

# Large Filing Separator Sheet

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#### **213.4 Retaining Priority and Security:**

(a) Retaining Priority: To retain the assigned Queue Position of its New Service Request pursuant to Section 201, within sixty (60) days after receipt of the Facilities Study (or, if no Facilities Study was required, after receipt of the System Impact Study), the New Service Customer must execute and return the tendered Upgrade Construction Service Agreement to the Transmission Provider or, alternatively, request (i) dispute resolution under Section 12 of the Tariff or, if concerning the Regional Transmission Expansion Plan, consistent with Schedule 5 of the Operating Agreement, or (ii) that the Upgrade Construction Service Agreement be filed unexecuted with the Commission.

(b) Security: (1) At the time the New Service Customer executes and returns to the Transmission Provider the Upgrade Construction Service Agreement (or requests dispute resolution or that it be filed unexecuted), the New Service Customer also shall, unless otherwise deferred as set forth in subsection (c) below, provide the Transmission Provider (for the benefit of the affected Transmission Owner(s)) with a letter of credit or other reasonable form of security acceptable to the Transmission Provider that names the Transmission Provider as beneficiary and is in an amount equivalent to the sum of the estimated costs determined by the Transmission Provider of (i) the required Direct Assignment Facilities, Non-Direct Connection Local Upgrades and/or Non-Direct Connection Network Upgrades (including required upgrades for which another New Service Customer also has cost responsibility pursuant to Section 217), (ii) the estimated cost of work that the New Service Customer will be responsible for performing on the required Direct Assignment Facilities, Direct Connection Local Upgrades, and/or Direct Connection Network Upgrades that are scheduled to be completed during the first three months after such work commences, and (iii) in the event that the New Service Customer exercised the Option to Build pursuant to Section 6.2.1 of Appendix III of the form of Upgrade Construction Service Agreement (set forth in Attachment GG to the Tariff), all Cancellation Costs and the first three months of estimated Transmission Owner's Costs associated with the New Service Customer's building Direct Assignment Facilities, Direct Connection Local Upgrades, and/or Direct Connection Network Upgrades, including but not limited to Costs for inspections, testing, and tie-in work, consistent with commercial practices as established by the Uniform Commercial Code. Provided, however, such Transmission Owner Costs may include oversight costs (i.e. costs incurred by the Transmission Owner when engaging in oversight activities to satisfy itself that the New Service Customer is complying with the Transmission Owner's standards and specifications for the construction of facilities) only if the Transmission Owner and the New Service Customer mutually agree to the inclusion of such costs under the Option to Build pursuant to the provisions of Section 6.2.1 of Appendix III of the form of Upgrade Construction Service Agreement (set forth in Attachment GG of the Tariff). Notwithstanding the foregoing, for projects that are estimated to require three months or less to construct, the sum of such security and the payment for the first quarterly invoice for the project shall not exceed an amount equal to 125% of the total estimated cost of construction.

The Transmission Provider shall provide the affected Transmission Owner(s) with a copy of the letter of credit or other form of security. After execution of the Upgrade Construction Service Agreement, the amount of Security required may be adjusted from time to time in accordance with Section 9.1 of Appendix III of the Upgrade Construction Service Agreement.

(2) Transmission Provider shall invoice New Service Customer for work by the Transmission Owner on a quarterly basis for the costs to be expended in the subsequent three months. Customer shall pay invoiced amounts within twenty (20) days of receipt of the invoice. New Service Customer may request in the Upgrade Construction Service Agreement that the Transmission Provider provide a quarterly cost reconciliation. Such a quarterly cost reconciliation will have a one-quarter lag, e.g., reconciliation of costs for the first calendar quarter of work will be provided at the start of the third calendar quarter of work, provided, however, that Section 9.3 of Appendix III of the Upgrade Construction Service Agreement shall govern the timing of the final cost reconciliation upon completion of the work.

(3) Security related to construction of Local Upgrades and/or Network Upgrades may be reduced as construction progresses.

(c) Deferred Security: New Service Customer may request to defer providing security under subsection (b) of this Section 213.4 until no later than 120 days after New Service Customer executes the Upgrade Construction Service Agreement. Upon New Service Customer's request to defer security, PJM shall determine if any other queued New Service Customer with a completed System Impact Study would require any Local Upgrade(s) and/or Network Upgrade(s) for which New Service Customer has cost responsibility under the Upgrade Construction Service Agreement. New Service Customer may defer security only for Local Upgrade(s) and/or Network Upgrade(s) for which no other such queued New Service Customer may require, provided New Service Customer shall pay a deposit of at least \$200,000 or 125% of the estimated costs that will be incurred during the 120-day period, whichever is greater, to fund continued design work and/or procurement activities on such non-shared Local Upgrade(s) and/or Network Upgrade(s), with \$100,000 of such deposit being non-refundable. If the New Service Customer terminates the Upgrade Construction Service Agreement or is otherwise withdrawn, any unused portion of the non-refundable deposit will be used to fund re-studies due to such termination or withdrawal. Any remaining deposit monies, refundable or non-refundable, will be returned to a New Service Customer upon Stage Two Energization of Completed Facilities.

(d) Withdrawal: If a New Service Customer fails to timely execute the Upgrade Construction Service Agreement (or request dispute resolution or that the agreement be filed unexecuted), or to provide the security prescribed in this Section, its New Service Request shall be deemed terminated and withdrawn. In the event that a terminated and withdrawn New Service Request was included in a Facilities Study that evaluated more than one New Service Request, or in the event that a New Service Customer's participation in and cost responsibility for a Network Upgrade or Local Upgrade is terminated in accordance with the Upgrade Construction Service Agreement, the Transmission Provider shall reevaluate the need for the facilities and upgrades indicated by the Facilities Study, shall redetermine the cost responsibility of each remaining New Service Customer for the necessary facilities and upgrades based on its assigned Queue Position pursuant to Section 201, and shall enter into an amended Interconnection Service Agreement or Upgrade Construction Service Agreement, as applicable, with each remaining New Service Customer setting forth its revised cost obligation. In such event, if the amount of a New Service

Customer's cost responsibility increases, the New Service Customer shall provide additional security pursuant to this Section.

