3

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<sup>1</sup> If the issuer of the Letter of Credit is located in an area that is not in the Eastern time zone, this time and all other times in this Letter of Credit, and the definition of a business day should be adjusted accordingly.

herein above, but at the opening of business on the first Business Day next succeeding the date of such drawing if delivery of the requisite document is made after 11:00 A.M. (prevailing Eastern time) on any Business Day pursuant to Paragraph 3 herein above.

6. If a demand for payment made by you hereunder does not, in any instance, conform to the terms and conditions of this Letter of Credit, we shall give you prompt notice (not later than three (3) Business Days following the date of receipt of the documents) that the demand for payment was not effected in accordance with the terms and conditions of this Letter of Credit, stating the reasons therefore and that we will upon your instructions hold any documents at your disposal or return the same to you. Upon being notified that the demand for payment was not effected in conformity with this Letter of Credit, you may attempt to correct any such non-conforming demand for payment to the extent that you are entitled to do so, provided, however, that in such event a conforming demand for payment must be timely made in accordance with the terms of this Letter of Credit.
7. This Letter of Credit will automatically terminate and be delivered to us for cancellation on the earliest of (i) the making by you of the drawings in an amount equal to the maximum amount available to be made hereunder; (ii) the date we issue a new letter of credit in exchange for this Letter of Credit in accordance with paragraph 4 herein above; and (iii) the date we receive from you a Certificate of Expiration in the form of Annex 4 hereto. The Letter of Credit will be automatically extended without written amendment for successive additional one- (1) year periods from the current or any future extended expiry date, unless at least ninety (90) days prior to

such date of expiration, we give written notice to Beneficiaries by registered or certified mail, return receipt requested, or by overnight courier, at the address set forth above, or at such other address of which prior written notice has been provided to us, that we elect not to renew this irrevocable standby Letter of Credit for such additional one (1) year period.

8. As used herein:

“Availability Certificate” shall mean a certificate substantially in the form of Annex 3 hereto, appropriately completed and duly signed by your Authorized Officer.

“Business Day” shall mean any day on which commercial banks are not authorized or required to close in New York, NY and any day on which payments can be effected on the Fed wire system.

9. This Letter of Credit is assignable and transferable, in accordance with Annex 6, to an entity certified by you to us in the form of Annex 6, and we hereby consent to such assignment or transfer, provided that this Letter of Credit may not otherwise be amended or modified without consent from us, you and the Applicant, and, except as otherwise expressly stated herein, is subject to the Uniform Customs and Practice for Documentary Credits – 2007 Revision, ICC Publication No. 600, or any successor publication thereto (the “UCP”). Any and all transfer fees, expenses and costs shall be borne by the Applicant. This Letter of Credit shall, as to matters not governed by the UCP, be governed and construed in accordance with New York law, without regard to principles of conflicts of law.

10. This Letter of Credit sets forth in full our undertaking, and such undertaking shall not in any way be modified, amended, changed, amplified or limited by reference to any



document, instrument or agreement referred to herein, except for Annexes 1 through 6 hereto and the notices referred to herein; and any such reference shall not be deemed to incorporate herein by reference any document, instrument or agreement except as set forth above.

11. We certify that as of \_\_\_\_\_ (date) we \_\_\_\_\_ (“Bank”) satisfy either the senior unsecured debt rating of “A” from Standard & Poor’s Rating Service or the senior unsecured debt rating of “A2” from Moody’s Rating Service.
12. The amount which may be drawn by you under this Letter of Credit shall be automatically reduced by the amount of any drawings paid through us referencing this Letter of Credit No. \_\_\_\_\_. Partial drawings are permitted hereunder.
13. Faxed document(s) are acceptable. Presentation by fax must be made to fax number \_\_\_\_\_ confirmed by telephone to \_\_\_\_\_.
14. In the event of act of God, riot, civil commotion, insurrection, war, terrorism or any strikes or lock outs, or any cause beyond our control, that interrupts our business, and causes the place for presentation of this letter of credit to be closed for business on the last day of presentation, the expiration date of this letter of credit shall be automatically extended without amendment to a date thirty (30) calendar days after the place for presentation reopens for business.
15. This original letter of credit has been sent to the Beneficiaries located at \_\_\_\_\_ above (as per Applicant’s instructions). The aggregate amount paid to the Companies during the validity of this Letter of Credit will not exceed the amount of this Letter of Credit. Any demands or communications in the form of the

Attachment E

attached Annexes (except for Annex 5) or other communications directed to us under this Letter of Credit must be signed by an Authorized Officer of the Beneficiaries. Acceptance or rejection of any amendments to this Letter of Credit or any extensions pursuant to Annex 5 must be signed by an Authorized Officer of each of the Beneficiaries.

Very truly yours,  
(Bank)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**Annex 1 to Letter of Credit**

DRAWING UNDER LETTER OF CREDIT NO. \_\_\_\_\_

\_\_\_\_\_, 20\_\_

To: (Bank)  
(Address)

Attention: Standby Letter of Credit Unit

Ladies and Gentlemen:

The undersigned is making a drawing under the above-referenced Letter of Credit in the amount specified below and hereby certifies to you as follows:

1. Capitalized terms used and not defined herein shall have the meanings ascribed thereto in the Letter of Credit.

2. Pursuant to Paragraph 2 of the Letter of Credit No. \_\_\_\_\_, dated \_\_\_\_\_, 20\_\_, the undersigned is entitled to make a drawing under the Letter of Credit in the aggregate amount of \$ \_\_\_\_\_, due to an Event of Default under any Master SSO Supply Agreement between the Applicant and us.

3. The amount to be received by The Cleveland Electric Illuminating Company is \$ \_\_\_\_\_, the amount to be received by The Toledo Edison Company is \$ \_\_\_\_\_ and the amount to be received by The Ohio Edison Company is \$ \_\_\_\_\_, for a total equal to the aggregate amount in the previous paragraph.

4. We acknowledge that, upon your honoring the drawing herein requested, the amount of the Letter of Credit available for drawing shall be automatically decreased by an amount equal to this drawing.

Very truly yours,

The Cleveland Electric Illuminating Company

By: \_\_\_\_\_

Name:

Title:

Date:

The Toledo Edison Company

By: \_\_\_\_\_

Name:

Title:

Date:

Ohio Edison Company

By: \_\_\_\_\_

Name:

Title:

Date:

**Annex 2 to Letter of Credit**

DRAWING UNDER LETTER OF CREDIT NO. \_\_\_\_\_  
\_\_\_\_\_, 20\_\_

ON [Business Day set forth in Paragraph 5]

PAY TO:           The Cleveland Electric Illuminating Company

\$ \_\_\_\_\_

For credit to the account of \_\_\_\_\_.

PAY TO:           The Toledo Edison Company

\$ \_\_\_\_\_

For credit to the account of \_\_\_\_\_.

PAY TO:           Ohio Edison Company

\$ \_\_\_\_\_

For credit to the account of \_\_\_\_\_.

FOR VALUE RECEIVED AND CHARGE TO ACCOUNT OF LETTER OF CREDIT  
NO. \_\_\_\_\_ OF

(Bank)  
(Address)

The Cleveland Electric Illuminating Company

By: \_\_\_\_\_

Name:

Title:

Date:

The Toledo Edison Company

By: \_\_\_\_\_

Name:

Title:

Date:

Ohio Edison Company

By: \_\_\_\_\_

Name:

Title:

Date:

**Annex 3 to Letter of Credit**

AVAILABILITY CERTIFICATE  
UNDER LETTER OF CREDIT NO. \_\_\_\_\_

\_\_\_\_\_, 20\_\_

To: (Bank)  
(Address)

Attention: Standby Letter of Credit Unit

Ladies and Gentlemen:

Each of the undersigned hereby requests that, in exchange for the above-referenced Letter of Credit, a new letter of credit be issued in the aggregate amount of \$\_\_\_\_\_ (the "New Amount") and to expire on \_\_\_\_\_ (date), but otherwise in the form of the above-referenced Letter of Credit.

Please acknowledge your intention to issue such new letter of credit in the New Amount upon the surrender of the above-referenced Letter of Credit by signing the attached acknowledgment copy hereof and forwarding it to:

[Beneficiaries'  
Addresses]

Very truly yours,

The Cleveland Electric Illuminating Company

By: \_\_\_\_\_  
Name:  
Title:  
Date:

The Toledo Edison Company

By: \_\_\_\_\_  
Name:  
Title:  
Date:

Ohio Edison Company

By: \_\_\_\_\_  
Name:  
Title:  
Date:

Agreed and Accepted  
(Bank)

By: \_\_\_\_\_  
Name:  
Title:  
Date:

APPLICANT NAME

APPLICANT NAME

By: \_\_\_\_\_  
Name:  
Title:  
Date:

**Annex 4 to Letter of Credit**

CERTIFICATE OF EXPIRATION  
OF LETTER OF CREDIT NO. \_\_\_\_\_

\_\_\_\_\_, 20\_\_

To: (Bank)  
(Address)

Attention: Standby Letter of Credit Unit

Ladies and Gentlemen:

The undersigned hereby certifies to you that the above-referenced Letter of Credit may be cancelled without payment. Attached hereto is said Letter of Credit, marked cancelled.

The Cleveland Electric Illuminating Company

By: \_\_\_\_\_

Name:

Title:

Date:

The Toledo Edison Company

By: \_\_\_\_\_

Name:

Title:

Date:

Ohio Edison Company

By: \_\_\_\_\_

Name:

Title:

Date:

cc: \_\_\_\_\_ (Applicant Name)

**Annex 5 to Letter of Credit**

NOTICE OF EXTENSION  
OF LETTER OF CREDIT NO. \_\_\_\_\_

\_\_\_\_\_, 20\_\_

To The Cleveland Electric Illuminating Company, The Toledo Edison Company and  
Ohio Edison Company:

Re: Our Letter of Credit no. \_\_\_\_\_ presently in the aggregate  
amount of USD \_\_\_\_\_ issued for the account of  
\_\_\_\_\_ and expiring on \_\_\_\_\_.

On the expiration date of the Letter of Credit no. \_\_\_\_\_, we will issue a new  
Letter of Credit No. \_\_\_\_\_ to expire on \_\_\_\_\_ (date). This new  
Letter of Credit No. \_\_\_\_\_ will, aside from the expiration date, be in the  
amount and form of our Letter of Credit No. \_\_\_\_\_.

Very truly yours,

BANK \_\_\_\_\_

By \_\_\_\_\_  
Name:  
Title:  
Date:

The Cleveland Electric Illuminating Company  
By: \_\_\_\_\_  
Name:  
Title:  
Date:

The Toledo Edison Company  
By: \_\_\_\_\_  
Name:  
Title:  
Date:

Ohio Edison Company  
By: \_\_\_\_\_  
Name:  
Title:  
Date:

cc: \_\_\_\_\_ (Applicant Name)

**Annex 6 to Letter of Credit**

NOTICE OF TRANSFER  
OF LETTER OF CREDIT NO. \_\_\_\_\_

\_\_\_\_\_, 20\_\_

To:

[Bank]

[Bank Address]

To Whom It May Concern:

Re: Credit \_\_\_\_\_

Issued by \_\_\_\_\_

Advice No \_\_\_\_\_

For the value received, the undersigned beneficiary hereby irrevocably transfers to:

\_\_\_\_\_  
(Name of Transferee)

\_\_\_\_\_  
(Address)

all rights of the undersigned Beneficiaries to draw under the above Letter of Credit in its entirety.

By this transfer, all rights of the undersigned Beneficiaries in such Letter of Credit are transferred to the transferee and the transferee shall have the sole rights as beneficiary thereof, including sole rights relating to any amendments, whether increases, extensions or other amendments and whether now existing or hereafter made. All amendments are to be advised direct to the transferee without necessity of any consent of or notice to the undersigned beneficiary.

The advice of such Letter of Credit is returned herewith, and we ask you to endorse the transfer on the reverse thereof, and forward it directly to the transferee with your customary notice of transfer.



Very Truly Yours,

The Cleveland Electric Illuminating Company

By: \_\_\_\_\_

Name:

Title:

Date:

The Toledo Edison Company

By: \_\_\_\_\_

Name:

Title:

Date:

Ohio Edison Company

By: \_\_\_\_\_

Name:

Title:

Date:

The above signature with title as stated conforms to that on file with us and is authorized for the execution of said instruments.

(Name of authenticating party)

\_\_\_\_\_  
(Authorized signature of authenticating party)

Name

Title

## APPENDIX E

### FORM OF GUARANTY

GUARANTY (this “Guaranty”), dated as of \_\_\_\_\_, made by \_\_\_\_\_ (the “Guarantor”), a corporation organized and existing under the laws of \_\_\_\_\_ in favor of The Cleveland Electric Illuminating Company, The Toledo Edison Company and Ohio Edison Company (the “Guaranteed Parties”), corporations organized and existing under the laws of the State of Ohio. Capitalized terms used herein but not defined herein shall have the meaning given such terms in the Agreement (defined below).

Guarantor enters into this Guaranty in consideration of, and as an inducement for, Guaranteed Parties having entered into or entering into that certain Master SSO Supply Agreement dated \_\_\_\_\_ (the “Agreement”) with \_\_\_\_\_ [Name], a \_\_\_\_\_ [State] [corporation] (the “SSO Supplier”), which may involve the extension of credit by the Guaranteed Parties. Guarantor, subject to the terms and conditions hereof, hereby unconditionally and absolutely guarantees to the Guaranteed Parties the full and prompt payment when due, upon demand in writing from the Guaranteed Parties to the Guarantor’s attention at the address for Guarantor set forth in Article 11 hereof, of any and all amounts payable by the SSO Supplier to the Guaranteed Parties arising out of the Agreement, and:

1. The Guarantor, as primary obligor and not merely as surety, hereby irrevocably and unconditionally guarantees the full and prompt payment when due (whether by acceleration or otherwise) of the principal and interest on any sums due and payable by the SSO Supplier as a result of an Event of Default under the Agreement (including indemnities, damages, fees and interest thereon, pursuant to the terms of the Agreement). Notwithstanding anything to the contrary herein, the maximum aggregate liability of the Guarantor under this Guaranty shall [Option 1 {in no event exceed \_\_\_\_\_}.] Option 2 {in no event exceed the lesser of the credit limit amount or the sum of the Total Exposures Amounts under the Agreement(s).}] All such principal, interest, obligations and liabilities, collectively, are the “Guaranteed Obligations”. This Guaranty is a guarantee of payment and not of collection.
2. The Guarantor hereby waives diligence, acceleration, notice of acceptance of this Guaranty and notice of any liability to which it may apply, and waives presentment and all demands whatsoever except as noted herein, notice of protest, notice of dishonor or nonpayment of any such liability, suit or taking of other action by any Guaranteed Party against, and any other notice to, any party liable thereon (including the Guarantor or any other guarantor), filing of claims with a court in the event of the

insolvency or bankruptcy of the SSO Supplier, and any right to require a proceeding first against the SSO Supplier.

3. The Guaranteed Parties may, at any time and from time to time, without notice to or consent of the Guarantor, without incurring responsibility to the Guarantor and without impairing or releasing the obligations of the Guarantor hereunder, upon or without any terms or conditions: (i) take or refrain from taking any and all actions with respect to the Guaranteed Obligations, any document or any person (including the SSO Supplier) that the Guaranteed Parties determine in their sole discretion to be necessary or appropriate; (ii) take or refrain from taking any action of any kind in respect of any security for any Guaranteed Obligation(s) or liability of the SSO Supplier to the Guaranteed Parties; or (iii) compromise or subordinate any Guaranteed Obligation(s) or liability of the SSO Supplier to the Guaranteed Parties including any security therefore.
4. Subject to the terms and conditions hereof, the obligations of the Guarantor under this Guaranty are absolute and unconditional and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by: (i) any extension, renewal, settlement, compromise, waiver, consent, discharge or release of the SSO Supplier concerning any provision of the Agreement(s) in respect of any Guaranteed Obligations of the SSO Supplier; (ii) the rendering of any judgment against the SSO Supplier or any action to enforce the same; (iii) the existence, or extent of, any release, exchange, surrender, non-perfection or invalidity of any direct or indirect security for any of the Guaranteed Obligations (to which the Guarantor hereby consents) ; (iv) any modification, amendment, waiver, extension of or supplement to any of the Agreement(s) or the Guaranteed Obligations agreed to from time to time by the SSO Supplier and the Guaranteed Parties; (v) any change in the corporate existence (including its constitution, laws, rules, regulations or powers), structure or ownership of the SSO Supplier or the Guarantor, or any insolvency, bankruptcy, reorganization or other similar proceedings affecting the SSO Supplier or its assets, the Guarantor or any other guarantor of any of the Guaranteed Obligations; (vi) the existence of any claim, set-off or other rights which the Guarantor may have at any time against the SSO Supplier, the Guaranteed Parties or any other corporation or person, whether in connection herewith or in connection with any unrelated transaction; provided that nothing herein shall prevent the assertion of any such claim by separate suit or compulsory counterclaim; (vii) the invalidity, irregularity or unenforceability in whole or in part of the Agreement or any Guaranteed Obligations or any instrument evidencing any Guaranteed Obligations or the absence of any action to enforce the same, or any provision of applicable law or regulation purporting to prohibit payment by the SSO Supplier of amounts to be paid by it under the Agreement or any of the Guaranteed Obligations; and (viii) except for a failure to comply with any applicable statute of limitations, any other act or omission to act or delay of any kind of the SSO Supplier, any other guarantor, the Guaranteed Parties or any other corporation or person or any other event, occurrence or circumstance whatsoever which might, but for the provisions of this paragraph, constitute a legal or equitable discharge of the Guarantor's obligations hereunder.