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**213.5 Commencement of Construction:**

In the event that the New Service Customer has requested dispute resolution or that the Upgrade Construction Service Agreement be filed unexecuted, construction of facilities and upgrades shall be deferred until any disputes are resolved, unless otherwise agreed by the New Service Customer, the Transmission Owner and the Transmission Provider.

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## **213.6 Procedures if The Affected Transmission Owners are Unable to Complete New Transmission Facilities for Firm Point-To-Point Transmission Service:**

### **213.6.1 Delays in Construction of New Facilities:**

If any event occurs that will materially affect the time for completion of new facilities or the ability to complete new facilities required to accommodate a Completed Application for new Firm Point-To-Point Transmission Service, the Transmission Provider shall promptly notify the Transmission Customer. In such circumstances, the Transmission Provider shall within thirty (30) days of notifying the Transmission Customer of such delays, convene a technical meeting with the Transmission Customer to evaluate the alternatives available to the Transmission Customer. The Transmission Provider also shall make available to the Transmission Customer studies and work papers related to the delay, including all information that is in the possession of the Transmission Provider that is reasonably needed by the Transmission Customer to evaluate any alternatives.

### **213.6.2 Alternatives to the Original Facility Additions:**

When the review process of Section 213.6.1 determines that one or more alternatives exist to the originally planned construction project, the Transmission Provider shall present such alternatives for consideration by the Transmission Customer. If, upon review of any alternatives, the Transmission Customer desires to maintain its Completed Application subject to construction of the alternative facilities, it may request the Transmission Provider to submit, as applicable, a revised Service Agreement for Firm Point-To-Point Transmission Service and/or a revised Upgrade Construction Service Agreement. If the alternative approach solely involves Non-Firm Point-To-Point Transmission Service, the Transmission Provider shall promptly tender a Service Agreement for Non-Firm Point-To-Point Transmission Service providing for the service. In the event the Transmission Provider concludes that no reasonable alternative exists and the Transmission Customer disagrees, the Transmission Customer may seek relief under the dispute resolution procedures pursuant to Section 12 or it may refer the dispute to the Commission for resolution.

### **213.6.3 Refund Obligation for Unfinished Facility Additions:**

If the Transmission Provider and the Transmission Customer mutually agree that no other reasonable alternatives exist and the requested service cannot be provided out of existing capability under the conditions of Part II of the Tariff, the obligation to provide the requested Firm Point-To-Point Transmission Service shall terminate and any deposit made by the Transmission Customer shall be returned with interest pursuant to the Commission's regulations at 18 C.F.R. § 35.19a(a)(2)(iii)..

However, the Transmission Customer shall be responsible for all prudently incurred costs by the Transmission Provider or any Transmission Owner through the time construction was suspended

### **213.6.4 Supply of Data:**

The Transmission Owners shall supply such information and data reasonably required by the Transmission Provider to perform its obligations under this Section 213.6.

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**213.7 Due Diligence in Completing New Facilities:**

Each Transmission Owner shall use due diligence to add necessary facilities or upgrade the Transmission System within a reasonable time. A Transmission Owner will not upgrade the existing or planned Transmission System in order to provide requested Firm Point-To-Point Transmission Service if doing so would impair system reliability or otherwise impair or degrade existing firm service.

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**214 Filing/Reporting of Agreements:**

Transmission Provider shall file or report each Interconnection Service Agreement, Interconnection Construction Service Agreement and Upgrade Construction Service Agreement in compliance with applicable Commission regulations.

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## **215 Transmission Service Agreements:**

Upon completion of the Facilities Study (or, if no Facilities Study was required, the System Impact Study), the Transmission Provider shall tender to each Eligible Customer whose Completed Application for new transmission service was included in the study a Service Agreement (in the form included in Attachment A, Attachment F, or Attachment F-1 of the Tariff, as applicable). To retain the assigned Queue Position of its Completed Application pursuant to Section 201, within sixty (60) days after receipt of the Facilities Study (or, if no Facilities Study was required, after receipt of the System Impact Study), each Eligible Customer must execute and return the tendered Service Agreement to the Transmission Provider or, alternatively, request dispute resolution under Section 12 of the Tariff, or that the Service Agreement be filed unexecuted with the Commission. Should the Eligible Customer fail to execute and return the Service Agreement or to request dispute resolution or filing unexecuted within the prescribed time, its Completed Application shall be deemed to be terminated and withdrawn. Other terms and procedures for these Service Agreements are set forth in Part II and Part III.

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**216 Interconnection Requests Designated As Market Solutions:**

The provisions of this section shall apply to any Interconnection Request related to a project that Transmission Provider determines, in accordance with Section 1.5.7(i) of Schedule 6 of the Operating Agreement could relieve a transmission constraint and which, in the judgment of the Transmission Provider, is economically justified (hereafter, a “market solution”).

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#### **216.1 Notification And Acceptance Of Market Solution Designation:**

Upon determining that an Interconnection Request is a market solution, Transmission Provider shall so notify the affected Interconnection Customer and shall offer the customer formal designation as a "market solution." With such notification, Transmission Provider also shall tender to the Interconnection Customer a Development Agreement, as described in Section 216.2 below. To accept the designation of its project as a market solution, the Interconnection Customer must execute and return the Development Agreement to Transmission Provider within 15 days after its receipt thereof. The Interconnection Customer may decline the proffered designation as a market solution without prejudice to the Queue Position or processing of its Interconnection Request. An election to decline designation as a market solution may be made by not executing the Development Agreement within the time provided or by otherwise so notifying Transmission Provider. In the event the Interconnection Customer declines designation as a market solution, the remaining provisions of this Section 216 shall not apply to the Interconnection Customer's Interconnection Request.

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## **216.2 Development Agreement:**

### **216.2.1 Disclosure:**

The Development Agreement shall provide that, within 30 days after execution of the agreement, the Interconnection Customer shall disclose fully to Transmission Provider and shall promptly report any material changes in: (a) the Interconnection Customer's affiliate relationships with other Market Participants; (b) the Financial Transmission Rights and Auction Revenue Rights positions of the Interconnection Customer and its Affiliates in any portion of the PJM system that affects or is affected by the transmission constraint for which the Interconnection Customer's project has been designated as a market solution; and (c) the Interconnection Customer's and its affiliates' bilateral transactions and other material contractual relationships (as specified in the Development Agreement) with any Market Participant that is affected by the transmission constraint for which the Interconnection Customer's project is designated as a market solution. Transmission Provider shall treat all information disclosed pursuant to the Development Agreement on a confidential basis in accordance with section 18.17 of the Operating Agreement.