5. The Guarantor hereby irrevocably waives (i) any right of reimbursement or contribution, and (ii) any right of salvage against the SSO Supplier or any collateral security or guaranty or right of offset held by the Guaranteed Parties therefor.
6. The Guarantor will not exercise any rights which it may acquire by way of subrogation until all Guaranteed Obligations to the Guaranteed Parties pursuant to the Agreement have been paid in full.
7. Subject to the terms and conditions hereof, this Guaranty is a continuing one and all liabilities to which it applies or may apply under the terms hereof shall be conclusively presumed to have been created in reliance hereon. Except for a failure to comply with any applicable statute of limitations, no failure or delay on the part of the Guaranteed Parties in exercising any right, power or privilege hereunder, and no course of dealing between the Guarantor and the Guaranteed Parties, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights, powers and remedies herein expressly provided are cumulative and not exclusive of any rights, powers or remedies, which the Guaranteed Parties would otherwise have. No notice to or demand on the Guarantor in any case shall entitle the Guarantor to any other or further notice of demand in similar or other circumstances or constitute a waiver of the rights of the Guaranteed Parties to any other or further action in any circumstances without notice or demand.
8. This Guaranty shall be binding upon the Guarantor and upon its successors and assigns and shall inure to the benefit of and be enforceable by the Guaranteed Parties and their successors and assigns; provided, however, that the Guarantor may not assign or transfer any of its rights or obligations hereunder without the prior written consent of the Guaranteed Parties. The assignment rights of the Guaranteed Parties will be in accordance with the terms of the Agreement.
9. Neither this Guaranty nor any provision hereof may be changed, waived, discharged or terminated except upon written agreement of the Guaranteed Parties and the Guarantor.
10. The Guarantor agrees that its liability as guarantor shall continue and remain in full force and effect in the event that all or any part of any payment made hereunder or any obligation or liability guaranteed hereunder is recovered (as a fraudulent conveyance, preference or otherwise) rescinded or must otherwise be reinstated or returned due to bankruptcy or insolvency laws or otherwise.
11. All notices and other communications hereunder shall be made at the addresses by hand delivery, by the next day delivery service effective upon receipt or by certified mail return receipt requested (effective upon scheduled weekday delivery day) or

telefacsimile (effective upon receipt of evidence, including telefacsimile evidence, that telefacsimile was received):

If to the Guarantor:

[To be completed]

If to the Guaranteed Parties:

Thomas R. Sims

~~Senior Business~~Credit Risk Analyst

FirstEnergy Corp.

~~76 South Main Street, 17th Floor~~341 White Pond Drive, A-WAC-C2

Akron, OH 4430844320

Telephone: 330-384315-38086983

Facsimile: 330-255436-46621901

[simst@firstenergycorp.com](mailto:simst@firstenergycorp.com)

Field Code Changed

Copy to:

William R. Ridmann

Vice President, Rates & Regulatory Affairs

FirstEnergy Corp.

76 South Main Street, 8th Floor

Akron, OH 44308

Telephone: 330-761-4154

Facsimile: 330-761-4281

[wrridmann@firstenergycorp.com](mailto:wrridmann@firstenergycorp.com)

Field Code Changed

and:

Dean W. Stathis

Director, Regulated Commodity Sourcing

2800 Pottsville Pike

Reading PA 19612-6001

Telephone: 610-921-6766

Facsimile: 610-939-8542

[dstathis@firstenergycorp.com](mailto:dstathis@firstenergycorp.com)

Field Code Changed

and:

Associate General Counsel

FirstEnergy Corp.

76 South Main Street

Akron, OH 44308

Facsimile: 330-384-3875

12. If claim is ever made upon the Guaranteed Parties for repayment or recovery of any amount or amounts received in payment or on account of any of the Guaranteed Obligations and the Guaranteed Parties repay all or part of such amount by reason of (i) any judgment, decree or order of any court or administrative body having jurisdiction over such payee or any of its property, or (ii) any settlement or compromise of any such claim effected by such payee with any such claimant (including the Guarantor), then and in such event the Guarantor agrees that any such judgment, decree, order, settlement or compromise shall be binding upon it, notwithstanding any revocation hereof or the cancellation of the Agreement or other instrument evidencing any liability of the Guarantor, and the Guarantor shall be and remain liable to the Guaranteed Parties hereunder for the amount so repaid or recovered to the same extent as if such amount had never originally been received by any such payee.
13. The Guarantor hereby certifies that it satisfies the Minimum Rating as defined in the Agreement.
14. This Guaranty shall remain in full force and effect until all Guaranteed Obligations have been fully and finally performed, at which point it will expire. The Guarantor may terminate this Guaranty upon thirty (30) days prior written notice to the Guaranteed Parties, which termination shall be effective only upon receipt by the Guaranteed Parties of alternative means of security or credit support, as specified in the Agreement and in a form reasonably acceptable to the Guaranteed Parties. Upon the effectiveness of any such expiration or termination, the Guarantor shall have no further liability under this Guaranty, except with respect to the Guaranteed Obligations entered into prior to the time the expiration or termination is effective, which Guaranteed Obligations shall remain guaranteed pursuant to the terms of this Guaranty until finally and fully performed.
15. The Guarantor represents and warrants that: (i) it is duly organized and validly existing under the laws of the jurisdiction in which it was organized and has the power and authority to execute, deliver, and perform this Guaranty; (ii) no authorization, approval, consent or order of, or registration or filing with, any court or other governmental body having jurisdiction over the Guarantor is required on the part of the Guarantor for the execution, delivery and performance of this Guaranty except for those already made or obtained; (iii) this Guaranty constitutes a valid and legally binding agreement of the Guarantor, and is enforceable against the Guarantor, except as the enforceability of this Guaranty may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity; and (iv) the execution, delivery and performance of this Guaranty by the Guarantor have been and remain duly authorized by all necessary corporate or comparable action and do not contravene any provision of its \_\_\_\_\_ *[insert appropriate corporate organizational document, such as Declaration of Trust, Limited Liability Agreement,*

*Articles of Incorporation or by-laws*] or any law, regulation or contractual restriction binding on it or its assets.

16. This Guaranty and the rights and obligations of the SSO Supplier and the Guarantor hereunder shall be construed in accordance with and governed by the laws of the State of Ohio. The Guarantor and Guaranteed Parties agree to the exclusive jurisdiction of State and federal courts located in the State of Ohio over any disputes arising from or relating to this Guaranty and waive any objections to venue or inconvenient forum. The Guarantor and Guaranteed Parties each hereby irrevocably waive any and all rights to trial by jury with respect to any legal proceeding arising out of or relating to this Guaranty.
17. This writing is the complete and exclusive statement of the terms of this Guaranty and supersedes all prior oral or written representations, understandings, and agreements between the Guaranteed Parties and the Guarantor with respect to subject matter hereof. The Guaranteed Parties and the Guarantor agree that there are no conditions to the full effectiveness of this Guaranty.
18. Every provision of this Guaranty is intended to be severable. If any term or provision hereof is declared to be illegal or invalid for any reason whatsoever by a court of competent jurisdiction, such illegality or invalidity shall not affect the balance of the terms and provisions hereof, which terms and provisions shall remain binding and enforceable. This Guaranty may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.
19. No trustee or shareholder of Guarantor shall be held to any liability whatsoever for any obligation under this Guaranty, and such Guaranty shall not be enforceable against any such trustee in his or her individual capacity. This Guaranty shall be enforceable against the trustees of Guarantor only as such, and every person, firm, association, trust or corporation having any claim or demand arising under this Guaranty and relating to Guarantor, its shareholders or trustees shall look solely to the trust estate of Guarantor for the payment or satisfaction thereof.

IN WITNESS WHEREOF, the Guarantor has caused this Guaranty to be executed and delivered as of the date first above written to be effective as of the earliest effective date of any of the Agreement.

[GUARANTOR]

By: \_\_\_\_\_  
Title:

Accepted and Agreed to:

The Cleveland Electric Illuminating Company

By: \_\_\_\_\_

Name:

Title:

Date:

The Toledo Edison Company

By: \_\_\_\_\_

Name:

Title:

Date:

Ohio Edison Company

By: \_\_\_\_\_

Name:

Title:

Date:



**-APPENDIX F**

**FORM OF PJM DECLARATION OF AUTHORITY**

This Declaration of Authority is made this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ by the Cleveland Electric Illuminating Company, the Toledo Edison Company and the Ohio Edison Company, (collectively, “**PARTY A**”) and [SSO Supplier] (“**PARTY B**”) for the benefit of PJM Interconnection, L.L.C. (“PJM”).

**RECITALS:**

WHEREAS, PJM is a Regional Transmission Organization subject to the jurisdiction of the Federal Energy Regulatory Commission;

WHEREAS, PJM administers centralized markets that clear various electric energy and energy-related products among multiple buyers and sellers;

WHEREAS, PJM additionally exercises operational control over its members’ transmission facilities whereby PJM provides control area functions, including economic dispatch, the scheduling of transmission service and emergency response to ensure reliability across an integrated transmission system; and

WHEREAS, in capacities more fully described below, PARTY A and PARTY B seek to participate either directly or indirectly in the markets administered by PJM or engage in operations that use or affect the integrated transmission system operated by PJM.

**DECLARATION:**

NOW, THEREFORE, acknowledging that PJM will rely on the truth, accuracy and completeness of the statements made below, PARTY A and PARTY B, as indicated below, provide the following declaration:

1. Declaration.
  - a. PARTY B hereby declares that in all activities with PJM regarding PARTY B’s provision of energy, capacity, ancillary services, scheduling and procurement of transmission service, congestion management and all other required products and services necessary to serve the load obligation assumed by PARTY B under the Master SSO Supply Agreement, dated [\_\_\_\_], by and between PARTY A and Party B (the "Agreement"), PARTY B shall be billed and be primarily liable to PJM for all costs

associated in its procurement of such products and services (the "Declaration").

2. Reliance On Declarations

- a. Each of PARTY A and PARTY B recognizes and accepts that PJM is relying on the truth, accuracy and completeness of the Declaration made in making its assessments as to creditworthiness and in assuring PJM's own compliance with its tariff, operating agreement, reliability agreement and business practices.
  - b. Each of PARTY A and PARTY B recognizes and accepts that each has a continuing duty to notify PJM if and when the Declaration made cease to be accurate and complete. Until such time as PJM receives written notification of any changes to such Declaration, signed by both PARTY A and PARTY B, PJM shall be entitled to rely perpetually on this Declaration as governing its relationship with PARTY A and PARTY B as to the subject matter of this Declaration. Any written notice of changes to the Declaration must be provided to PJM at least thirty days in advance of their effectiveness.
  - c. Each of PARTY A and PARTY B recognize and acknowledge that PJM will receive and rely on individually modeled accounts that contain only zonal-specific Provider of Last Resort load to manually adjust the accounts to move the applicable billing line items' amounts in their entirety from the applicable supplier's account to the applicable buyer's account.
  - d. PARTY A and PARTY B recognize and acknowledge that they have entered into the Agreement and that the Declaration is not intended in any way to change, revise or redistribute the rights and obligations of PARTY A or PARTY B under the Agreement. If the Declaration is determined to be inconsistent with any provision of the Agreement, with respect to the rights and obligations of PARTY A and PARTY B under the Agreement, the provisions of the Agreement shall be controlling on PARTY A and PARTY B.
3. Duration. Each of PARTY A and PARTY B acknowledge and agree that the Declaration shall terminate upon the termination of the Agreement in accordance with its terms. To this end, within thirty (30) days prior to the termination of the Agreement in accordance with its terms or as soon thereafter as is practicable, each of PARTY A and PARTY B will provide written notice to PJM of the termination of the Declaration.

IN WITNESS WHEREOF, PARTY A and PARTY B execute this Declaration to be effective as of the date written above.

**PARTY A**

---

NAME:

TITLE:

---

---

**PARTY B**

---

NAME:

TITLE:

---

---

## APPENDIX G

## SAMPLE PJM INVOICE

Finalized PJM Billing Statement Line Items (as of Sept. 01, 2010)		
ID #	Resp.	CHARGES
1000	SSO S	Amount Due for Interest on Past Due Charges
1100	EDC	Network Integration Transmission Service
1104	EDC	Network Integration Transmission Service Offset
1108	EDC	Transmission Enhancement
1110	SSO S	Direct Assignment Facilities
1120	SSO S	Other Supporting Facilities
1130	SSO S	Firm Point-to-Point Transmission Service
1133	SSO S	Firm Point-to-Point Transmission Service Resale
1135	SSO S	Neptune Voluntary Released Transmission Service (Firm)
1138	SSO S	Linden Voluntary Released Transmission Service (Firm)
1140	SSO S	Non-Firm Point-to-Point Transmission Service
1143	SSO S	Non-Firm Point-to-Point Transmission Service Resale
1145	SSO S	Neptune Voluntary Released Transmission Service (Non-Firm)
1146	SSO S	Neptune Default Released Transmission Service (Non-Firm)
1147	SSO S	Neptune Unscheduled Usage Billing Allocation
1155	SSO S	Linden Voluntary Released Transmission Service (Non-Firm)
1156	SSO S	Linden Default Released Transmission Service (Non-Firm)
1157	SSO S	Linden Unscheduled Usage Billing Allocation
1200	SSO S	Day-ahead Spot Market Energy
1205	SSO S	Balancing Spot Market Energy
1210	SSO S	Day-ahead Transmission Congestion
1215	SSO S	Balancing Transmission Congestion
1218	SSO S	Planning Period Congestion Uplift
1220	SSO S	Day-ahead Transmission Losses
1225	SSO S	Balancing Transmission Losses
1230	SSO S	Inadvertent Interchange
1240	SSO S	Day-ahead Economic Load Response
1241	SSO S	Real-time Economic Load Response
1245	SSO S	Emergency Load Response
1250	SSO S	Meter Error Correction
1260	SSO S	Emergency Energy
1301	SSO S	PJM Scheduling, System Control and Dispatch Service - Control Area Administration
1302	SSO S	PJM Scheduling, System Control and Dispatch Service - FTR Administration