### **216.2.2 Milestones:**

In addition to the milestones required pursuant to Sections 204.3 and/or 206.1 of the Tariff, the Development Agreement may set forth additional milestones for the development of the project designated as a market solution that the Transmission Provider determines to be reasonable and appropriate to ensure diligent pursuit of the project from the time of execution of the Development Agreement until the time for execution of the Interconnection Service Agreement under Section 212 of the Tariff. Transmission Provider may extend any of the additional milestones set forth in the Development Agreement if the Interconnection Customer demonstrates that its inability to meet the milestone(s) is due to delays not caused by the Interconnection Customer that could not be avoided or remedied by the exercise of due diligence. In the event that any milestone set forth in the Development Agreement is not timely met and is not extended by Transmission Provider in accordance with the preceding sentence, Interconnection Customer's project shall lose its designation as a market solution and Transmission Provider shall terminate the Development Agreement. Upon termination of the Development Agreement, Interconnection Customer may retain its priority in the applicable Interconnection Queue in accordance with Section 201 of the Tariff, if the Interconnection Customer affirmatively so requests in writing delivered to Transmission Provider within 15 days after termination of the Development Agreement. In the event such a project stays in the Interconnection Queue, the expedited study procedures described in Section 216.3 below will not apply, and any studies of the Interconnection Customer's Interconnection Request that are yet to be completed shall be completed on the schedules otherwise applicable under Part IV or Part VI of the Tariff for other Interconnection Requests in the same Interconnection Queue.

### **216.2.3 Expedited Studies:**

Transmission Provider shall conduct Feasibility Studies, System Impact Studies, and Facilities Studies associated with projects that have accepted designation as market solutions pursuant to

this Section 216 on an expedited and, where feasible, project-specific basis, notwithstanding the schedule for completion of such studies for the applicable Interconnection Queue under other provisions of Part IV or Part VI of the Tariff.

#### **216.2.4 Interconnection Service Agreements For Market Solutions:**

##### **216.2.4.1 Additional Milestones:**

In addition to the milestones specified in or pursuant to Section 212.5 of the Tariff, the Interconnection Service Agreement executed by an Interconnection Customer with respect to a project for which the customer has accepted designation as a market solution shall include the following additional milestones: (a) within 60 days after execution of the Interconnection Service Agreement, the Interconnection Customer must reasonably demonstrate to Transmission Provider that the Interconnection Customer is likely to be able to obtain sufficient financing for the project; (b) within 180 days after execution of the Interconnection Service Agreement, the Interconnection Customer must demonstrate to Transmission Provider that the Interconnection Customer has arranged sufficient financing to complete the project; and (c) other reasonable milestones that the Transmission Provider determines are necessary to ensure that the Interconnection Customer continues diligently to pursue development of the project.

##### **216.2.4.2 Additional Security:**

###### **216.2.4.2.1 Amount:**

Notwithstanding any other provisions of this Tariff, in the event that no Network Upgrades, Local Upgrades, or Attachment Facilities are required to accommodate the Interconnection Request of a project that has accepted designation as a market solution, at the time of execution of the Interconnection Service Agreement for such project, the Interconnection Customer must provide security in an amount equal to the lesser of 10% of Transmission Provider's reasonable estimate of the fixed cost of the project or \$250,000.

###### **216.2.4.2.2 Forfeiture of Additional Security:**

In the event that Transmission Provider reasonably determines (a) that the Interconnection Customer's failure to meet such milestone(s) reasonably could have been avoided by the exercise of due diligence, and (b) based on the Interconnection Customer's disclosures pursuant to the Development Agreement and other available information, that the Interconnection Customer or one or more of its Affiliates or customers will profit from the transmission constraint for which the Interconnection Customer's project was designated as a market solution, upon termination of the Interconnection Service Agreement, Transmission Provider shall retain the additional security provided by the Interconnection Customer pursuant to Section 216.2.4.2.1. In all other instances of failure to meet such a milestone, the additional security shall be refunded to the Interconnection Customer.

###### **216.2.4.2.3 Disposition of Forfeited Additional Security:**

Transmission Provider shall utilize any funds that it retains pursuant to Section 216.2.4.2.2 above to offset the cost to load affected by the transmission constraint that the project to be built under the relevant terminated Interconnection Service Agreement would have relieved. Such relief shall be applied with regard to congestion caused by the transmission constraint that occurs after termination of the applicable Interconnection Service Agreement. Transmission Provider shall establish in the PJM Manuals procedures for allocating and applying such relief to congestion costs incurred by affected load.

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**217 Cost Responsibility for Necessary Facilities and Upgrades:**

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**217.1 Attachment Facilities:**

An Interconnection Customer shall be obligated to pay for 100 percent of the costs of the Attachment Facilities necessary to accommodate its Interconnection Request.

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**217.2 Direct Assignment Facilities:**

An Eligible Customer shall be obligated to pay for 100 percent of the costs of the Direct Assignment Facilities necessary to accommodate its Completed Application for new transmission service.

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### **217.3 Local and Network Upgrades:**

(a) General: Each New Service Customer shall be obligated to pay for 100 percent of the costs of the minimum amount of Local Upgrades and Network Upgrades necessary to accommodate its New Service Request and that would not have been incurred under the Regional Transmission Expansion Plan but for such New Service Request, net of benefits resulting from the construction of the upgrades, such costs not to be less than zero. Such costs and benefits shall include costs and benefits such as those associated with accelerating, deferring, or eliminating the construction of Local Upgrades and Network Upgrades included in the Regional Transmission Expansion Plan either for reliability, or to relieve one or more transmission constraints and which, in the judgment of the Transmission Provider, are economically justified; the construction of Local Upgrades and Network Upgrades resulting from modifications to the Regional Transmission Expansion Plan to accommodate the New Service Request; or the construction of Supplemental Projects, as defined in Section 1.42A.02 of the Operating Agreement.