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1303	SSO S	PJM Scheduling, System Control and Dispatch Service - Market Support
1304	SSO S	PJM Scheduling, System Control and Dispatch Service - Regulation Market Administration
1305	SSO S	PJM Scheduling, System Control and Dispatch Service - Capacity Resource/Obligation Mgmt.
1306	SSO S	PJM Scheduling, System Control and Dispatch Service - Advanced Second Control Center
1308	SSO S	PJM Scheduling, System Control and Dispatch Service Refund - Control Area Administration
1309	SSO S	PJM Scheduling, System Control and Dispatch Service Refund - FTR Administration
1310	SSO S	PJM Scheduling, System Control and Dispatch Service Refund - Market Support
1311	SSO S	PJM Scheduling, System Control and Dispatch Service Refund - Regulation Market Administration
1312	SSO S	PJM Scheduling, System Control and Dispatch Service Refund - Capacity Resource/Obligation Mgmt.
1314	SSO S	Market Monitoring Unit (MMU) Funding
1315	SSO S	FERC Annual Charge Recovery
1316	SSO S	Organization of PJM States, Inc. (OPSI) Funding
1317	SSO S	North American Electric Reliability Corporation (NERC)
1318	SSO S	Reliability First Corporation (RFC)
1320	EDC	<b>Transmission Owner Scheduling, System Control and Dispatch Service</b>
1330	EDC	<b>Reactive Supply and Voltage Control from Generation and Other Sources Service</b>
1340	SSO S	Regulation and Frequency Response Service
1350	SSO S	Energy Imbalance Service
1360	SSO S	Synchronized Reserve
1365	SSO S	Day-ahead Scheduling Reserve
1370	SSO S	Day-ahead Operating Reserve
1371	SSO S	Day-ahead Operating Reserve for Load Response
1375	SSO S	Balancing Operating Reserve
1376	SSO S	Balancing Operating Reserve for Load Response
1377	SSO S	Synchronous Condensing
1378	SSO S	Reactive Services
1380	SSO S	Black Start Service
1400	SSO S	Load Reconciliation for Spot Market Energy
1410	SSO S	Load Reconciliation for Transmission Congestion
1420	SSO S	Load Reconciliation for Transmission Losses
1430	SSO S	Load Reconciliation for Inadvertent Interchange
1440	SSO S	Load Reconciliation for PJM Scheduling, System Control and Dispatch Service
1441	SSO S	Load Reconciliation for PJM Scheduling, System Control and Dispatch Service Refund
1442	SSO S	Load Reconciliation for Schedule 9-6 - Advanced Second Control Center
1444	SSO S	Load Reconciliation for Market Monitoring Unit (MMU) Funding
1445	SSO S	Load Reconciliation for FERC Annual Charge Recovery
1446	SSO S	Load Reconciliation for Organization of PJM States, Inc. (OPSI) Funding
1447	SSO S	Load Reconciliation for North American Electric Reliability Corporation (NERC)
1448	SSO S	Load Reconciliation for Reliability First Corporation (RFC)
1450	EDC	<b>Load Reconciliation for Transmission Owner Scheduling, System Control and Dispatch Service</b>
1460	SSO S	Load Reconciliation for Regulation and Frequency Response Service
1470	SSO S	Load Reconciliation for Synchronized Reserve
1475	SSO S	Load Reconciliation for Day-ahead Scheduling Reserve
1478	SSO S	Load Reconciliation for Balancing Operating Reserve
1480	SSO S	Load Reconciliation for Synchronous Condensing
1490	EDC	<b>Load Reconciliation for Reactive Services</b>

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1500	SSO S	Financial Transmission Rights Auction
1600	SSO S	RPM Auction
1610	SSO S	Locational Reliability
1650	SSO S	Non-Unit Specific Capacity Transaction
1660	SSO S	Demand Resource and ILR Compliance Penalty
1661	SSO S	Capacity Resource Deficiency
1662	SSO S	Generation Resource Rating Test Failure
1663	SSO S	Qualifying Transmission Upgrade Compliance Penalty
1664	SSO S	Peak Season Maintenance Compliance Penalty
1665	SSO S	Peak-Hour Period Availability
1710	SSO S	PJM/MISO Seams Elimination Cost Assignment
1720	SSO S	RTO Start-up Cost Recovery
1730	SSO S	Expansion Cost Recovery
1900	SSO S	Unscheduled Transmission Service
1910	SSO S	Ramapo Phase Angle Regulators
1920	SSO S	Station Power
<b>1930</b>	<b>EDC</b>	<b>Generation Deactivation</b>
1950	SSO S	Virginia Retail Administrative Fee
1955	SSO S	Deferral Recovery
1980	SSO S	Miscellaneous Bilateral
1995	SSO S	PJM Annual Membership Fee
1999	SSO S	PJM Customer Payment Default
<b>TBD</b>	<b>EDC</b>	<b>Midwest ISO Transmission Expansion Plan Assessment</b>
<b>ID #</b>	<b>Resp.</b>	<b>CREDITS</b>
<b>2100</b>	<b>EDC</b>	<b>Network Integration Transmission Service</b>
<b>2104</b>	<b>EDC</b>	<b>Network Integration Transmission Service Offset</b>
2106	SSO S	Non-Zone Network Integration Transmission Service
<b>2108</b>	<b>EDC</b>	<b>Transmission Enhancement</b>
2110	SSO S	Direct Assignment Facilities
2120	SSO S	Other Supporting Facilities
2130	SSO S	Firm Point-to-Point Transmission Service
2132	SSO S	Internal Firm Point-to-Point Transmission Service
2133	SSO S	Firm Point-to-Point Transmission Service Resale
2135	SSO S	Neptune Voluntary Released Transmission Service (Firm)
2138	SSO S	Linden Voluntary Released Transmission Service (Firm)
2140	SSO S	Non-Firm Point-to-Point Transmission Service
2142	SSO S	Internal Non-Firm Point-to-Point Transmission Service
2143	SSO S	Non-Firm Point-to-Point Transmission Service Resale
2145	SSO S	Neptune Voluntary Released Transmission Service (Non-Firm)
2146	SSO S	Neptune Default Released Transmission Service (Non-Firm)

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2155	SSO S	Linden Voluntary Released Transmission Service (Non-Firm)
2156	SSO S	Linden Default Released Transmission Service (Non-Firm)
2210	SSO S	Transmission Congestion
2217	SSO S	Planning Period Excess Congestion
2218	SSO S	Planning Period Congestion Uplift
2220	SSO S	Transmission Losses
2240	SSO S	Day-ahead Economic Load Response
2241	SSO S	Real-time Economic Load Response
2245	SSO S	Emergency Load Response
2260	SSO S	Emergency Energy
<b>2320</b>	<b>EDC</b>	<b>Transmission Owner Scheduling, System Control and Dispatch Service</b>
<b>2330</b>	<b>EDC</b>	<b>Reactive Supply and Voltage Control from Generation and Other Sources Service</b>
2340	SSO S	Regulation and Frequency Response Service
2350	SSO S	Energy Imbalance Service
2360	SSO S	Synchronized Reserve
2365	SSO S	Day-ahead Scheduling Reserve
2370	SSO S	Day-ahead Operating Reserve
2371	SSO S	Day-ahead Operating Reserve for Load Response
2375	SSO S	Balancing Operating Reserve
2376	SSO S	Balancing Operating Reserve for Load Response
2377	SSO S	Synchronous Condensing
2378	SSO S	Reactive Services
2380	SSO S	Black Start Service
2420	SSO S	Load Reconciliation for Transmission Losses
2500	SSO S	Financial Transmission Rights Auction
2510	SSO S	Auction Revenue Rights
2600	SSO S	RPM Auction
2620	SSO S	Interruptible Load for Reliability
2630	SSO S	Capacity Transfer Rights
2640	SSO S	Incremental Capacity Transfer Rights
2650	SSO S	Non-Unit Specific Capacity Transaction
2660	SSO S	Demand Resource and ILR Compliance Penalty
2661	SSO S	Capacity Resource Deficiency
2662	SSO S	Generation Resource Rating Test Failure

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2663	SSO S	Qualifying Transmission Upgrade Compliance Penalty
2664	SSO S	Peak Season Maintenance Compliance Penalty
2665	SSO S	Peak-Hour Period Availability
2710	SSO S	PJM/MISO Seams Elimination Cost Assignment
2720	SSO S	RTO Start-up Cost Recovery
2730	SSO S	Expansion Cost Recovery
2910	SSO S	Ramapo Phase Angle Regulators
<b>2930</b>	<b>EDC</b>	<b>Generation Deactivation</b>
2950	SSO S	Virginia Retail Administrative Fee
2955	SSO S	Deferral Recovery
2980	SSO S	Miscellaneous Bilateral
2996	SSO S	Annual PJM Cell Tower
2997	SSO S	Annual PJM Building Rent
<b>TBD</b>	<b>EDC</b>	<b>Midwest ISO Transmission Expansion Plan Assessment</b>



## APPENDIX H

### FIRST MORTGAGE BONDS

Any First Mortgage Bonds delivered or pledged in satisfaction of the Surplus Margin requirements of Section 6.9(c) of the Agreement by the SSO Supplier or its Guarantor (each, an “Issuer”) shall be in a maximum principal amount of not less than \$250 million; provided that First Mortgage Bonds delivered or pledged to cover the first \$500 million of Surplus Margin shall be in a maximum principal amount of not less than \$500 million; provided further that the provisions of such First Mortgage Bonds may provide that the aggregate liability of the Issuer thereunder at any given time will be the lesser of the aggregate maximum principal amount of all such First Mortgage Bonds then delivered or pledged and the actual amount of Surplus Margin then due under the Agreement. Such First Mortgage Bonds shall also satisfy the following conditions:

- 1) the Issuer’s First Mortgage Bonds or other senior secured debt securities that are pari passu with such First Mortgage Bonds shall at the date of delivery or pledge be rated at least BB, Ba2 or BB by any of S&P, Moody’s or Fitch;
- 2) all required State and Federal regulatory approvals for the delivery or pledge of such First Mortgage Bonds shall have been obtained and be in full force and effect;
- 3) any mortgage, indenture, deed of trust or other security agreement (the “Indenture”) providing for the issuance and delivery of the First Mortgage Bonds shall be a first priority lien on the property covered thereby subject only to customary permitted encumbrances, and shall contain customary provisions including with respect to:
  - a) the coverage of the lien thereof to appropriate asset classes (i.e. all assets used or useful in the generating electricity) and the maintenance and protection of the effectiveness and priority of such lien and the collateral covered thereby;
  - b) the limitation in amount of any First Mortgage Bond or other ratable obligations issuable thereunder to not more than 75% of the lower of cost or fair value of collateral covered thereby;
  - c) the exercise of remedies against the Issuer and such collateral in the event of, among other things, any default in payment, compliance with covenants or occurrence of bankruptcy, insolvency or similar proceedings;

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- 4) the Issuer shall provide the Companies with customary legal opinions of outside counsel as to such matters as the Companies may request, including, but not limited to:
  - a) the authorization, execution, delivery and enforceability of the First Mortgage Bonds and the Indenture,
  - b) the due recordation of the Indenture and creation and priority of the lien thereof,
  - c) the Issuer's valid and marketable title to the property covered by the lien of the Indenture, and
  - d) the receipt and full force and effect of all required State and Federal approvals; and
- 5) the structure of the delivery or pledge of the First Mortgage Bonds shall be acceptable to the Ohio Utilities (i.e. pledge, guaranty, escrow, etc.).

Notwithstanding the foregoing, any First Mortgage Bonds delivered or pledged in satisfaction of the requirements of Section 6.9(c) of the Agreement shall be in form, amount and substance satisfactory to the Companies in their sole discretion and the Companies hereby reserve the right to waive or modify any of the above conditions in their sole discretion.

**Attachment A-2**

**Bidding Rules for the  
FirstEnergy Ohio Utilities'  
CBP Auctions**

**Revised ~~September 19, 2011~~April 13,  
2012**

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## 1. INTRODUCTION

These Bidding Rules apply to the competitive bidding process ("CBP") auctions for The Cleveland Electric Illuminating Company, The Toledo Edison Company, and Ohio Edison Company (hereafter referred to as "the FirstEnergy Ohio Utilities") to procure supply for the provision of Standard Service Offer supply ("SSO Supply") for all of their customers that take retail generation service from the FirstEnergy Ohio Utilities.

Bidders also need to be familiar with other documents for the auctions including the Master Standard Service Offer Supply Agreement ("Master SSO Supply Agreement"), the Part 1 Application, the Part 2 Application, the Communications Protocols, and the Glossary. Bidders also should visit the Information Website regularly for up-to-date information including information specific to each auction.

The URL for the Information Website is <http://www.firstenergyCBP.com>. It contains relevant data, the schedule and key dates for participating in the auction process, frequently asked questions, and other information.

Unless noted otherwise, "days" refer to business days and times refer to prevailing Eastern Time. Unless noted otherwise, all capitalized terms are defined in the Glossary included as Appendix 1 to the Communications Protocols.

Examples in these Bidding Rules are illustrative only.

These Bidding Rules may be modified from time to time by the CBP Manager in order to: (i) facilitate a more competitive CBP, (ii) make any necessary corrections and/or clarifications, (iii) account for any change in CBP products, (iv) conform to any change in state or federal law or rule, and (v) apply any change deemed necessary at the discretion of the CBP Manager. Such modifications will be carried out in consultation with the FirstEnergy Ohio Utilities but without prior consent from the PUCO or any past, current, or potential bidder and will be posted to the Information Website.

### 1.1 CBP Manager

The CBP Manager is CRA International, Inc. The CBP Manager can be contacted by sending an email to [cbpmanager@crai.com](mailto:cbpmanager@crai.com). The full contact information for the CBP Manager is as follows:

CRA International, Inc.  
John Hancock Tower  
200 Clarendon Street, T-33  
Boston, MA 02116-5092  
Phone: 617.425.3384  
Fax: 617.425.6574  
[cbpmanager@crai.com](mailto:cbpmanager@crai.com)  
Attn: Brad Miller, Vice President / CBP Manager

## 2. THE PRODUCTS BEING PROCURED

This section summarizes the common elements of the products to be procured in the auctions. The Information Website provides details about the products to be procured in a specific auction, including the delivery periods, the number of tranches, the nominal MW size of the tranches, and the seasonal price factors.

### 2.1 SSO Load

Standard Service Offer ("SSO") Load will be the FirstEnergy Ohio Utilities' aggregate requirements to serve their SSO Customers and will include distribution losses. For purposes of these Bidding Rules, an "SSO Customer" is a retail customer of the FirstEnergy Ohio Utilities taking Standard Service Offer.

SSO Load will exclude the requirements of customers served by Competitive Retail Electric Service suppliers ("CRES Suppliers"). CRES Suppliers are certified by the PUCO and serve shopping customers.

SSO Load will also exclude the requirements of customers served via the Percentage of Income Payment Plan ("PIPP Customers"). For purposes of the CBP auctions, a PIPP customer is defined as any customer who is a PIPP customer as of June 1, 2011 and any customer who thereafter is enrolled in the PIPP program through ~~May 31, 2014~~May 31, 2016.

SSO Load will include the requirements of any Special Contract customers of the FirstEnergy Ohio Utilities who are served under special contracts.

### 2.2 Full Requirements Service

The auctions are designed to procure full requirements service for SSO Customers of the FirstEnergy Ohio Utilities. Winning bidders will assume all responsibilities of a Load Serving Entity ("LSE"). Full requirements service includes energy, capacity, market-based transmission service and market-based transmission ancillaries, and any other LSE service or other service as may be required by PJM to serve the SSO Load of the FirstEnergy Ohio Utilities.

However, the FirstEnergy Ohio Utilities will provide distribution services and will be responsible for Network Integrated Transmission Services ("NITS") charges and for other non-market-based FERC approved transmission charges for shopping and non-shopping load.

Full requirements service and the LSE obligations of winning bidders are defined in the Master SSO Supply Agreement.

## 2.3 Tranches

SSO Load will be divided into identical units called tranches, each representing an equivalent percentage of SSO Load. Each tranche represents one percent (1%) of the actual hourly energy required for SSO Load for the applicable delivery period as well as one percent (1%) of the PJM capacity requirement for the applicable delivery period.

The number of tranches intended to be procured in the auction is referred to as the “tranche target”. The CBP Manager may reduce the tranche target prior to the auction if indications of interest in the auction are such that doing so is required to promote more competitive bidding.

## 3. PRICES PAID TO SSO SUPPLIERS

The payment to SSO Suppliers for tranches won will be a seasonal function of the auction prices. The summer payment for a tranche, paid to the winning bidder of the tranche from June 1 through August 31 during each year of the applicable delivery period, will be higher than the winning price for that tranche. The winter payment for the same tranche, paid to the winning bidder of that tranche for the remaining months in the calendar year during each year of the applicable delivery period, will be lower than the winning price for that tranche. The seasonal factors are multiplied by the winning price for a tranche in determining the summer and winter payments for that tranche. The FirstEnergy Ohio Utilities reserve the right to calculate the seasonal factors in advance of each auction in response to changing market conditions. The seasonal factors will be announced to suppliers prior to the auction and will be constant during the duration of the Master SSO Supply Agreement.

### Example 1. Seasonal Supplier Payments

Assume the summer factor is 1.1180 and the winter factor is 0.9581, and the delivery period is June 1, 2011 through May 31, 2013.