(b) Cost Responsibility for Accelerating Local and Network Upgrades included in the Regional Transmission Expansion Plan: Where the New Service Request calls for accelerating the construction of a Local Upgrade or Network Upgrade that is included in the Regional Transmission Expansion Plan and provided that the party(ies) with responsibility for such construction can accomplish such an acceleration, the New Service Customer shall pay all costs that would not have been incurred under the Regional Transmission Expansion Plan but for the acceleration of the construction of the upgrade. The Responsible Customer(s) designated pursuant to Schedule 12 of the Tariff as having cost responsibility for such Local Upgrade or Network Upgrade shall be responsible for payment of only those costs that the Responsible Customer(s) would have incurred under the Regional Transmission Expansion Plan in the absence of the New Service Request to accelerate the construction of the Local Upgrade or Network Upgrade.

**217.3a** The Transmission Provider shall determine the minimum amount of required Local Upgrades and Network Upgrades required to resolve each reliability criteria violation in each New Services Queue, by studying the impact of the queued projects in their entirety, and not incrementally. In the event the Transmission Provider determines the cost of the minimum amount of Local Upgrades and Network Upgrades required to resolve a single reliability criteria violation will not meet or exceed \$5,000,000 such costs shall be allocated to those Interconnection Requests in the New Services Queue that contribute to the need for such upgrades. Such allocations shall be made in proportion to each Interconnection Request's megawatt contribution to the need for these upgrades subject to the rules for minimum cost allocation thresholds in the PJM Manuals. For the purpose of applying the \$5,000,000 threshold, each reliability criteria violation shall be considered separately.

In the event the Transmission Provider determines the cost of the minimum amount of Local Upgrades and Network Upgrades required to resolve a single reliability criteria violation will meet or exceed \$5,000,000, those Local Upgrades and Network Upgrades shall be studied in their entirety and according to the following process:

(i) The Transmission Provider shall identify the first Interconnection Request in the queue contributing to the need for the required Local Upgrades and Network Upgrades within the New Services Queue. The initial Interconnection Request to cause the need for Local Upgrades or Network Upgrades will always receive a cost allocation. Costs for the minimum amount of Local Upgrades and Network Upgrades shall be further allocated to subsequent projects in the New Services Queue, pursuant to queue order, and pursuant to the Interconnection Request's megawatt contribution to the need for the Local Upgrades and Network Upgrades.

(ii) In the event a subsequent Interconnection Request in the queue causes the need for additional Local Upgrades or additional Network Upgrades, only this project and the projects in the queue, which follow the subsequent Interconnection Request, shall be allocated the costs for these additional required Local Upgrades or Network Upgrades. The allocation shall be pursuant to queue order, and pursuant to the Interconnection Requests megawatt contribution to the need for the Local Upgrades and Network Upgrades.

Where a Local Upgrade or Network Upgrade included in the Regional Transmission Expansion Plan is classified as both a reliability-based and market efficiency project, a New Service Request cannot eliminate or defer such upgrade unless the request eliminates or defers both the reliability need and the market efficiency need identified in the Regional Transmission Expansion Plan.

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#### **217.4 Additional Upgrades:**

In the event that, in the context of the Regional Transmission Expansion Plan, it is determined that, to accommodate a New Service Request, it is more economical or beneficial to the Transmission System to construct upgrades in addition to the minimum necessary to accommodate the New Service Request, a New Service Customer shall be obligated to pay only the costs of the minimum upgrades necessary to accommodate its New Service Request. The New Service Customer shall have the right of first refusal to pay for any or all of the upgrades in addition to the minimum, and to hold all rights associated with the additional upgrades for which it agrees to pay, in accordance with Subpart C of Part VI. The remaining costs shall be borne by the Transmission Owners in accordance with Schedule 6 of the Operating Agreement and, subject to FERC approval, may be included in the revenue requirements of the Transmission Owners. If, based upon the date of the submission of a subsequent New Service Request, the Transmission Provider determines that a New Service Customer will make use of additional economic capacity that exists or will exist as a result of facilities and upgrades constructed as a result of an earlier New Service Request, then the Transmission Provider may require the subsequent New Service Customer to pay an appropriate portion of the cost of the facilities and upgrades that produced the additional economic capacity.

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#### **217.5 Specification of Costs in Agreement:**

The cost responsibility of a New Service Customer shall be specified, (a) in the case of an Interconnection Customer that proposes facilities other than Merchant Network Upgrades, in the Interconnection Service Agreement, and (b) in the case of all other New Service Customers, in the Upgrade Construction Service Agreement. If a New Service Customer does not agree with the Transmission Provider's determination of such cost responsibility, it may request that the matter be submitted to Dispute Resolution under Article 12 of the Tariff or, if concerning the Regional Transmission Expansion Plan, consistent with Schedule 5 of the Operating Agreement, or request that an unexecuted Interconnection Service Agreement or Upgrade Construction Service Agreement, as applicable, be filed with the Commission in accordance with the Tariff.

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**217.6 Effect of IDR Transfer Agreement:**

A New Service Customer may modify its cost responsibility for Network Upgrades and/or Local Upgrades as determined under this Section 217 by submitting an IDR Transfer Agreement in accordance with Section 237 of the Tariff that transfers to the New Service Customer Incremental Deliverability Rights associated with Merchant Transmission Facilities. As provided in Section 237, the New Service Customer's cost responsibility shall be modified only if it elects to terminate, and Transmission Provider confirms termination of, its participation in and cost responsibility for any Network Upgrade or Local Upgrade.

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## **217.7 Regional Transmission Expansion Plan:**

### **217.7.1**

Any Attachment Facilities, Direct Assignment Facilities, Local Upgrades, or Network Upgrades constructed to accommodate a New Service Request or an Affected System facility (as defined in Section 218 below) shall be included in the Regional Transmission Expansion Plan upon their identification in an executed Interconnection Service Agreement or Upgrade Construction Service Agreement filed with or reported to the Commission pursuant to Section 214.

### **217.7.2**

In the event that termination of a New Service Customer's participation in a previously identified Network Upgrade or Local Upgrade pursuant to Section 237 of the Tariff eliminates the need for such upgrade, Transmission Provider shall offer all New Service Customers whose New Service Requests preceded the IDR Transfer Agreement that facilitated such termination an opportunity to pursue and pay for (in whole or in part) such upgrade. Each New Service Customer shall have the right to hold all Upgrade-Related Rights associated with the additional upgrades (or portions thereof) for which it agrees to pay in accordance with Subpart C of Part VI.

### **217.7.3**

Transmission Provider shall remove from the Regional Transmission Expansion Plan any Network Upgrade or Local Upgrade in the event that the need for such upgrade is eliminated due to termination of a New Service Customer's participation in such upgrade and other New Service Customers do not pursue and pay for the upgrade pursuant to Section 217.7.2.

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**218 New Service Requests Involving Affected Systems:**

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#### **218.1 Local Upgrades and Network Upgrades on Affected Systems:**

In the event that transmission facilities or upgrades on an Affected System are required to accommodate a New Service Request, the New Service Customer shall be responsible for the costs of such facilities to the same extent that the Affected System Operator's FERC electric tariff would allocate responsibility for such costs to a customer funding upgrades on the Affected System. Transmission Provider, the Affected System Operator and the New Service Customer shall enter into an Upgrade Construction Service Agreement, a similar agreement in a form provided in the Affected System Operator's FERC electric tariff, or another, mutually acceptable agreement for the construction of such upgrades on the Affected System, provided, however, that neither the Transmission Provider nor the Transmission Owners shall be responsible for making arrangements for any necessary engineering, permitting, and construction of transmission or distribution facilities on any Affected System or for obtaining any regulatory approval for such facilities. The Transmission Provider and the affected Transmission Owners will undertake reasonable efforts to assist the New Service Customer in obtaining such arrangements, including without limitation, providing any information or data required by such other electric system pursuant to Good Utility Practice. Provided that the Affected System Operator's FERC electric tariff provides for, or the Affected System Operator otherwise agrees to provide, similar services for Transmission Provider in similar circumstances, Transmission Provider will administer billing and payment for all charges of the Affected System Operator related to upgrades on the Affected System in the manner provided in the Interconnection Service Agreement and/or Construction Service Agreement. For purposes of applying the terms of the Interconnection Service Agreement and/or Construction Service Agreement to charges for upgrades on an Affected System, (a) the Affected System Operator shall be deemed to be, as applicable, the Transmission Owner or the Interconnected Transmission Owner, and (b) should the parties enter into an agreement for construction of the Affected System upgrades that is not a Construction Service Agreement, references to the Construction Service Agreement shall be deemed to refer to the terms of that other agreement. In no event shall the need for upgrades to an Affected System delay Initial Operation of an Interconnection Customer's Customer Facility.

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## **218.2 Generation and Transmission Interconnecting with Affected Systems:**

In the event that interconnection of a new or expanded generation or transmission facility with an Affected System ("Affected System facility") requires Local Upgrades or Network Upgrades to the Transmission System, such Affected System facility shall be responsible for the costs of such upgrades in accordance with Section 217. Transmission Provider and the developer of the Affected System facility shall enter into an Upgrade Construction Service Agreement for the construction of the upgrades with each Transmission Owner responsible for constructing such upgrades. For purposes of applying the Upgrade Construction Service Agreement to the construction of such upgrades, the developer of the Affected System facility shall be deemed to be the New Service Customer.

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### **218.3            Coordination of Third-Party System Additions:**

In circumstances where the need for transmission facilities or upgrades is identified pursuant to this Part VI of the Tariff, and if such upgrades further require the addition of transmission facilities on one or more Affected Systems, the affected Transmission Owner(s), in coordination with the Transmission Provider, shall have the right to coordinate construction on their own systems with the construction required by the Affected System(s). The Transmission Provider, together with the affected Transmission Owner(s), after consultation with the Transmission Customer and representatives of the Affected System(s), may defer construction of an affected Transmission Owner's new transmission facilities, if the new transmission facilities on an Affected System cannot be completed in a timely manner. The Transmission Provider shall notify the affected New Service Customer in writing of the basis for any decision to defer construction and the specific problems which must be resolved before construction of new facilities will be initiated or resumed. Within sixty (60) days of receiving written notification by the Transmission Provider of the intent to defer construction pursuant to this section, the New Service Customer may challenge the decision in accordance with the dispute resolution procedures pursuant to Section 12 of the Tariff or it may refer the dispute to the Commission for resolution.

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**218.4 Upgrade-Related Rights:**

**218.4.1 Facilities on Affected System:**

A New Service Customer that pays the costs of any transmission facilities or upgrades on an Affected System as provided in Section 218.1 shall be entitled to any Upgrade-Related Rights that may be created in the Transmission System due to the construction of such facilities or upgrades on the Affected System, as determined in accordance with Subpart C of this Part VI. The Upgrade-Related Rights (if any) to which the New Service Customer is entitled pursuant to Subpart C shall be stated in the Upgrade Construction Service Agreement or other agreement executed by such customer as provided in Section 218.1, except to the extent the applicable terms of Subpart C provide otherwise.

**218.4.2 Facilities on Transmission System:**

To the same extent as a New Service Customer under the Tariff, the developer of an Affected System facility that pays the costs of any Local Upgrades or Network Upgrades as provided in Section 218.2 shall be entitled to any Upgrade-Related Rights associated with those facilities in accordance with Subpart C of Part VI. The Upgrade-Related Rights (if any) to which the developer of an Affected System facility is entitled pursuant to Subpart C shall be stated in the Upgrade Construction Service Agreement executed by such developer, except to the extent the applicable terms of Subpart C provide otherwise.

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## **219 Inter-queue Allocation of Costs of Transmission Upgrades:**

In the event that Transmission Provider determines that accommodating a New Service Customer's New Service Request would require, in whole or in part, any Local Upgrade or Network Upgrade that was previously determined to be necessary to accommodate, a New Service Request that was part of a previous New Services Queue, such New Service Customer may be responsible, subject to the terms of Sections 231.4, 233.5, and 234.5 below and in accordance with criteria prescribed by Transmission Provider in the PJM Manuals, for additional costs up to an amount equal to a proportional share of the costs of such previously-constructed facility or upgrade.

Cost responsibility under this Section 219 may be assigned with respect to any facility or upgrade:

- (a) the completed cost of which was \$5,000,000 or more, for a period of time not to exceed five years from the execution date of the Interconnection Service Agreement for the project that initially necessitated the requirement for the Local Upgrade or Network Upgrade.