Assume a bidder in the auction wins three (3) 24-month tranches at a price of \$60.00/MWh. The size of each tranche is 1% of the SSO Load. Thus, the bidder will serve 3% of the SSO Load from June 1, 2011 through May 31, 2013. The bidder will receive \$67.08 ( $\$60.00 \times 1.1180$ ) for each MWh of SSO Load served in the summer months and \$57.49 ( $\$60.00 \times 0.9581$ ) for each MWh of SSO Load served in the winter months.



## **4. PRIOR TO THE START OF BIDDING**

### **4.1 Information Provided to Bidders**

The FirstEnergy Ohio Utilities will make available certain information to suppliers in advance of qualification. This information will be posted on the Information Website.

#### **4.1.1 Load Data**

The FirstEnergy Ohio Utilities will provide:

- Load data for a historical three-year period.
- Hourly load data for total retail load and SSO Load.
- Switching statistics and historical load profiles.
- Historical data on PIPP Customers and load.

#### **4.1.2 Minimum and Maximum Starting Prices**

The CBP Manager will announce a minimum starting price and a maximum starting price for each product in the auction. The minimum and maximum starting prices establish the range for the possible round 1 prices for the auction.

#### **4.1.3 Tranche Size, Tranche Target**

No later than eight (8) days prior to the Part 1 Application Due Date, the CBP Manager will announce for each product in the auction:

- The tranche target or the number of tranches being procured.
- The size (%) and MW-measure of the tranches in the auction.

No later than four (4) days prior to the Part 2 Application Due Date, the CBP Manager will announce:

- Any update to the MW-measure of the tranches in the auction.

## 4.2 Qualification Process

There are two parts to the application process. In Part 1, prospective bidders apply to become Qualified Bidders. In Part 2, each Qualified Bidder provides certifications and its indicative offer and pre-bid security in order to become a Registered Bidder.

The auctions are scheduled for October and January, with the first auction scheduled for October 2010.

If a prospective bidder completes the Part 1 Application and becomes a Qualified Bidder for the October auction in a year, the bidder need not complete the Part 1 Application again for the subsequent auction scheduled for January. The Qualified Bidder still needs to complete the Part 2 Application for the auction scheduled for January even if the Qualified Bidder completed a Part 2 Application for the preceding October auction.

If a prospective bidder for the January auction in a year was not a Qualified Bidder for the preceding October auction, then the prospective bidder must complete the Part 1 Application to become a Qualified Bidder for the January auction.

All prospective bidders for an auction scheduled for October in a year must complete a Part 1 Application to become a Qualified Bidder for that auction, even if they were Qualified Bidders in any prior auction.

A prospective bidder is obligated to inform the CBP Manager of any change in its status related to the information the prospective bidder previously provided in its Part 1 Application or its Part 2 Application.

### 4.2.1 Part 1 Application: Certifications and Other Qualified Bidder Requirements

In the Part 1 Application process, prospective bidders will be required to:

- Submit an application from a person with the power to bind the bidder.
- Agree to comply with all rules of the auction.
- Agree that if they become winning bidders, they will execute the Master SSO Supply Agreement with the FirstEnergy Ohio Utilities within 3 business days following the close of the auction.
- Show either that they are a PJM Market Participant and Load Serving Entity in PJM, or that there exist no impediments to them becoming a PJM Market Participant and Load Serving Entity in PJM by the start of the applicable delivery period.
- Agree that if they become winning bidders, they will comply with the creditworthiness requirements set forth in the Master SSO Supply Agreement.
- Certify that if they qualify to participate, they will not disclose information regarding the list of Qualified Bidders or confidential information that may be obtained during the bidding process about Qualified Bidders.

- Certify that if they qualify to participate, they will not substitute another entity in their place, transfer their rights to another entity, or otherwise assign their status as Qualified Bidders to another entity.

Part 1 Applications must be submitted to the CBP Manager no later than 12:00 p.m. noon prevailing Eastern Time on the Part 1 Application Due Date. Prospective bidders will be notified by the CBP Manager no later than three (3) days after the Part 1 Application Due Date whether they succeeded in becoming a Qualified Bidder.

A prospective bidder that has qualified during the Part 1 Application process becomes a Qualified Bidder. The CBP Manager will send a list of all Qualified Bidders to relevant parties that have undertaken to maintain the confidentiality of the list of Qualified Bidders. The relevant parties that will receive this list of Qualified Bidders are as follows:

- Each Qualified Bidder.
- Other parties as necessary to oversee the proper conduct of the auction, including representatives from the FirstEnergy Ohio Utilities, PUCO Staff, and any advisor ("PUCO Consultant") that PUCO Staff may have retained for this purpose.

All parties receiving a list of Qualified Bidders will be subject to the confidentiality requirements as specified below and in the Communications Protocols.

#### 4.2.2 Part 2 Application: Certifications, Indicative Offer, and Pre-Bid Security

For each auction, Qualified Bidders must successfully complete the Part 2 Application process in order to become a Registered Bidder that can bid in the auction. Only Qualified Bidders may submit a Part 2 Application.

Part 2 Applications must be submitted to the CBP Manager no later than 12:00 p.m. noon prevailing Eastern Time on the Part 2 Application Due Date. Qualified Bidders will be notified by the CBP Manager whether they succeeded in the Part 2 Application process no later than three (3) days after the Part 2 Application Due Date.

##### Certifications

In the Part 2 Application, each Qualified Bidder will make a number of certifications regarding associations to ensure that they are participating independently of other Qualified Bidders and to ensure the confidentiality of information regarding the auction.

A Qualified Bidder is associated with another Qualified Bidder if the two bidders have ties that could allow them to act in concert or that could prevent them from competing actively against each other. The competitiveness of the auction and the ability of the auction to produce competitive prices may be harmed by the coordinated or collusive behavior that associations facilitate. As the CBP Manager relies on a number of factors to assess and promote competitive bidding, including the number of independent competitors, using inaccurate information or insufficient disclosure of associations in the Part 2 Application is prohibited.

### Indicative Offer

With its Part 2 Application, a Qualified Bidder will be required to submit an indicative offer and to post pre-bid security sufficient for this indicative offer. A Qualified Bidder's indicative offer specifies two (2) numbers of tranches for each product in the auction. For each product, the first number represents the number of tranches that the Qualified Bidder is willing to serve at the minimum starting price for the product and the second number represents the number of tranches that the Qualified Bidder is willing to serve at the maximum starting price for the product. For each product, the number of tranches specified in the indicative offer at the minimum starting price cannot exceed the number of tranches specified at the maximum starting price.

Indicative offers are important in two respects. First, the CBP Manager may use the indicative offers to inform the setting of the starting price for each product (i.e., round 1 announced price). Second, the total number of tranches indicated by the Qualified Bidder at the maximum starting prices is used to determine the Qualified Bidder's initial eligibility (i.e., the maximum total number of tranches the Qualified Bidder can bid across all products in round 1 of the auction): the Qualified Bidder's initial eligibility is set to the sum of the number of tranches at the maximum starting prices across all products in the Qualified Bidder's indicative offer. During the auction, bidders are free to switch their tranches among products in response to changes in announced prices (subject to any bidding restrictions). However, a bidder will never be able to bid a total number of tranches across products that exceeds the bidder's initial eligibility. Thus, the number of tranches for each product at the maximum starting prices in the Qualified Bidder's indicative offer does not limit the number of tranches the Qualified Bidder can bid on a particular product, but the total number of tranches at the maximum starting prices across all products in the indicative offer must be equal to the Qualified Bidder's desired initial eligibility across all products.

### Restrictions on the Indicative Offer

A Qualified Bidder may have restrictions on its initial eligibility — due to a credit-based tranche cap and/or due to load caps — and therefore may have restrictions on its indicative offer.

A Qualified Bidder may have a credit-based tranche cap that limits the Qualified Bidder's initial eligibility. Thus, the total number of tranches at the maximum starting prices across all products in the Qualified Bidder's indicative offer must not exceed the Qualified Bidder's credit-based tranche cap. This credit-based tranche cap is based on the credit rating of the Qualified Bidder or its Guarantor. A Qualified Bidder's credit-based tranche cap is determined as follows. The Qualified Bidder or Guarantor must:

- Be rated by at least one of the following rating agencies: Standard & Poor's Rating Services ("S&P"), Moody's Investors Service, Inc. ("Moody's"), or Fitch, Inc. ("Fitch"), and
- Have a senior unsecured debt rating (or, if unavailable, corporate issuer rating).

If the Qualified Bidder or Guarantor is rated by only two rating agencies, and the ratings differ, the higher rating will be used. If the Qualified Bidder or Guarantor is rated by the three rating agencies, and the ratings differ, the lower of the two highest ratings will be used; provided that, in the event that the two highest ratings are common, such common rating will be used. The credit-based tranche cap for a Qualified Bidder or its Guarantor is determined as shown in the following table:

**Table 1. Credit-Based Tranche Cap**

Credit Rating of Qualified Bidder or Guarantor			Credit-Based Tranche Cap
S&P	Moody's	Fitch	
BB and above	Ba2 and above	BB and above	Unlimited up to auction's tranche target
BB-	Ba3	BB-	12 tranches
Below BB-	Below Ba3	Below BB-	6 tranches
If not rated by any of those rating agencies			6 tranches

Note that if a Qualified Bidder is not rated by any of the rating agencies, the Qualified Bidder's credit-based tranche cap will be 6 tranches.

The credit-based tranche cap is in effect only during the bidding process. After the Master SSO Supply Agreement has been executed by a winning bidder, the credit-based tranche cap will no longer be in effect and the SSO Supplier will be required to meet the credit terms in accordance with Article 6: Creditworthiness in the Master SSO Supply Agreement.

In addition to any credit-based tranche cap, a Qualified Bidder will be subject to a load cap that limits the number of tranches the bidder can bid on and win. The load cap will be 80 percent on an aggregated load basis across all auction products for each auction date such that no bidder may bid on and win more tranches than the load cap. The load cap will be implemented by ensuring that each bidder's initial eligibility does not exceed the load cap in an auction.

### Pre-Bid Security

Each Qualified Bidder must post pre-bid security sufficient for its indicative offer at the maximum starting prices. Each Qualified Bidder must post pre-bid security in an amount equal to \$500,000 per tranche for all products included in the bidder's indicative offer at the maximum starting prices. Either cash or a letter of credit will be accepted as pre-bid security. Some bidders may be subject to additional credit requirements or may be required to submit a letter of intent from a Guarantor or a letter of reference from a bank. The standard form of the letter of credit and other security documents that are in a form acceptable to the FirstEnergy Ohio Utilities will be posted to the Information Website.

If a draft letter of credit, alternate guaranty, letter of intent, letter of reference, or any alternate security submitted by the prospective bidder with the Part 1 Application does not conform to the standard form, the prospective bidder shall indicate clearly any and all modifications in electronic, redlined format from the standard form. The FirstEnergy Ohio Utilities will assess, in their sole and exclusive discretion, whether such modifications are acceptable. The prospective bidder, in its Part 2 Application, must provide the required executed credit documents that either use the standard form or incorporate only those modifications to the standard form accepted by the FirstEnergy Ohio Utilities upon review of the bidder's Part 1 Application.

The following is an example calculation of the pre-bid security.

### **Example 2. Pre-Bid Security**

A Qualified Bidder submits an indicative offer of 5 tranches for the 12-Month product at the minimum starting price and 10 tranches for the 12-Month product at the maximum starting price, 3 tranches for the 24-Month product at the minimum starting price and 6 tranches for the 24-Month product at the maximum starting price, and 2 tranches for the 36-Month product at the minimum starting price and 4 tranches for the 36-Month product at the maximum starting price. The Qualified Bidder must submit with this indicative offer of 20 tranches at the maximum starting prices cash or a letter of credit of \$500,000 per tranche. The Qualified Bidder thus posts cash or a letter of credit of \$10 million (20 tranches X \$500,000 per tranche).

Depending on whether the Qualified Bidder is relying on its own financial standing or on that of a Guarantor, and depending on the results of the creditworthiness assessment at the time of the Part 1 Application, the Qualified Bidder may be required additionally to submit a letter of intent to provide a guaranty from its Guarantor or to provide a letter of reference from its bank. Any such additional requirements would be communicated to the Qualified Bidder at the time of qualification during the Part 1 Application process.

For a Part 2 Application to be accepted, it must be complete, including the Qualified Bidder's indicative offer, letter of credit, and additional security (if required). After its Part 2 Application is accepted, a Qualified Bidder becomes a Registered Bidder. The CBP Manager will send each Registered Bidder a summary of its indicative offer, pre-bid security amount, and the Registered Bidder's initial eligibility.

The CBP Manager will also send simultaneously to each Registered Bidder, and to those other parties as necessary to oversee the proper conduct of the auction, a list of Registered Bidders, and the total initial eligibility aggregated across all Registered Bidders. The list of Registered Bidders and the total initial eligibility will not be released publicly. Qualified Bidders, in their Part 2 Applications, will have undertaken to maintain the confidentiality of the list of Registered Bidders and the total initial eligibility, and to destroy documents including electronic files with this information provided by the CBP Manager within five (5) days following the conclusion of the auction, as explained further in the Part 2 Application.

Letters of credit and additional security (if required) will remain in full force, at a minimum, until the fifth calendar day after the conclusion of the auction. Subsequently, a bidder's financial guaranty will be marked cancelled and returned:

- As soon as practicable if the bidder has won no tranches.
- After the bidder has signed the Master SSO Supply Agreement and has complied with all creditworthiness requirements of the Master SSO Supply Agreement for the tranches that it has won.

The FirstEnergy Ohio Utilities can collect on the financial guarantees of bidders that win tranches but that fail to sign the Master SSO Supply Agreement or fail to comply with the creditworthiness requirements immediately following the close of the auction.

#### 4.2.3 Sanctions for Failing to Comply with the Part 1 and Part 2 Applications

Sanctions can be imposed on a bidder for failing to disclose information relevant to determining associations, for coordinating with another bidder, or for failing to abide by any of the certifications that it will have made in its Part 1 and Part 2 Applications. Such sanctions can include, but are not limited to, termination of the Master SSO Supply Agreement, loss of all rights to provide supply for the FirstEnergy Ohio Utilities to serve any load won by such bidder, forfeiture of financial guarantees and other fees posted or paid, prosecution under applicable state and federal laws, debarment from participation in future competitive bidding processes, and other sanctions that may be appropriate. For any failure to disclose information or for any violation of the certifications, the CBP Manager will make a recommendation on a possible sanction.

### 4.3 Starting Prices (Round 1 Prices)

No later than three (3) days before bidding starts for an auction, the CBP Manager will inform all Registered Bidders of the starting price for each product in the auction, which are the announced prices that will be in effect for round 1. For each product, the starting price will be no higher than the maximum starting price and no lower than the minimum starting price for the product. The CBP Manager will set the starting prices.

### 4.4 Extraordinary Events

The CBP Manager, in consultation with the FirstEnergy Ohio Utilities, may determine that, due to extraordinary events, the minimum starting prices and the maximum starting prices require revision. In this event, the schedule for the auction process also may be revised. If the indicative offers have already been received, the CBP Manager will request that the Registered Bidders (or the Qualified Bidders if the Part 2 Application process had not been completed) revise their indicative offers on the basis of the revised minimum starting prices and the revised maximum starting prices.

For such a revision to be necessary, an extraordinary event must occur between the time at which the minimum starting prices and the maximum starting prices are announced and the day on which bidding starts. An extraordinary event must be agreed to by the FirstEnergy Ohio Utilities and the CBP Manager. Such events could include, but are not limited to, the advent of war, the disruption of a major supply source for potentially extended periods, or other events that could significantly affect the cost of supply.

If an extraordinary event occurs during that time, the CBP Manager in consultation with the FirstEnergy Ohio Utilities will determine revised minimum starting prices and revised maximum starting prices. New indicative offers based on these prices will be required from bidders. To the extent practicable, the determination of new minimum and maximum starting prices, the submission of new indicative offers, and if necessary the announcement of new starting prices, will be carried out so as to afford bidders sufficient time. If an extraordinary event occurs during that time that causes a possible change in the schedule, the CBP Manager in consultation with the FirstEnergy Ohio Utilities will determine a revised schedule.

## **5. BIDDING FORMAT FOR AUCTIONS OF MULTIPLE PRODUCTS**

In order to participate in the auction, bidders must have been successful in the Part 1 Application process and the Part 2 Application process. Only Registered Bidders are permitted to participate in the auction. Registered Bidders will bid in the auction by accessing the CBP Manager's secure Bidding Website.

### **5.1 Descending-Price Clock Format**

The auction format is a simultaneous, multiple-round, descending-price clock format for "N" rounds. The number of rounds "N" for the auction is not pre-determined. Instead, it is determined by the closing rule for the auction. All products are bid on simultaneously in the auction during bidding rounds. Prices are announced for the products prior to each bidding round, and during a bidding round, a bidder submits for each product the number of tranches it would supply at the product's announced price. If the total number of tranches bid on a product exceeds the product's tranche target — i.e., the product is over-subscribed — the announced price for the product will be reduced for the next round. Announced prices will tend to decline round by round until the number of tranches bid falls sufficiently so that no product is over-subscribed and the auction closes.

An important rule is that a bidder cannot reduce the number of tranches it bids on a product if the product's announced price does not fall from one round to the next, the bidder can only maintain or increase the number of tranches it bids on the product (subject to other rules).



### 5.1.1 Rounds

Each bidding round has a specified start time and a specified end time. These start and end times are enforced by the Bidding Website. Prior to the start of the auction, the initial schedule of rounds will be available on the Bidding Website. As the auction progresses, the CBP Manager will keep bidders informed of the start and end times of subsequent rounds through the Bidding Website. The CBP Manager retains the option of pausing a round, delaying the start or end of a round, or otherwise adjusting the round times. The CBP Manager will inform bidders through the Bidding Website if it exercises this discretion to change the start time or end time of a round.

Bidders submit bids only during a round. When a round ends, the bids submitted during that round are processed and results of that round are reported to all bidders as explained in the section "Reporting Round Results" below. Each bidder then prepares to submit a bid for the next round if the auction remains open.

### 5.1.2 The Announced Prices and a Bid

Prior to the start of each round, the CBP Manager announces the price that will be in effect for each product for the round. The announced prices are specified in dollars per MWh or \$/MWh. The price announced by the CBP Manager for a product applies to all of the product's tranches. Each bidder decides how many tranches it is willing and able to supply for each product at the product's announced price. A bid by a bidder is, for each product, the number of tranches that the bidder is willing to supply at that announced price for the product. All bids are irrevocable and binding upon the bidders.

At sufficiently high announced prices there will be excess supply for a product causing it to be over-subscribed; that is, the number of tranches bid on the product will exceed the product's tranche target. Excess supply for a product is measured as the total number of tranches bid across all bidders on the product in the round minus the product's tranche target.

### 5.1.3 Reservation Prices

There are reservation prices for the auction. The reservation price for a product is the price above which tranches for the product will not be purchased. If, at the conclusion of the auction, the reservation price for a product has not been met, no tranches for that product will be awarded. At the conclusion of the auction, the CBP Manager will inform bidders through the Bidding Website if the reservation price for a product has not been met.

Starting prices for the auction are determined after reservation prices are determined. The starting price for a product will be no lower than the reservation price for the product. The starting price may be the same as or higher than the reservation price for the product. The CBP Manager will not announce the reservation prices to bidders in advance of an auction.

### 5.1.4 Restrictions on What a Bidder Can Bid

The total number of tranches a bidder bids across all products in a round cannot exceed the bidder's eligibility for that round. That is, a bidder's eligibility to bid in a round is the maximum number of tranches it is allowed to bid across all products in that round. A bidder's eligibility for a round simply is the number of tranches the bidder bid across all products in the preceding round. Thus, a bidder cannot increase its eligibility from round to round; its eligibility can only stay the same or decrease from round to round.

A bidder is not allowed to bid more tranches on a product in a round than the product's tranche target.

A bidder is not allowed to bid a number of tranches that would violate either its credit-based tranche limit or any applicable load cap.

If the announced price for a product has been reduced from one round to the next round, the bidder can reduce the number of tranches it bid on that product.

If the announced price for a product has not been reduced from one round to the next round, the bidder cannot reduce the number of tranches it bid on that product.

Subject to the rules above, in each round a bidder is free to bid its tranches of eligibility across products however it would like to. Thus, subject to the rules above, bidders are free to reduce the tranches they bid and/or to switch tranches across products from round to round in response to changes in the announced prices for the products.

As discussed above, a bidder's initial eligibility is its eligibility for round 1 of the auction and is determined by the total number of tranches across products at the maximum starting prices in the bidder's indicative offer. During the course of the auction, the bidder's eligibility will decline or remain unchanged depending on the total number of tranches bid by the bidder across all products in each round of the auction.

If a bidder's eligibility falls to zero tranches, it will not be allowed to bid in any more rounds of the auction.

### 5.1.5 Multiple Bids by a Bidder

Because a bidder may decide to change a bid it submitted previously within the current open round, a bidder is allowed to make multiple bid submissions in a round as long as the round remains open for bidding, with each new confirmed bid fully replacing any prior bids it submitted in the round. If a bidder submits multiple bids in a round, the only bid considered in the round for that bidder is the last confirmed bid it submitted in the round.

### 5.1.6 Default Bid

After the end of a round, a default bid is submitted automatically on behalf of a bidder if the bidder:

- Entered the round with positive eligibility, and
- Did not submit a confirmed bid in the round.

If the announced price for a product declined from the prior round, then zero tranches will be the default bid for that product.

If the announced price for a product did not decline from the prior round, then the number of tranches that the bidder bid on the product in the prior round as determined by the end-of-round ("EOR") procedure following the prior round will be the default bid for the product.

Each bidder is solely responsible for ensuring it submits a confirmed bid prior to the end of the round in order to avoid a default bid of being submitted on the bidder's behalf.

### 5.1.7 The EOR Procedure

At the end of each round, the EOR procedure is used to process the confirmed bids submitted during the round. The EOR procedure includes the following steps.

- (a) The supply for each product is measured by summing up — across the confirmed bids for all bidders — the number of tranches bid for each product.
- (b) The subscription level for each product is measured by comparing the supply for the product to the tranche target for the product. A product is over-subscribed, subscribed, or under-subscribed if supply (i.e., the number of tranches bid) is greater than, equal to, or less than the product's tranche target, respectively.
- (c) If a product has become under-subscribed in a round after being over-subscribed or subscribed in the preceding round, then tranches will be rolled back to the point that the product is subscribed. That is, at least some of the tranches that were bid on the product in the preceding round but were not bid on the product in this round will be deemed to still be bid on the product. The price at which a rolled-back tranche is deemed to have been bid is simply the announced price at which the bidder had bid the tranche. There is a priority for selecting tranches to roll back: tranches that otherwise would no longer be bid on any product in the auction and therefore would be reductions in bidders' eligibilities are rolled back first (referred to as "eligibility reduction tranches"), and then if needed, tranches that were switched from being bid on the product to being bid on another product are selected next for rollbacks (referred to as "switched tranches"). Eligibility reduction tranches are selected for rollback proportionally tranche by tranche, not bidder by bidder. Likewise, switched tranches are selected for rollback proportionally tranche by tranche, not bidder by bidder. More precisely, because integer tranches are needed, the actual selection mechanism uses a random number generator to select rollbacks tranche by tranche (first for eligibility reduction tranches and then for switched tranches), but on average the selection process results in proportional rollbacks (with priority given to rolling back eligibility reduction tranches first and then switched tranches second). All tranches that are rolled back maintain their eligibility for the bidder. Any bidder subjected to a rollback will be notified through the Bidding Website that a rollback has taken place and will be informed about the number of tranches deemed bid on each product and the price at which those tranches have been deemed bid.

For example, suppose a bidder bids five tranches on a product and no tranches on other products in round 8, and the price for that product is reduced for round 9 and the bidder bids only 1 tranche on the product and no tranches on other products for round 9. Absent any EOR rollbacks following round 9, the bidder's eligibility would fall from 5 tranches to 1 tranche. But during the EOR procedure, suppose two of the bidder's 4 "eligibility reduction tranches" are rolled back on the product, so after the EOR procedure the bidder is deemed to have bid 3 tranches on the product — one at the announced price of the round just ended and two at the announced price of the preceding round — and therefore the bidder is deemed to have 3 tranches of eligibility for round 10.

- (d) "Free eligibility tranches" are determined as follows. A product's "bid stack" is a list of the tranches currently deemed bid on the product and the price at which each tranche was bid for the product. Because of rollbacks, a product's bid stack could have tranches bid at two different prices: some tranches bid at the earlier, higher announced price and some tranches bid at the current, lower announced price. Any new tranche bid on such a product necessarily will be bid at the current, lower announced price. This new tranche will displace a tranche in the product's bid stack at the earlier, higher announced price. The displaced tranche becomes a "free eligibility tranche". The free eligibility tranche counts as eligibility for the bidder and the bidder can bid the tranche on any product next round, or the bidder can choose not to bid the tranche at all. But if the bidder does not bid the free eligibility tranche next round, the tranche will be withdrawn from the auction permanently and will reduce the bidder's eligibility by one tranche after the next round.
- (e) In some cases, the CBP Manager may reduce the tranche targets. The criteria that could lead to such a reduction will be determined prior to the auction but will not be announced to bidders. Once certain pre-specified criteria related to excess supply and related to the reservation price have been met, the discretion to reduce a product's tranche target because of insufficient supply will be eliminated. Thus, any tranche target reduction would more likely occur in the earlier rounds of the auction. If the CBP Manager reduces the tranche target for a product, bidders will be informed of the revised tranche target. Any bidder that would otherwise have eligibility exceeding the new tranche targets will have its eligibility reduced so as not to exceed the new tranche targets.
- (f) A determination is made as to whether the auction has concluded. The auction concludes if (i) no product is over-subscribed and (ii) no bidder has free eligibility tranches. Note that it is possible for the auction to continue with no reductions in announced prices: if no product is over-subscribed there will be no reductions in announced prices but if there are free eligibility tranches (which "expire" after one round), the auction will remain open for one more round, allowing bidders with free eligibility to bid those tranches.
- (g) If the auction has concluded, the winning tranches, winning bidders, and winning prices are determined as described below.
- (h) If the auction has not concluded, then each bidder's eligibility is determined for the next round and the price decrement (if any) is determined for each product for the next round.

### 5.1.8 Price Decrements

The announced prices will decrease round by round by a price decrement for over-subscribed products. Pre-specified price guidelines are used to determine the price decrements. Generally the price decrement for a product will be larger during the earlier rounds in the auction and when the excess supply for the product is greater. The price decrement is expected to be between 0.5 percent and 5 percent of the announced price for the most recently completed round.

The CBP Manager reserves the right to override the price decrement guidelines. The exercise of that right is expected to occur rarely and only if doing so is believed to facilitate timely progression of the bidding process.

## **5.2 Determination of Winning Tranches, Winning Bidders, and Winning Prices**

At the close of the auction, the winning tranches, winning bidders, and winning prices will be determined as follows.

As a result of the EOR procedure as described above, there are two possible scenarios for a product at the close of the auction.

### **5.2.1 Bid Stack for a Product has All Tranches at the Same Price**

In this scenario, there are no rolled-back tranches in the product's bid stack: all tranches in the bid stack were bid at the last announced price, including any tranches bid on the product in the last round of the auction as determined by the EOR procedure. That announced price is the product's clearing price, and all tranches in the product's bid stack are winning tranches if the clearing price satisfies the product's reservation price. Bidders who bid those tranches are winning bidders for those tranches, and all bidders with winning tranches on a product are paid the same price — i.e., the clearing price — for each winning tranche on the product. Note that this scenario includes the case in which a product was over-subscribed at some point in the auction and later became subscribed, as well as the case in which a product was always under-subscribed in the auction (i.e., it was never subscribed or over-subscribed in the auction).

### **5.2.2 Bid Stack for a Product has Tranches at Two Different Prices**

In this scenario, there are rolled-back tranches in the product's bid stack: some tranches in the bid stack were bid at the last announced price (including any tranches bid on the product in the last round of the auction as determined by the EOR procedure), and some tranches in the bid stack were bid at the next most recent announced price. In this case, the product's clearing price is the next most recent announced price — which necessarily is higher than the last announced price for the product. All tranches in the product's bid stack are winning tranches if the clearing price satisfies the product's reservation price. Bidders who bid those tranches are winning bidders for those tranches, and all bidders with winning tranches on a product are paid the same price — i.e., the clearing price — for each winning tranche on the product.

## **5.3 Example of Round by Round Bidding**

Appendix A provides an illustrative example of round by round bidding.

## **5.4 Reporting Round Results**

During a round, a bidder can see the current status of the auction and of the current round, including the announced price for each product as well as the bidder's own bidding status. A bidder will not see information about other bidders.

Between rounds the Bidding Website will report the results for the most recently completed round. Results for all prior rounds also will be accessible. The round results for each completed round in the auction will show:

- The announced price for each product and a range of total supply across all bidders and all products (that is, a range that includes the total number of tranches bid). The range of total supply will be defined by two different integers. Actual total supply will not be reported but will be at least as high as the lower of the two integers and no higher than the higher of the two integers. There is an exception to reporting total supply as a range of two integers: if and when total supply has declined below a pre-determined level, total supply will be reported simply as being below that level. The reporting ranges will be made available to bidders in advance of each auction.
- For each bidder, that bidder's bid for the round — i.e., the number of tranches bid on each product — and the bidder's eligibility for the next round. (Each bidder does not see information about other bidders.)
- The announced price for each product for the next round if the auction will continue with the next round.

## **5.5 Frequency of Rounds**

The early rounds of bidding may be longer in duration than later rounds. The duration of a bidding round will be at least five (5) minutes.

The time between early rounds of bidding may be longer in duration than for later rounds. The time between bidding rounds will be at least five (5) minutes.

The schedule of rounds and any changes to the schedule will be made available to bidders through the Bidding Website.

## **5.6 Auction Pause Declared by CBP Manager**

At any time during the auction, the CBP Manager may decide to pause the auction. This is not expected to happen often, if at all. If the CBP Manager pauses the auction or changes the round schedule in any way, bidders will be notified.

## 6. BIDDING FORMAT FOR AUCTIONS OF A SINGLE PRODUCT

In order to participate in the auction, bidders must have been successful in the Part 1 Application process and the Part 2 Application process. Only Registered Bidders are permitted to participate in the auction. Registered Bidders will bid in the auction by accessing the CBP Manager's secure Bidding Website.

The auction format is a multiple-round descending-price clock format for "N" rounds (N is not pre-determined, as discussed below) possibly followed by a sealed-bid round. The descending-price clock rounds are referred to as the "clock phase." If there is a round following the last clock round, it is referred to as the "sealed-bid round."

The number of rounds for the clock phase is not pre-determined. Instead, it is determined by a rule called "the transition rule," which determines the last round of bidding in the clock phase.

The clock phase, the transition rule, and the sealed-bid round are described next.

### 6.1 Clock Phase

The description in this section applies to the clock phase of the auction. In a descending-price clock bidding format, the CBP Manager announces a price prior to the start of each bidding round and each bidder bids the quantity it would supply at that price. The rounds continue with the price declining each round, causing the total supply bid to fall.

An important rule is that a bidder cannot increase the number of tranches it bids round to round as the price falls, it can only maintain or reduce the number of tranches it bids.

#### 6.1.1 Rounds

The clock phase is conducted with rounds of bidding. Each bidding round has a specified start time and a specified end time. These start and end times are enforced by the Bidding Website. Prior to the start of the auction, the initial schedule of rounds will be available on the Bidding Website. As the auction progresses, the CBP Manager will keep bidders informed of the start and end times of subsequent rounds through the Bidding Website. The CBP Manager retains the option of pausing a round, delaying the start or end of a round, or otherwise adjusting the round times. The CBP Manager will inform bidders through the Bidding Website if it exercises this discretion to change the start time or end time of a round.

Bidders submit bids only during a round. When a round ends, the bids submitted during that round are processed and results of that round are reported to all bidders as explained in the section "Reporting Round Results" below. Each bidder then prepares to submit a bid for the next round if the auction remains open.



### 6.1.2 The Announced Price and a Bid

Prior to the start of each round, the CBP Manager announces the price that will be in effect for the round. The announced price is specified in dollars per MWh or \$/MWh. The price announced by the CBP Manager applies to all the tranches. Each bidder decides how many tranches it is willing and able to supply at the announced price. A bid is the number of tranches the bidder is willing to supply at that announced price. All bids are irrevocable and binding upon the bidders.

The announced price will decrease round by round by a price decrement.

At sufficiently high announced prices there will be excess supply for the tranches being procured in the auction. Excess supply for the tranches in a round is measured as the total number of tranches bid across all bidders in the round minus the tranche target.