For purposes of applying this section, Transmission Provider may aggregate the costs of related facilities or upgrades, e.g., multiple replacements of or new circuit breakers at a single substation, that are, or are anticipated to be, constructed contemporaneously. In each Interconnection Service Agreement and Upgrade Construction Service Agreement executed after the date on which this Section 219 first becomes effective, Transmission Provider shall identify any of the facilities or upgrades included in the Specifications to such Interconnection Service Agreement or Upgrade Construction Service Agreement the costs of which Transmission Provider will aggregate for purposes of application of this section.

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## **220 Advance Construction of Certain Network Upgrades:**

An Interconnection Customer that has executed an Interconnection Service Agreement or an Upgrade Construction Service Agreement, as applicable, in order to ensure the availability of, in the case of a Generation Interconnection Customer, all of its Capacity Interconnection Rights, or, in the case of a Transmission Interconnection Customer, all of its Transmission Injection Rights and Transmission Withdrawal Rights, upon Initial Operation of its Customer Facility, may request that the Transmission Provider cause the affected Transmission Owner to advance to the extent necessary the completion of Network Upgrades that: (i) were assumed in the Interconnection Studies for such Interconnection Customer; (ii) are necessary to support, (A) in the case of a Generation Interconnection Customer, such Interconnection Customer's full Capacity Interconnection Rights, or (B) in the case of a Transmission Interconnection Customer, are necessary to support such Transmission Interconnection Customer's full Transmission Injection Rights and Transmission Withdrawal Rights; (iii) are the cost responsibility of an entity other than the Interconnection Customer making the request for advance construction; and (iv) would otherwise not be completed on behalf of such other entity in time to support the full Capacity Interconnection Rights or the full Transmission Injection Rights and Transmission Withdrawal Rights, as applicable, of the requesting Interconnection Customer upon Initial Operation of its Customer Facility. Upon such request, Transmission Provider will use Reasonable Efforts to cause the affected Transmission Owner to advance the construction of such Network Upgrades to accommodate such request; provided that the Interconnection Customer commits to pay Transmission Provider, on behalf of such Transmission Owner: (a) any associated expediting costs and (b) the cost of such Network Upgrades. The Interconnection Customer shall be entitled to a refund of the cost of the Network Upgrades after the date on which the entity bearing cost responsibility for such upgrades has completed payment of the costs thereof. Payment by that entity shall be due on the date that it would have been due had there been no request for advance construction. The Transmission Provider shall forward to the Interconnection Customer the amount paid by the entity with cost responsibility for the Network Upgrades as payment in full for the outstanding balance owed to the Interconnection Customer, provided, however, that if the Network Upgrades were built and paid for by a Transmission Owner, such Transmission Owner shall refund to the Interconnection Customer the cost of such upgrades in accordance with the terms of this section. An Interconnection Customer that pays for advance construction of Network Upgrades pursuant to this Section 220 shall be entitled to any Incremental Auction Revenue Rights, Incremental Capacity Transfer Rights, and/or any Incremental Available Transfer Capability Revenue Rights associated with such facilities for the period from the date of completion of the advanced Network Upgrades to the date on which the cost of such upgrades is refunded to the Interconnection Customer.

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**221 Transmission Owner Construction Obligation for Necessary Facilities and Upgrades:**

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**221.1 Construction Obligation:**

The determination of the Transmission Owners' obligations to build the necessary facilities and upgrades to accommodate New Service Requests, or interconnections with Affected Systems in accordance with Section 218.2, shall be made in the same manner as such responsibilities are determined under Schedule 6 of the Operating Agreement. Except to the extent otherwise provided in a Construction Service Agreement entered into pursuant to this Part VI, the Transmission Owners shall own all Attachment Facilities, Direct Assignment Facilities, Local Upgrades, and Network Upgrades constructed to accommodate New Service Requests.

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## **221.2 Alternative Facilities and Upgrades:**

Upon completion of the studies of a New Service Request prescribed in the Tariff, the Transmission Provider shall recommend the necessary facilities and upgrades to accommodate the New Service Request and the Transmission Owner's construction obligation to build such facilities and upgrades. The Transmission Owner(s) or the New Service Customer may offer alternatives to the Transmission Provider's recommendation. If, based upon its review of the relative costs and benefits, the ability of the alternative(s) to accommodate the New Service Request, and the alternative's(s') impact on the reliability of the Transmission System, the Transmission Provider does not adopt such alternative(s), the Transmission Owner(s) or the New Service Customer may require that the alternative(s) be submitted to Dispute Resolution in accordance with Section 12 of the Tariff or, if concerning the Regional Transmission Expansion Plan, consistent with Schedule 5 of the Operating Agreement. The affected New Service Customer may participate in any such Dispute Resolution process.

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## **222 Confidentiality:**

Except as otherwise provided in this section, all information provided to Transmission Provider by New Service Customers relating to any study of a New Service Request required under the Tariff shall be deemed Confidential Information under Section 223. Upon completion of each study, the study will be listed on the Transmission Provider's OASIS and, to the extent required by Commission regulations, will be made publicly available upon request, except that, in the case of Interconnection Feasibility Studies, the identity of the Interconnection Customer shall remain confidential. To the extent that the Transmission Provider contracts with consultants or with one or more Transmission Owner(s) for services or expertise in the preparation of any of the studies required under the Tariff, the consultants and/or Transmission Owner(s) shall keep all information provided by New Service Customers confidential and shall use such information solely for the purpose of the study for which it was provided and no other purpose.

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## **223 Confidential Information:**

For purposes of this Section 223, the term “party” refers to the New Service Customer, the Transmission Provider, or an affected Transmission Owner, as applicable, and the term “parties” refers to all of such entities collectively or to any two or more of them, as the context indicates. Information is Confidential Information only if it is clearly designated or marked in writing as confidential on the face of the document, or, if the information is conveyed orally or by inspection, if the party providing the information orally informs the party receiving the information that the information is confidential. If requested by any party, the disclosing party shall provide in writing the basis for asserting that the information referred to in this section warrants confidential treatment, and the requesting party may disclose such writing to an appropriate Governmental Authority. Any party shall be responsible for the costs associated with affording confidential treatment to its information.