### 6.1.3 Reservation Price

There is a reservation price for the auction. The reservation price is the price above which tranches will not be purchased. At the conclusion of the auction, the CBP Manager will inform bidders through the Bidding Website if the reservation price has not been met.

The starting price for the auction is determined after the reservation price is determined. The starting price will be no lower than the reservation price. The starting price may be the same as or higher than the reservation price. The CBP Manager will not announce the reservation price to bidders in advance of an auction.

### 6.1.4 A Bidder's Eligibility to Bid

A bidder's eligibility to bid in a round is the maximum number of tranches it is allowed to bid in that round. A bidder's eligibility for a round is the number of tranches the bidder bid in the preceding round. Thus, a bidder cannot increase its eligibility from round to round; its eligibility can only stay the same or decrease from round to round. If a bidder bids zero tranches in a round, it will not be allowed to bid in any more rounds of the clock phase.

As discussed above, a bidder's initial eligibility is its eligibility for round 1 of the auction.

### 6.1.5 Multiple Bids by a Bidder

Because a bidder may decide to change a bid it submitted previously within the current open round, a bidder is allowed to make multiple bid submissions in a round as long as the round remains open for bidding, with each new confirmed bid fully replacing any prior bids it submitted in the round. If a bidder submits multiple bids in a round, the only bid accepted in the round for that bidder is the last confirmed bid it submitted in the round.

### 6.1.6 Default Bid

After the end of a round, a default bid of zero (0) tranches is submitted automatically on behalf of a bidder if the bidder:

- Entered the round with positive eligibility, and
- Did not submit a confirmed bid in the round.

As with any bidder that actively bids zero tranches in a round, a bidder having a default bid of zero tranches submitted and confirmed on its behalf in a round will not be allowed to bid in any more rounds of the clock phase.

Each bidder is solely responsible for ensuring it submits a confirmed bid prior to the end of the round in order to avoid a default bid of being submitted on its behalf.

### 6.1.7 Price Decrements

The announced price will decrease round by round by a price decrement. Pre-specified price guidelines are used to determine the price decrement. Generally the price decrement will be larger for the earlier rounds in the auction and the greater is the excess supply for the tranches. The price decrement is expected to be between 0.5 percent and 5 percent of the announced price for the most recently completed round.

The CBP Manager reserves the right to override the price decrement guidelines. The exercise of that right is expected to occur rarely and only if doing so is believed to facilitate timely progression of the bidding process.

### 6.1.8 Frequency of Rounds

The early rounds of bidding may be longer in duration than later rounds. The duration of a bidding round will be at least five (5) minutes.

The time between early rounds of bidding may be longer in duration than for later rounds. The time between bidding rounds will be at least five (5) minutes.

The schedule of rounds and any changes to the schedule will be made available to bidders through the Bidding Website.

### 6.1.9 Insufficient Supply for the Tranches

If there is insufficient supply for the tranches to ensure competitive bidding, the CBP Manager will reduce the tranche target. The criteria that could lead to such a reduction will be determined prior to the auction but will not be announced to bidders. Once certain pre-specified criteria related to excess supply and related to the reservation price have been met, the discretion to reduce the tranche target will be eliminated and there will be no reduction in the tranche target. Thus, any exercise of this discretion would be more likely in the earlier rounds of the auction.

If the CBP Manager reduces the tranche target for the auction, bidders will be informed of the revised tranche target. Any bidder that otherwise would have eligibility exceeding the new tranche target will have its eligibility reduced to the new tranche target.

## 6.2 Transition Rule

The rule that determines the last round of bidding in the clock phase is referred to as the transition rule.

The transition rule is that the last round of bidding in the clock phase is the first round of bidding in the clock phase in which excess supply falls to zero or below zero.

- If excess supply is zero, then the auction closes and the winning tranches, winning bidders, and the winning price are determined as described in section 6.4.
- If excess supply is less than zero and only one bidder reduced the number of tranches it bid between the last two rounds of the clock phase, then the auction closes and the winning tranches, winning bidders, and the winning price are determined as described in section 6.4.
- If excess supply is less than zero and two or more bidders reduced the number of tranches they bid between the last two rounds of the clock phase, then a sealed-bid round will be held as described next in section 6.3.

## 6.3 Sealed-Bid Round

The description in this section applies to the sealed-bid round of the auction. As with the clock phase, bidders bidding in the sealed-bid round will submit their bids by accessing the CBP Manager's secure Bidding Website.

If there is a sealed-bid round, it follows the last round of the clock phase. For ease of description, the last round of the clock phase will be referred to as "round N" and the next-to-last round of the clock phase will be referred to as "round N-1", so the sealed-bid round is "round N+1."

Bidders for the sealed-bid round are those bidders that bid at least one tranche in round N-1 and bid fewer tranches in round N. Any such bidder must submit a bid in the sealed-bid round (even if it bid zero tranches in round N). If it fails to submit a bid in the sealed-bid round, a default bid will be submitted on its behalf as described below in the section on default bids.

Only bidders that bid at least one tranche in round N-1 and bid fewer tranches in round N can submit a bid in the sealed-bid round.

### 6.3.1 Allowed Bids

While each round in the clock phase has an announced price, there is no announced price for the sealed-bid round. In the sealed-bid round, a bidder submits a bid by specifying for each tranche it bids the price at which the bidder is committing to supply the tranche. A bid by a bidder is, for each tranche in the bid, an irrevocable binding commitment to supply the tranche at the price it bids for the tranche.

The tranches in the bidder's bid will be treated as a supply schedule. That is, the tranches will be sorted in ascending order by price and the price it bid for the first tranche is the price at which the bidder is committing to supply the first tranche, the price it bid for the second tranche is the price at which it is committing to supply the second tranche, and so on.

The bid that a bidder can submit in the sealed-bid round is restricted as follows.

- The bidder's bid must include each of the tranches that it bid in round N-1 but did not bid in round N (even if it bid zero tranches in round N).
- For each of the tranches that the bidder bid in round N-1 but did not bid in round N, the bidder's bid in the sealed-bid round must specify a price that is no higher than the announced price in effect for round N-1. The bidder can specify a different price for each of the tranches. Alternatively, the bidder can specify the same price for two or more of the tranches.

The units for prices specified in the bidder's bid are \$/MWh. The precision of prices is \$0.01/MWh or one cent per MWh. Prices that are entered with greater precision than \$0.01/MWh will be rounded up to the next \$0.01/MWh.

The following example shows four bidders participating in the clock phase and two of those bidders participating in the sealed-bid round.

**Example 3. Bids in Clock Phase and Allowed Bids in Sealed-Bid Round**

Clock Phase							
Round	Tranche Target	Announced Price (\$/MWh)	Number of Tranches Bid				
			BidderA	BidderB	BidderC	BidderD	Total
1	100	\$75.00	34	55	21	72	182
2	100	\$70.00	30	55	15	50	150
3	100	\$66.00	20	52	10	45	127
4	100	\$62.00	15	48	0	44	107
5	100	\$59.50	0	48	—	42	90

Sealed-Bid Round					
BidderA (must bid 15 tranches)			BidderD (must bid 2 tranches)		
# Tranches Bid	Max. Allowed Price (\$/MWh)	Price Bid (\$/MWh)	# Tranches Bid	Max. Allowed Price (\$/MWh)	Price Bid (\$/MWh)
5	\$62.00	\$62.00	1	\$62.00	\$60.04
8	\$62.00	\$61.40	1	\$62.00	\$59.50
2	\$62.00	\$59.95	—	—	—

In the example above, the clock phase was stopped after round 5 (round N) because it was the first round in which excess supply no longer was positive: in the round only 90 tranches of supply were bid against 100 tranches being procured.

- BidderA must bid 15 tranches in the sealed-bid round because it bid 15 tranches in round 4 and no tranches in round 5. For each of the 15 tranches, BidderA must submit a price in the sealed-bid round that is no higher than the announced price in round 4, or \$62.00/MWh. The bid submitted by BidderA in the sealed-bid round above satisfies that requirement: 5 tranches bid at \$62.00/MWh, 8 tranches bid at \$61.40/MWh, and 2 tranches bid at \$59.95/MWh.
- BidderB does not bid in the sealed-bid round because it bid at least one tranche in round 4 and it did not bid fewer tranches in round 5. BidderB thus wins the 48 tranches it bid in rounds 4 and 5, and the winning price for those 48 tranches is the round 5 announced price, or \$59.50/MWh.

- After round 4 it is known that BidderC can no longer participate in the auction because it bid zero tranches in round 4 and round 4 was not the last round of the clock phase. Thus, BidderC does not bid in the sealed-bid round and will not win any tranches.
- BidderD wins the 42 tranches it bid in round 5, and the winning price for those 42 tranches is the round 5 announced price, or \$59.50/MWh. In addition, BidderD must bid 2 tranches in the sealed-bid round because it bid 2 fewer tranches in round 5 than it bid in round 4. For each of the 2 tranches, BidderD must submit a price in the sealed-bid round that is no higher than the announced price in round 4, or \$62.00/MWh. The bid submitted by BidderD in the sealed-bid round above satisfies that requirement: 1 tranche bid at \$60.04/MWh and 1 tranche bid at \$59.50/MWh.

### 6.3.2 Multiple Bids by a Bidder

As in the clock phase, a bidder is allowed to make multiple bid submissions in the sealed-bid round as long as the round remains open for bidding, with each new confirmed bid fully replacing any prior bids it submitted in the round. If a bidder submits multiple bids in the round, the only bid accepted in the round for that bidder is the last bid confirmed by the bidder in the round. Section 8.1 below discusses the process for confirming a bid.

### 6.3.3 Default Bid

A bidder in the sealed-bid round must submit a confirmed bid for all the tranches that it must bid in the sealed-bid round. If it fails to submit a confirmed bid by the end of the sealed-bid round, a default bid will be submitted on its behalf. This default bid will be as follows:

For each of the tranches the bidder bid in round N-1 but did not bid in round N, the default bid for the bidder in the sealed-bid round will specify a price that is the announced price in effect for round N-1.

After the sealed-bid round the auction closes and the winning tranches, winning bidders, and the winning price are determined as described in section 6.4.

## 6.4 Determination of Winning Tranches, Winning Bidders, and Winning Prices

At the close of the auction, the winning tranches, winning bidders, and winning prices will be determined as follows.

### 6.4.1 Excess Supply = 0 at End of Clock Phase

If the last round of the clock phase had zero excess supply then there is no sealed-bid round. The winning tranches are the tranches bid in the last round of the clock phase, the winning bidders are the bidders who bid those tranches, and the winning price in the auction is the announced price for the last round of the clock phase.

### 6.4.2 Excess Supply < 0 at End of Clock Phase with No Sealed-Bid Round

If the last round of the clock phase had excess supply less than zero but only one bidder reduced the number of tranches it bid between the last two rounds of the clock phase, then there is no sealed-bid round. Tranches bid in the last round of the clock phase are winning tranches, bidders who bid those tranches are winning bidders, and the winning price for those tranches is the announced price for the last round of the clock phase.

Additional winning tranches total the difference between the tranche target and the total number of tranches bid in the last round of the clock phase (i.e., round N). Those additional winning tranches are awarded to the one bidder who reduced its number of tranches bid between round N-1 and round N. The bidder is awarded the additional winning tranches at the announced price in effect for the next-to-last round of the auction.

### 6.4.3 Excess Supply < 0 at End of Clock Phase with Sealed-Bid Round

If the last round of the clock phase had excess supply less than zero and two or more bidders reduced the number of tranches they bid between the last two rounds of the clock phase, then there is a sealed-bid round. Tranches bid in the last round of the clock phase are winning tranches, bidders who bid those tranches are winning bidders, and the winning price for those tranches is the announced price for the last round of the clock phase.

Additional winning tranches are determined as follows.

Random numbers will be assigned to the tranches bid in the sealed-bid round to be used as a tie-breaker, if needed, in case two or more tranches are bid at the same price. The tranches from the bids in the sealed-bid round will be sorted in ascending order by price and then in ascending order by random number. The assignment of random numbers to tranches and the sorting of tranches by price and by random number are done tranche by tranche without regard to bidder.

A winning tranche from the sorted list of tranches is a tranche that satisfies the following condition:

- It is one of the first T tranches that appears in the sorted list of bids, where T is the difference between the tranche target and the number of tranches bid in the last round of the clock phase. The bidder who bid such a winning tranche is the winning bidder for that tranche and the winning price for that tranche is the price the bidder bid for the tranche.

Tranches in the sorted list of bids that do not meet the condition above are not winning tranches.

None, some, or all of the tranches in a bidder's bid in the sealed-bid round may be winning tranches.

In Example 3 above, 17 tranches were bid in the sealed-bid round, and 10 of those tranches are selected as winning tranches. The winning tranches are selected in order of ascending price bid: one tranche bid at price \$59.50/MWh by BidderD, two tranches bid at price \$59.95/MWh by BidderA, one tranche bid at price \$60.04/MWh by BidderD, and six tranches bid at price \$61.40/MWh by BidderA.

## 6.5 Reporting Round Results

During a round, a bidder will see the current status of the auction and the status of the current round (including the announced price for a round in the clock phase) as well as its own bidding status. A bidder will not see information about other bidders.

Between rounds the Bidding Website will report the results for the most recently completed round. Results for all prior rounds also will be accessible. The round results for each completed round in the clock phase will show:

- For the completed round, the announced price and a range of total supply across all bidders (that is, a range that includes the total number of tranches bid). The range of total supply will be defined by two different integers. Actual total supply will not be reported but will be at least as high as the lower of the two integers and no higher than the higher of the two integers. There is an exception to reporting total supply as a range of two integers: if and when total supply has declined in the clock phase below a pre-determined level, total supply will be reported simply as being below that level. This pre-determined level of total supply will not be disclosed.
- For each bidder, that bidder's bid for the round and the bidder's eligibility for the next round. (Each bidder does not see information about other bidders.)
- The announced price for the next round if the clock phase will continue with the next round.

## 6.6 Auction Pause Declared by CBP Manager

At any time during the auction, the CBP Manager may decide to pause the auction. This is not expected to happen often and it may not happen at all. If the CBP Manager pauses the auction or changes the round schedule, bidders will be notified.



## **7. AFTER THE AUCTION CLOSES**

### **7.1 Notification of Results**

At the close of the auction, if the CBP Manager determines that the auction did not violate the competitive bidding process rules in such a manner so as to invalidate the auction, the CBP Manager will notify the FirstEnergy Ohio Utilities, the PUCO, the PUCO Consultant (if one has been retained), and the bidders as follows.

- The CBP Manager will notify the FirstEnergy Ohio Utilities, the PUCO, and the PUCO consultant of the identities of the winning bidders, the number of tranches won by each winning bidder, and the prices for the tranches won.
- The CBP Manager will notify each winning bidder of how many tranches the bidder has won and at what prices. The CBP Manager also will notify the unsuccessful bidders that they have not won any tranches.

The names of the winning bidders, the number of tranches won by each bidder, and the winning prices will remain confidential until released publicly by the PUCO or as required by law.

The PUCO may reject the results of the auction within forty-eight (48) hours of the conclusion of the auction based upon a recommendation from the CBP Manager or the PUCO's consultant that the auction violated the competitive bidding process rules in such a manner so as to invalidate the auction.

### **7.2 Execution of Master SSO Supply Agreement**

The winning bidders and the FirstEnergy Ohio Utilities will execute the Master SSO Supply Agreements three (3) business days following the close of the auction once the specific pricing information and load obligations have been inserted upon completion of the auction. Each winning bidder must demonstrate compliance with the creditworthiness requirements set forth in the Master SSO Supply Agreement.

### **7.3 Sanctions for Failure to Execute the Master SSO Supply Agreement**

A winning bidder's financial guaranty posted with its Part 2 Application may be forfeited if the winning bidder does not execute the Master SSO Supply Agreement within three (3) business days following the close of the auction, if it fails to demonstrate compliance with the creditworthiness requirements set forth in the Master SSO Supply Agreement, or if it fails to agree to any of the terms of the Master SSO Supply Agreement. If the FirstEnergy Ohio Utilities exercise their right to collect on the financial guarantees, then any contractual rights or other entitlements of the winning bidder will terminate immediately without further notice by the FirstEnergy Ohio Utilities. In addition, the winning bidder will be liable for damages incurred by the FirstEnergy Ohio Utilities, which will be determined in accordance with the terms of the Master SSO Supply Agreement as though the winning bidder were a defaulting party to the Master SSO Supply Agreement.

## 8. USE OF THE BIDDING WEBSITE

Bidders will bid in the auction by accessing the CBP Manager's secure Bidding Website. An Authorized Representative of a bidder will access the Bidding Website using their own Web browser. The URL address for the Bidding Website, as well as user names and passwords, will be provided to Registered Bidders prior to the start of the auction.

The Bidding Website allows a Registered Bidder to submit and confirm bids, to verify its status, to view results from prior rounds, to view the schedule of rounds, and to view messages from the CBP Manager.

### 8.1 Importance of Confirmed Bids

Submitting a bid on the Bidding Website involves three steps:

- (1) Web page for entry and submission of the bid quantities. The bidder enters its desired bid and then submits the bid in order to proceed to the next step.
- (2) Web page for validation of the bid. The bidder is asked to review the bid it submitted in the first step before proceeding to the confirmation step.
- (3) Web page showing confirmation of the bid. The bidder receives a unique confirmation ID for the bid and the time-stamp at which the bid was recorded by the Bidding Website server.

It is important to note that a bid is not accepted and recorded as an accepted bid until and unless the bidder reaches the third step in which the bid confirmation Web page displays the unique confirmation ID and time-stamp for the bid.

### 8.2 Requirements for Using the Bidding Website

Access to the Bidding Website requires all of the following:

- User name and password provided by the CBP Manager.
- Access to the Internet.
- Microsoft Internet Explorer Web browser, version 6.0 or higher.
- Status as a Registered Bidder.

A bidder loses access to the Bidding Website after it no longer is possible to win tranches in the auction.

### **8.3 Messaging**

The Bidding Website displays messages from the CBP Manager. These messages from the CBP Manager are displayed for all bidders with access to the Bidding Website.

## **9. BACKUP BIDDING PROCEDURE**

In case a bidder has technical difficulties, and as a result is not able to submit a bid via the Bidding Website in a round, a backup bidding procedure will be provided as follows. The bidder uses the Backup Bidding Fax Number to submit its bid via facsimile. It is recommended that the bidder call the Help Desk and inform the operator that it has submitted a bid using the backup bidding procedure. Reasonable efforts will be made to contact the bidder if the backup bid is not received via facsimile in the time expected. Once the backup bid is received via facsimile, a member of the CBP Manager team will attempt to enter the bid on the Bidding Website on behalf of the bidder.

Prior to the auction, bidders will be provided with the Backup Bidding Fax Number and with forms to use for faxing a bid using the backup bidding procedure.

Bidders must be aware and understand that there is no guarantee or other assurance that if it submits a bid using the backup bidding procedure that its bid will be submitted and confirmed on its behalf by the CBP Manager team consistent with the intentions of the bidder and in time before the round ends.

If a backup bid submitted by a bidder is not accepted and confirmed by the Bidding Website because the round has ended, a default bid will be entered for the bidder as described above in the sections on default bids.

If a backup bid submitted by a bidder is not accepted and confirmed by the Bidding Website for other reasons (e.g., the number of tranches bid is greater than a bidder's eligibility or violates the bidder's credit-based tranche limit or applicable load cap), the CBP Manager team will use reasonable efforts to inform the bidder that a new bid must be submitted.

If a backup bid submitted by a bidder is confirmed by the Bidding Website, the CBP Manager team will contact the bidder by faxing confirmation of the accepted bid to the bidder.

Bidders use the backup bidding procedure at their own risk. In all cases involving backup bids, the CBP Manager team does not accept any responsibility, obligation, or liability for errors, omissions, timeliness, or otherwise, related to whether a backup bid is entered into and confirmed by the Bidding Website on behalf of the bidder or as intended by the bidder.

## **10. WHO TO CONTACT IN CASE OF PROBLEMS DURING THE AUCTION**

A bidder should contact the Help Desk if it has questions or problems. The phone number for the Help Desk will be provided to bidders prior to the start of the auction.

## 11. CONTINGENCY PLAN TO PURCHASE TRANCHES

### 11.1 If Fewer Tranches than the Tranche Target are Purchased in the Auction

In the event that fewer tranches than a product's tranche target are purchased in the auction, the FirstEnergy Ohio Utilities will implement a Contingency Plan for the unfilled tranches. Under that plan, if all tranches are not fully subscribed in the initial auction in any given year, the remaining tranches will be carried over and made available to bidders in the second auction in the year if there is such an auction. If there is a second auction in the year and tranches remain unsubscribed after the second auction, those tranches will be made available to winning bidders from the first and/or second auction conducted during the calendar year at the clearing price for the second auction using the following process.

First, if the number of unfilled tranches equals or exceeds the number of winning bidders from the second auction, each winning bidder will be given equal opportunity to accept the obligation to supply one or more additional tranches, subject to the winning bidder's initial eligibility and any applicable load cap. The price to be paid for the additional tranches that are supplied by the winning bidders will be the product-specific highest price among the winning tranches for the product in the second auction (and no higher than the product's reservation price in the second auction). After all winning bidders have accepted or rejected the option to supply one or more additional tranches each, either all the unfilled tranches from the second auction will have been assigned to winning bidders in the second auction, or there will be fewer remaining unfilled tranches than there are remaining winning bidders. In the latter case, a random number that was assigned to each Registered Bidder prior to the second auction will be used to select winning bidders in order of increasing random number. Note that a winning bidder who previously turned down the option to supply additional tranche(s) will not be included in this random selection procedure. A winning bidder selected through this random procedure will be asked if it would like to accept the option to supply one additional tranche. If, after giving each randomly selected winning bidder the option to supply an additional tranche, there still are unfilled tranches remaining, the random selection procedure will start over — using the same random numbers — for those winning bidders who accepted the option to supply an additional tranche.

If, after the conclusion of the steps above used to assign unfilled tranches in the second auction of the year to winning bidders in the second auction, there still are unfilled tranches, then random numbers will be assigned to bidders who won tranches in the first auction of the year and who did not participate in the second auction of the year. The same random selection procedure described above for winning bidders in the second auction will be applied to winning bidders from the first auction who did not participate in the second auction. Any winning bidder from the first auction who accepts the obligation to supply one or more tranches from the second auction will be paid the product-specific highest price among the winning tranches for the product in the second auction (and no higher than the product's reservation price in the second auction).

## **11.2 If a Winning Bidder Defaults Prior to or During the SSO Delivery Period**

In the event a winning bidder defaults prior to or during the delivery of SSO load requirements, the FirstEnergy Ohio Utilities will implement a Contingency Plan for the open tranches. The open tranches will be made available in the next auction if that auction occurs before the delivery period of the open tranches. If the next auction does not occur before the delivery period, then the open tranches will be offered to other winning bidders using the same procedure as used for unfilled tranches at the auction as described above.

In either of the two cases above, if tranches still remain after the procedures above are applied or in the event that there is only a single auction in a year, the necessary SSO supply requirements will be met through PJM-administered markets at prevailing Day-ahead zonal spot prices, and, unless instructed otherwise by the PUCO, the FirstEnergy Ohio Utilities will not enter into hedging transactions to attempt to mitigate the associated price or volume risks to serve these tranches.

Additional costs incurred by the FirstEnergy Ohio Utilities in implementing the Contingency Plan will be assessed first against the defaulting supplier's credit security, to the extent available.

## **12. ASSOCIATION AND CONFIDENTIAL INFORMATION RULES**

The Association and Confidential Information rules are described below.

### **12.1 Process for Reporting Associations, Identifying Concerns and Remedies**

A prospective bidder applying to qualify to bid will be required to disclose in its Part 1 Application any bidding agreement or arrangement in which it may have entered. A prospective bidder will be required to certify in its Part 1 Application that, should it qualify to participate, it will not disclose information regarding the list of Qualified Bidders. A prospective bidder also will be required to certify that it accepts the terms of the Master SSO Supply Agreement and, should it win tranches, it will sign the applicable Master SSO Supply Agreement and comply with all creditworthiness requirements by the stated deadline.

Once entities are qualified to bid, each Qualified Bidder will be asked in its Part 2 Application to make a number of certifications, each detailed in the Part 2 Application, and each bidder may be required to provide additional information to the CBP Manager if a certification cannot be made. Each Qualified Bidder will be asked to certify that it will undertake steps to appropriately restrict its disclosure of Confidential Information relative to its bidding strategy and Confidential Information regarding the auction. A Qualified Bidder also will be asked to certify that it has not and will not come to any agreement with another Qualified Bidder with respect to bidding in the auction, except as disclosed and approved by the CBP Manager in its Part 1 Application.

Before obtaining sealed documentation necessary to participate in the auction, Registered Bidders will be required to certify that they will continue to maintain the confidentiality of any information that they will have acquired through their participation in the auction.

## 12.2 Confidential Information

Confidential Information relative to bidding strategy means information relating to a bidder's bid(s) in the auction, whether in writing or verbally, which if it were to be made public likely would have an effect on any of the bids that another bidder would be willing to submit. Confidential Information relative to bidding strategy includes (but is not limited to): a bidder's strategy; a bidder's indicative offer; the quantities that a bidder wishes to supply; the bidder's estimation of the value of a tranche; the bidder's estimation of the risks associated with serving the load for the auction; and a bidder's contractual arrangements for purchasing power to serve such load were the bidder to win tranches in the auction.

Confidential Information regarding the auction means information that is not released publicly by the PUCO, the FirstEnergy Ohio Utilities or the CBP Manager and that a bidder acquires as a result of participating in the auction, whether in writing or verbally, which if it were to be made public could impair the integrity of current or future competitive bidding processes, impair the ability of the FirstEnergy Ohio Utilities to hold future competitive bidding processes, or harm consumers, bidders or applicants.

Confidential Information regarding the auction includes (but is not limited to): the list of Qualified Bidders, the list of Registered Bidders, the initial eligibility, the status of a bidder's participation, and all non-public reports of results and announcements made by the CBP Manager to any or all bidders in this auction.

Absolute protection from public disclosure of the bidders' data and information filed in this auction process cannot be provided. By participating in this auction process, each bidder acknowledges and agrees to the confidentiality provisions set forth herein, as well as any limitations thereto.

In addition, the bidder agrees the bidder's data and information submitted in this auction process will be disclosed if required by any federal, state or local agency (including, without limitation, the PUCO) or by a court of competent jurisdiction. However, the FirstEnergy Ohio Utilities will endeavor to notify the bidder in advance of such disclosure. In any event, neither the FirstEnergy Ohio Utilities nor the CBP Manager, nor any of their employees or agents, will be responsible to the bidders or any other party, or liable for any disclosure of such designated materials before, during or subsequent to this auction.

Notwithstanding the above, the FirstEnergy Ohio Utilities and the CBP Manager reserve the right to use and communicate publicly and/or to third parties any and all information/data submitted as part of this auction process in any proceedings before FERC, the PUCO, and any other regulatory body and the courts, if necessary, without the prior consent/approval of, or notice to, any such bidder.

## 12.3 Certifications and Disclosures to Be Made

A prospective bidder will be required in its Part 1 Application to disclose any bidding agreement or any other arrangement in which the prospective bidder may have entered and that is related to its participation in the auction. A prospective bidder that has entered into such an agreement or arrangement must name the entities with which the prospective bidder has entered into a bidding agreement, a joint venture for the purpose of participating in the auction, a bidding consortium, or any other arrangement pertaining to participating in the auction. A bidding consortium is a group of separate businesses or business people joining together to submit joint bids in the auction.

In addition, a prospective bidder will be required to make the certifications listed in the Part 1 and Part 2 Applications.

The PUCO may publicly release the winning prices and the names of the winning bidders from the auction. The PUCO may choose to release additional information. After the auction, a winning bidder itself may release information regarding the number of tranches it has won, and a non-winning bidder itself may release information only regarding the fact that it participated in the auction. The winning bidders and the non-winning bidders otherwise continue to be bound by their certifications as described previously. In particular, no winning bidder and no non-winning bidder itself can reveal the winning prices of the auction prior to these being publicly released by the PUCO.

## **12.4 Actions to Be Taken if Certifications Cannot Be Made**

If a bidder cannot make all the certifications above, the CBP Manager will decide within five (5) days following the deadline to submit the Part 2 Application on a course of action on a case-by-case basis. To decide on this course of action, the CBP Manager may make additional inquiries to understand the reason for the inability of the bidder to make the certification.

If Qualified Bidders do not comply with additional information requests by the CBP Manager regarding certifications required in the Part 2 Application, the CBP Manager may reject the application.

## **12.5 Sanctions for Failure to Comply**

Sanctions may be imposed on a Qualified Bidder for failing to properly disclose information relevant to determining associations, for coordinating with another bidder without disclosing this fact, for releasing Confidential Information or disclosing information during the auction (aside from only the specific exceptions provided above with respect to entities explicitly named in the Part 1 Application as entities that are part of a bidding agreement or other arrangement, to an Advisor; or bidders with which it is associated), and in general for failing to abide by any of the Communications Protocols. Such sanctions can include, but are not limited to, any one or more of the following: termination of the Master SSO Supply Agreement; the loss of all rights to provide tranches won by such bidder; the forfeiture of letters of credit and other fees posted or paid; action (including prosecution) under applicable state and/or federal laws; attorneys' fees and court costs incurred in any litigation that arises out of the bidder's improper disclosure; debarment from participation in future competitive bidding processes; and/or other sanctions that may be appropriate. Should such an event occur, the CBP Manager will make a recommendation to the FirstEnergy Ohio Utilities regarding sanctions. The imposition of such sanctions will be at the discretion of the FirstEnergy Ohio Utilities.

## **13. MISCELLANEOUS**

### **13.1 Warranty on Information**

The information provided for the auction, including but not limited to information provided on the Information Website, has been prepared to assist bidders in evaluating the auction process. It does not purport to contain all the information that may be relevant to a bidder in satisfying its due diligence efforts. Neither the FirstEnergy Ohio Utilities nor the CBP Manager make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information, and shall not, either individually or as a corporation, be liable for any representation expressed or implied in the auction process or any omissions from the auction process, or any information provided to a bidder by any other source. A bidder should check the Information Website frequently to ensure it has the latest documentation and information. Neither the FirstEnergy Ohio Utilities, nor the CBP Manager, nor any of their representatives, shall be liable to a bidder or any of its representatives for any consequences relating to or arising from the bidder's use of information.

### **13.2 Hold Harmless**

Bidder shall hold the FirstEnergy Ohio Utilities and the CBP Manager harmless of and from all damages and costs, including but not limited to legal costs in connection with all claims, expenses, losses, proceedings or investigations that arise in connection with the auction process or the award of a bid pursuant to the auction process.

### **13.3 Bid Submissions Become the FirstEnergy Ohio Utilities' Property**

All bids submitted by bidders participating in the auction will become the exclusive property of the FirstEnergy Ohio Utilities upon conclusion of the auction process.

### **13.4 Bidder's Acceptance**

Through its participation in the auction process, a bidder acknowledges and accepts all the terms, conditions and requirements of the auction process and the Master SSO Supply Agreement.

### **13.5 Permits, Licenses, Compliance with the Law and Regulatory Approvals**

Bidders shall obtain all licenses and permits and status that may be required by any governmental body, agency or organization necessary to conduct business or to perform hereunder. Bidders' subcontractors, employees, agents and representatives of each in performance hereunder shall comply with all applicable governmental laws, ordinances, rules, regulations, orders and all other governmental requirements.



### 13.6 Auction Intellectual Property

All title, interests and other intellectual property rights in and to the auction design, the auction format and methodology, the auction software, the source code (including all modifications, enhancements, customization, adaptations and derivative works made by the CBP Manager) and associated documentation, including but not limited to these Bidding Rules, and the screen formats and forms designed by the CBP Manager (the "Auction Software"), are proprietary to the CBP Manager and all rights, title, and interest to the Auction Software remain with the CBP Manager. The CBP Manager grants Qualified Bidders a non-exclusive, non-transferable, limited license to use the Auction Software, solely for use in connection with the auction, subject to the terms and conditions set forth herein, and not for copying, relicensing, sublicensing, distribution or marketing by the Qualified Bidder. No other interest is conveyed to the Qualified Bidder other than the license expressly granted herein. The foregoing use license shall immediately terminate upon disqualification of the Qualified Bidder or upon termination or completion of the auction process. If at any time it is determined in the CBP Manager's sole discretion that the Qualified Bidder is in breach of this section 13.6, the CBP Manager shall be entitled to terminate the Qualified Bidder's access rights to the Auction Software.