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**223.1 Term:**

During the longest of the terms of (as and to the extent applicable) the Interconnection Service Agreement, the Service Agreement, and the Upgrade Construction Service Agreement, and for a period of three (3) years after the expiration or termination thereof, and except as otherwise provided in this Section 223, each party shall hold in confidence, and shall not disclose to any person, Confidential Information provided to it by any other party.

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### **223.2 Scope:**

Confidential Information shall not include information that the receiving party can demonstrate: (i) is generally available to the public other than as a result of a disclosure by the receiving party; (ii) was in the lawful possession of the receiving party on a non-confidential basis before receiving it from the disclosing party; (iii) was supplied to the receiving party without restriction by a third party, who, to the knowledge of the receiving party, after due inquiry, was under no obligation to the disclosing party to keep such information confidential; (iv) was independently developed by the receiving party without reference to Confidential Information of the disclosing party; (v) is, or becomes, publicly known, through no wrongful act or omission of the receiving party or breach of the requirements of this Section 223; or (vi) is required, in accordance with Section 223.7 below, to be disclosed to any Governmental Authority or is otherwise required to be disclosed by law or subpoena, or is necessary in any legal proceeding establishing rights and obligations under this Subpart or any agreement entered into pursuant thereto. Information designated as Confidential Information shall no longer be deemed confidential if the party that designated the information as confidential notifies the other parties that it no longer is confidential.

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### **223.3 Release of Confidential Information:**

No party shall disclose Confidential Information to any other person, except to its Affiliates (limited by the Commission's Standards of Conduct requirements), subcontractors, employees, consultants or to parties who may be, or may be considering, providing financing to or equity participation in the New Service Customer or to potential purchasers or assignees of the New Service Customer, on a need-to-know basis in connection with the Interconnection Service Agreement, Service Agreement, and/or Construction Service Agreement, unless such person has first been advised of the confidentiality provisions of this Section 223 and has agreed to comply with such provisions. Notwithstanding the foregoing, a party providing Confidential Information to any person shall remain primarily responsible for any release of Confidential Information in contravention of this Section 223.

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**223.4 Rights:**

Each party retains all rights, title, and interest in the Confidential Information that it discloses to any other party. A party's disclosure to another party of Confidential Information shall not be deemed a waiver by any party or any other person or entity of the right to protect the Confidential Information from public disclosure.

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**223.5 No Warranties:**

By providing Confidential Information, no party makes any warranties or representations as to its accuracy or completeness. In addition, by supplying Confidential Information, no party obligates itself to provide any particular information or Confidential Information to any other party nor to enter into any further agreements or proceed with any other relationship or joint venture.

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**223.6 Standard of Care:**

Each party shall use at least the same standard of care to protect Confidential Information it receives as the party uses to protect its own Confidential Information from unauthorized disclosure, publication or dissemination. Each party may use Confidential Information solely to fulfill its obligations to the other parties under this Part VI of the Tariff or any agreement entered into pursuant to this Part VI.

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#### **223.7 Order of Disclosure:**

If a Governmental Authority with the right, power, and apparent authority to do so requests or requires a party, by subpoena, oral deposition, interrogatories, requests for production of documents, administrative order, or otherwise, to disclose Confidential Information, that party shall provide the party that provided the information with prompt prior notice of such request(s) or requirement(s) so that the providing party may seek an appropriate protective order or waive compliance with the terms of this Part VI or any applicable agreement entered into pursuant to this Part VI. Notwithstanding the absence of a protective order or agreement, or waiver, the party that is subjected to the request or order may disclose such Confidential Information which, in the opinion of its counsel, the party is legally compelled to disclose. Each party shall use Reasonable Efforts to obtain reliable assurance that confidential treatment will be accorded any Confidential Information so furnished.

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**223.8 Termination of Agreement(s):**

Upon termination of any agreement entered into pursuant to this Subpart B of Part VI for any reason, each party shall, within ten (10) calendar days of receipt of a written request from another party, use Reasonable Efforts to destroy, erase, or delete (with such destruction, erasure and deletion certified in writing to the requesting party) or to return to the other party, without retaining copies thereof, any and all written or electronic Confidential Information received from the requesting party.

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### **223.9 Disclosure to FERC or its Staff:**

Notwithstanding anything in this Section 223 to the contrary, and pursuant to 18 C.F.R. § 1b.20, if FERC or its staff, during the course of an investigation or otherwise, requests information from one of the parties that is otherwise required to be maintained in confidence pursuant to this Part VI of the Tariff or any agreement entered into pursuant to such Part VI, the party receiving such request shall provide the requested information to FERC or its staff, within the time provided for in the request for information.

In providing the information to FERC or its staff, the party must, consistent with 18 C.F.R. § 388.112, request that the information be treated as confidential and non-public by FERC and its staff and that the information be withheld from public disclosure. Parties are prohibited from notifying the other parties prior to the release of the Confidential Information to the Commission or its staff. A party shall notify the other party(ies) to any agreement entered into pursuant to this Part VI when it is notified by FERC or its staff that a request to release Confidential Information has been received by FERC, at which time any of the parties may respond before such information would be made public, pursuant to 18 C.F.R. § 388.112.

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**223.10 Other Disclosures:**

Subject to the exception in Section 223.9, no party shall disclose Confidential Information of another party to any person not employed or retained by the disclosing party, except to the extent disclosure is (i) required by law; (ii) reasonably deemed by the disclosing party to be required in connection with a dispute between or among the parties, or the defense of litigation or dispute; (iii) otherwise permitted by consent of the party that provided such Confidential Information, such consent not to be unreasonably withheld; or (iv) necessary to fulfill its obligations under this Part VI or any agreement entered into pursuant to this Part VI, or as a transmission service provider or a Control Area operator including disclosing the Confidential Information to an RTO or ISO or to a regional or national reliability organization. Prior to any disclosures of another party's Confidential Information under this Section 223.10, the disclosing party shall promptly notify the other parties in writing and shall assert confidentiality and cooperate with the other parties in seeking to protect the Confidential Information from public disclosure by confidentiality agreement, protective order or other reasonable measures.

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**223.11 Information in Public Domain:**

This provision shall not apply to any information that was or is hereafter in the public domain (except as a result of a breach of this provision).

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**223.12 Return or Destruction of Confidential Information:**

If a party provides any Confidential Information to another party in the course of an audit or inspection, the providing party may request the other party to return or destroy such Confidential Information after the termination of the audit period and the resolution of all matters relating to that audit. Each party shall make Reasonable Efforts to comply with any such requests for return or destruction within ten days of receiving the request and shall certify in writing to the other party that it has complied with such request.