Notwithstanding anything herein to the contrary, and without limiting the Qualified Bidder's other obligations herein, the Qualified Bidder shall not, nor shall it permit any third party to: (i) modify, translate or otherwise create derivative works of the Auction Software; (ii) reverse engineer, decompile, decode, disassemble or translate any Auction Software, or output thereof, or otherwise attempt to reduce to human readable form or derive the source code, protocols or architecture of any Auction Software; (iii) use or study any Auction Software, or output thereof, for the purpose of developing any software that is intended to replace, or that has functions, structure or architecture similar to, such Auction Software, or any part thereof; (iv) publish, or otherwise make available to any third party, any benchmark or other testing information or results concerning the Auction Software; (v) permit any other person who is not authorized to access or use all or any part of the Auction Software or (vi) copy the Auction Software, distribute the Auction Software, remove or obscure any proprietary labeling on or in the Auction Software, create any derivative works based on the Auction Software, or modify the Auction Software, in each case, except to the extent expressly permitted by the CBP Manager in writing.

In using the Auction Software, a Qualified Bidder shall take steps to prevent any virus, worm, built-in or use-driven destruction mechanism, algorithm, or any other similar disabling code, mechanism, software, equipment, or component designated to disable, destroy or adversely affect the Auction Software from being introduced into the systems.

## APPENDIX A — EXAMPLE OF ROUND BY ROUND BIDDING IN AUCTIONS OF MULTIPLE PRODUCTS

The illustrative example below shows for two bidders (BidderA and BidderB) and two products (Product-1 and Product-2) the confirmed bids (pre-EOR) and the post-EOR results for each round. In the example, the auction closes after round 4.

### Round 1

For round 1, the announced prices are \$75.00 and \$82.00 for Product-1 and Product-2, respectively. At those announced prices, BidderA bids 55 tranches and 85 tranches on Product-1 and Product-2, respectively. BidderB bids 80 tranches and 27 tranches on Product-1 and Product-2, respectively.

When the round closes the EOR procedure is executed. Each product is over-subscribed: 135 tranches were bid on Product-1 which has a tranche target of 100, and 112 tranches were bid on Product-2 which has a tranche target of 100.

The announced price for Product-1 will be reduced from \$75.00 to \$72.50 for round 2. The announced price for Product-2 will be reduced from \$82.00 to \$78.60 for round 2.

BidderA will have eligibility of  $55+85 = 140$  tranches for round 2, and BidderB will have eligibility of  $80+27 = 107$  tranches for round 2.

### Round 2

At the announced prices for round 2, BidderA bids 40 tranches and 85 tranches on Product-1 and Product-2, respectively. Thus, BidderA reduced its tranches bid on Product-1 from 55 to 40 tranches. BidderB bids 50 tranches and 57 tranches on Product-1 and Product-2, respectively. Thus, BidderB switched 30 tranches from Product-1 to Product-2.

When the round closes the EOR procedure is executed. Product-1 is under-subscribed by 10 tranches: only 90 tranches bid against the tranche target of 100 tranches: BidderA's bid represents a reduction in its eligibility by 15 tranches, while BidderB's bid maintained its eligibility. Thus, 10 of the 15 eligibility reduction tranches of BidderA are rolled back on Product-1. Those 10 tranches are priced at the announced price for Product-1 at which they were bid in round 1: \$75.00. The announced price for Product-1 will remain at \$72.50 for round 3.

Product-2 is over-subscribed by 42 tranches. The announced price for Product-2 will be reduced from \$78.60 to \$76.10 for round 3.

BidderA will have eligibility of  $50+85 = 135$  tranches for round 3 (including the 10 tranches rolled back on Product-1), and BidderB will have eligibility of  $50+57 = 107$  tranches for round 3.

## Round 3

At the announced prices for round 3, BidderA bids 99 tranches and 36 tranches on Product-1 and Product-2, respectively. Thus, BidderA is switching 49 of the tranches bid from Product-2 to Product-1. BidderB bids 50 tranches and 35 tranches on Product-1 and Product-2, respectively. Thus, BidderB is reducing its tranches bid on Product-2 from 57 to 35 tranches.

When the round closes the EOR procedure is executed. Product-1 is over-subscribed by 49 tranches. Product-2 is under-subscribed by 29 tranches: only 71 tranches bid against the tranche target of 100 tranches: BidderA's bid maintained its eligibility while BidderB's bid represents a reduction in its eligibility by 22 tranches. Thus, all 22 of the eligibility reduction tranches of BidderB are rolled back on Product-2. Those 22 tranches are priced at the announced price for Product-2 at which they were bid in round 2: \$78.60. Even after rolling back those 22 eligibility reduction tranches of BidderA, Product-2 still is under-subscribed — by 7 tranches. So 7 tranches that BidderA had switched from Product-2 to Product-1 are rolled back to Product-2. Those 7 tranches are priced at the announced price for Product-2 at which they were bid in round 2: \$78.60.

After rolling back 7 tranches from Product-1 to Product-2 for BidderA, BidderA still has increased the number of tranches it is bidding on Product-1: from 50 tranches bid in round 2 (10 tranches at \$75.00 and 40 tranches at \$72.50) to 92 tranches bid in round 3 (10 tranches at \$75.00 and 82 tranches at \$72.50). Product-1 is over-subscribed as a result, so higher-priced tranches in Product-1's bid stack can be removed. All 10 of BidderA's higher-priced tranches are removed from Product-1's bid stack, and these 10 tranches become BidderA's free eligibility for round 4. In round 4, BidderA can bid any of the 10 tranches on any product, but to the extent those 10 tranches are not bid on a product in round 4, those free eligibility tranches and their associated eligibility for BidderA will be permanently removed from the auction after round 4.

Because Product-1 is over-subscribed, the announced price for Product-1 will be reduced from \$72.50 to \$70.15 for round 4. Because Product-2 is not over-subscribed, the announced price for Product-2 will remain at \$76.10 for round 4.

BidderA will have eligibility of  $82+43+10 = 135$  tranches for round 4, and BidderB will have eligibility of  $50+57 = 107$  tranches for round 4 (including the 22 tranches rolled back on Product-2).

## Round 4

At the announced prices for round 4, BidderA bids 46 tranches and 43 tranches on Product-1 and Product-2, respectively. Thus, BidderA reduced its tranches bid on Product-1 from 82 to 46 tranches. BidderB bids 32 tranches and 57 tranches on Product-1 and Product-2, respectively. Thus, BidderB reduced its tranches bid on Product-1 from 50 to 32 tranches.

When the round closes the EOR procedure is executed. Product-1 is under-subscribed by 22 tranches: only 78 tranches bid against the tranche target of 100 tranches: BidderA's bid represents a reduction in its eligibility by 36 tranches, while BidderB's bid represents a reduction in its eligibility by 18 tranches. Of the 54 fewer tranches bid on Product-1, 36 were eligibility reductions from BidderA and 18 were eligibility reductions from BidderB. Of those 54 fewer tranches bid,  $100 - 78 = 22$  tranches need to be rolled back on Product-1. The selection of which tranches are rolled back is done by assigning random numbers tranche by tranche (not bidder by bidder) to each of the 54 fewer tranches bid on Product-1. On average, the selection of the rolled back tranches will be proportional based on the number of tranches by which each bidder reduced its bid on the product. Thus, if the assignment of random numbers and selection of rolled back tranches were repeated many times, the number of rolled back tranches for BidderA on Product-1 would be expected to be 15 on average or  $(82 - 46) / (132 - 78) * (100 - 78) = 36 / 54 * 22$ , rounded, and the number of rolled back tranches for BidderB on Product-1 would be expected to be 7 on average:  $(50 - 32) / (132 - 78) * (100 - 78) = 18 / 54 * 22$ , rounded.

## Auction Close

After the rollback is done for Product-1, it is determined that no product is over-subscribed and no bidder has free eligibility tranches. Thus, the criteria are met for closing the auction.

Product-1's bid stack has tranches bid at \$72.50 and tranches bid at \$70.15. So Product-1's clearing price is the higher of the two, or \$72.50. BidderA wins 61 tranches and BidderB wins 39 tranches for Product-1. All 100 tranches procured for Product-1 are paid the price of \$72.50.

Product-2's bid stack has tranches bid at \$78.60 and tranches bid at \$76.10. So Product-2's clearing price is the higher of the two, or \$78.60. BidderA wins 43 tranches and BidderB wins 57 tranches for Product-2. All 100 tranches procured for Product-2 are paid the price of \$78.60.

**Example 4. Round by Round Bidding with Pre-EOR and Post-EOR Results**

Round	Product-1					Product-2					Next-Round Eligibility	
	Announced Price	Tranche Target	Tranches Bid	@ Price	Excess Supply	Announced Price	Tranche Target	Tranches Bid	@ Price	Excess Supply	Free	Total
1	\$75.00					\$82.00						
Pre-EOR		100	135		35		100	112		12		
BidderA			55	@ \$75.00				85	@ \$82.00		—	140
BidderB			80	@ \$75.00				27	@ \$82.00		—	107
Post-EOR		100	135		35		100	112		12		
BidderA			55	@ \$75.00				85	@ \$82.00		—	140
BidderB			80	@ \$75.00				27	@ \$82.00		—	107
2	\$72.50					\$78.60						
Pre-EOR		100	90		(10)		100	142		42		
BidderA			40	@ \$72.50				85	@ \$78.60		—	125
BidderB			50	@ \$72.50				57	@ \$78.60		—	107
Post-EOR		100	100		0		100	142		42		
BidderA			50	10 @ \$75.00 40 @ \$72.50				85	@ \$78.60		—	135
BidderB			50	@ \$72.50				57	@ \$78.60		—	107

Round	Product-1					Product-2					Next-Round Eligibility	
	Announced Price	Tranche Target	Tranches Bid	@ Price	Excess Supply	Announced Price	Tranche Target	Tranches Bid	@ Price	Excess Supply	Free	Total
3	\$72.50					\$76.10						
Pre-EOR		100	149		49		100	71		(29)		
BidderA			99	10 @ \$75.00 89 @ \$72.50				36	@ \$76.10		—	135
BidderB			50	50 @ \$72.50				35	@ \$76.10		—	85
Post-EOR		100	132		32		100	100		0		
BidderA			82	@ \$72.50				43	7 @ \$78.60 36 @ \$76.10		10	135
BidderB			50	@ \$72.50				57	22 @ \$78.60 35 @ \$76.10		—	107
4	\$70.15					\$76.10						
Pre-EOR		100	78		(22)		100	100		0		
BidderA			46	@ \$70.15				43	7 @ \$78.60 36 @ \$76.10		—	89
BidderB			32	@ \$70.15				57	22 @ \$78.60 35 @ \$76.10		—	89
Post-EOR		100	100		0		100	100		0		
BidderA			61	15 @ \$72.50 46 @ \$70.15				43	7 @ \$78.60 36 @ \$76.10		—	104
BidderB			39	7 @ \$72.50 32 @ \$70.15				57	22 @ \$78.60 35 @ \$76.10		—	96

	Product-1				Product-2				Tranches Won
	Clearing Price	Tranche Target	Tranches Won		Clearing Price	Tranche Target	Tranches Won		
Results	\$72.50	100	100		\$78.60	100	100		100
BidderA			61				43		104
BidderB			39				57		96

**ATTACHMENT A-3**

**Rules and Protocols for  
Participation by  
Associated Bidders in  
The FirstEnergy Ohio Utilities  
Standard Service Offer  
CBP Auctions**

**April 5, 2012**



## 1. **INTRODUCTION**

As outlined in Section 4.2.2 of the Bidding Rules for the FirstEnergy Ohio Utilities' Standard Service Offer ("SSO") Competitive Bidding Process ("CBP") auctions, the competitiveness of an auction may be compromised by the coordinated or collusive behavior that bidding associations may facilitate. As a result, the Auction Manager has developed standards that apply when associated parties apply to participate in a CBP auction. The following sections outline the specific protocols that will be followed when associated entities submit Part 1 and/or Part 2 Applications to participate in a CBP auction for the FirstEnergy Ohio Utilities.

## 2. **PROCEDURE**

Potential associations among Qualified Bidders may come to the attention of the Auction Manager at different points in the application process. In order to improve the process efficiency and minimize the risk of disclosure of potentially confidential information, the Auction Manager will approach each case as described below.

### 2.1. **Following the Receipt of the Part 1 Applications**

Potential associations among applicants may become apparent after the Part 1 Application but before Qualified Bidders are required to disclose such associations as part of the Part 2 Application. The Auction Manager will take no action related to potential associations until each party submits their completed Part 1 Application. In cases where there is an apparent relationship among applicants, the Auction Manager will initiate a request for additional information regarding the relationship among the potentially associated parties, the structure of their organization, and the independence of the respective bidding teams.

In such cases, the Auction Manager will notify representatives of the FirstEnergy Ohio Utilities, PUCO Staff, and the PUCO's consultant that there is a potential association among applicants.

In addition, as outlined in Section VII of the Part 2 Application, the Auction Manager reserves the right to request additional information from each party including, but not necessarily limited to:

- a. Information on how the entity maintains its independence from the associated party including any available supporting documentation such as a Corporate Separation Agreements, Codes of Conduct, and/or organization charts;
- b. A list of individuals within the organization who have played or will play a material role in the CBP auction;

- c. Information regarding the nature of any work done in conjunction with or on behalf of the associated party;
- d. Information describing the organizational structure of the associate(s), identifying common management and oversight among the associated entities as well as the management involved in or responsible for bid approval;
- e. The internal process or protocol related to determining indicative offers submitted as part of the Part 2 Application; and,
- f. Disclosure of whether the entity is bidding on behalf of itself or acting as an agent for other entities.

Any responses to the above will be treated as confidential if labeled as such.

## **2.2. Following the Receipt of the Part 2 Applications**

In some cases, the potential relationship among Qualified Bidders will not be known to the Auction Manager until the Qualified Bidders submit final certifications along with their Part 2 Application. In such cases, the Auction Manager will initiate the steps outlined above in Section 2.1, upon receipt of the completed Part 2 Applications.

After the Auction Manager has requested and received additional information from each associate, the Auction Manager will work with representatives of the FirstEnergy Ohio Utilities, PUCO Staff, and the PUCO's consultant to determine:

- a. Whether each of the associated bidders will be allowed to independently participate in the CBP auction; and.
- b. Any restrictions that may be applied as a result of the participation by associated bidders.

Any restrictions will be based on the information provided by the associated bidders as part of the Part 1 Application, the Part 2 Application, and the additional information that was provided at the request of the Auction Manager.

3. **REMEDIES AND ACTIONS RELATED TO PARTICIPATION BY ASSOCIATED BIDDERS**

This section summarizes the potential restrictions that will be considered by the Auction Manager, the FirstEnergy Ohio Utilities, PUCO Staff, and the PUCO's consultant in relationship to associated participation. Restrictions on participation may include, but may not be limited to, the following:

- a. Indicative offers may be restricted such that any applicable load cap or credit based tranche cap may apply across the associated bidders;
- b. Pre-bid security or collateral requirements may be altered for the associated bidders to ensure that associates do not gain a competitive advantage over other bidders; and,
- c. In some cases, one or more associated bidders may not be allowed to participate in the CBP auction.

4. **HANDLING OF CONFIDENTIAL INFORMATION**

In order to execute the process of gathering information on associated entities and executing the remedies outlined in Section 3, there may be situations that require the Auction Manager to share, directly, certain confidential information among the associated parties, the FirstEnergy Ohio Utilities, The PUCO and its staff and/or the consultant hired by the PUCO to monitor the process.

In addition, as part of the remedies outlined in Section 3, an associated party may gain access to or be able to ascertain certain confidential information of the other associated entities. While access to such information is counter to Certification (5) in the Part 2 Application, access to such information acquired through the data gathering and remedies related to associated bidders will not be considered a violation of the CBP rules.<sup>1</sup>

Confidential information includes but may not be limited to the initial eligibility for each associated bidder based on indicative bids submitted with the Part 2 Application. The Auction Manager will make all efforts to minimize the disclosure of any such confidential information.

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<sup>1</sup> Certification (5) from the Part 2 Application states: (5) Please certify that you do not have any knowledge of Confidential Information that is relevant to the bidding strategy of any other Qualified Bidder.

**This foregoing document was electronically filed with the Public Utilities**

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Summary: Stipulation Attachments A-1, A-2, and A-3 electronically filed by Ms. Laura C. McBride on behalf of Ohio Edison Company and The Toledo Edison Company and The Cleveland Electric Illuminating Company