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**224-229 [Reserved]**

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

**Subpart C – Rights Related to Customer-Funded Upgrades**

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

**230 Capacity Interconnection Rights:**

*Effective Date: 9/17/2010 - Docket #: ER10-2710-000*

**230.1 Purpose:**

Capacity Interconnection Rights shall entitle the holder to deliver the output of a Generation Capacity Resource at the bus where the Generation Capacity Resource interconnects to the Transmission System. The Transmission Provider shall plan the enhancement and expansion of the Transmission System in accordance with Schedule 6 of the Operating Agreement such that the holder of Capacity Interconnection Rights can integrate its Capacity Resources in a manner comparable to that in which each Transmission Owner integrates its Capacity Resources to serve its Native Load Customers.

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### **230.2 Receipt of Capacity Interconnection Rights:**

Generation accredited under the Reliability Assurance Agreement Among Load Serving Entities in the PJM Region as a Generation Capacity Resource prior to the original effective date of Part IV shall have Capacity Interconnection Rights commensurate with the size in megawatts of the accredited generation. When a Generation Interconnection Customer's generation is accredited as deliverable through the applicable procedures in Part VI and Part VI of the Tariff, the Generation Interconnection Customer also shall receive Capacity Interconnection Rights commensurate with the size in megawatts of the generation as identified in the Interconnection Service Agreement. Pursuant to applicable terms of Schedule 10 of the Reliability Assurance Agreement Among Load Serving Entities in the PJM Region, a Transmission Interconnection Customer may combine Incremental Deliverability Rights associated with Merchant Transmission Facilities with generation capacity that is not otherwise accredited as a Generation Capacity Resource for the purposes of obtaining accreditation of such generation as a Generation Capacity Resource and associated Capacity Interconnection Rights.

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### **230.3 Loss of Capacity Interconnection Rights:**

#### **230.3.1 Operational Standards:**

To retain Capacity Interconnection Rights, the Generation Capacity Resource associated with the rights must operate or be capable of operating at the capacity level associated with the rights. Operational capability shall be established consistent with Schedule 9 of the Reliability Assurance Agreement Among Load Serving Entities in the PJM Region and the PJM Manuals. Generation Capacity Resources that meet these operational standards shall retain their Capacity Interconnection Rights regardless of whether they are available as a Generation Capacity Resource or are making sales outside the PJM Region.

#### **230.3.2 Failure to Meet Operational Standards:**

This Section 230.3.2 shall apply only in circumstances other than Deactivation of a Generation Capacity Resource. In the event a Generation Capacity Resource fails to meet the operational standards set forth in Section 230.3.1 of the Tariff for any consecutive three-year period (with the first such period commencing on the date the Interconnection Customer must demonstrate commercial operation of the generating unit(s) as specified in the Interconnection Service Agreement), the holder of the Capacity Interconnection Rights associated with such Generation Capacity Resource will lose its Capacity Interconnection Rights in an amount commensurate with the loss of generating capability. Any period during which the Generation Capacity Resource fails to meet the standards set forth in Section 230.3.1 as a result of an event that would constitute a Force Majeure event under Section 10 of the Tariff shall be excluded from such consecutive three-year period, provided that the holder of the Capacity Interconnection Rights exercises due diligence to remedy the event. A Generation Capacity Resource that loses Capacity Interconnection Rights pursuant to this section may continue Interconnection Service, to the extent of such lost rights, as an Energy Resource in accordance with (and for the remaining term of) its Interconnection Service Agreement and/or applicable terms of the Tariff.

#### **230.3.3 Replacement of Generation:**

In the event of the Deactivation of a Generation Capacity Resource (in accordance with Part V and applicable VACAR or other requirements), any Capacity Interconnection Rights associated with such facility shall terminate one year from the Deactivation Date unless the holder of such rights (including any holder that acquired the rights after Deactivation) has submitted a new Generation Interconnection Request within one year after the Deactivation Date which contemplates use of the same Capacity Interconnection Rights at the Point of Interconnection associated with such rights. Such new Generation Interconnection Request may include a request to increase Capacity Interconnection Rights in addition to the replacement of the previously deactivated amount as a single request. Transmission Provider may perform studies, as necessary, due to any changes in the electrical characteristics of any newly proposed equipment.

Upon execution of an Interconnection Service Agreement reflecting its new Interconnection Request, the holder of the Capacity Interconnection Rights will retain only such rights that are

commensurate with the size in megawatts of the replacement generation, not to exceed the amount of the holder's Capacity Interconnection Rights associated with the facility upon Deactivation. Any desired increase in Capacity Interconnection Rights must be requested in the new Generation Interconnection Request and be accredited through the applicable procedures in Part IV and Part VI of the Tariff. In the event the new Interconnection Request to which this section refers is or is deemed to be terminated and/or withdrawn for any reason at any time, the pertinent Capacity Interconnection Rights shall immediately terminate.

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#### **230.4 Transfer of Capacity Interconnection Rights:**

Capacity Interconnection Rights may be sold or otherwise transferred subject to compliance with such procedures as may be established by the Transmission Provider regarding such transfer and notice to the Transmission Provider of any generation facilities that will use the Capacity Interconnection Rights after the transfer. The transfer of Capacity Interconnection Rights shall not itself extend the periods set forth in Section 230.3 regarding loss of Capacity Interconnection Rights.

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**231 Incremental Auction Revenue Rights:**

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### **231.1 Right of New Service Customer to Incremental Auction Revenue Rights:**

A New Service Customer that (a) pursuant to Section 212.1, reimburses the Transmission Provider for the costs of, or (b) pursuant to its Construction Service Agreement undertakes responsibility for, constructing or completing Network Upgrades and/or Local Upgrades required to accommodate its New Service Request shall be entitled to receive the Incremental Auction Revenue Rights associated with such facilities and upgrades as determined in accordance with this Section 231. In addition, an Interconnection Customer that executes an Interconnection Service Agreement or an Upgrade Construction Service Agreement for the interconnection of Merchant Transmission Facilities with the Transmission System shall be entitled to receive the Incremental Auction Revenue Rights associated with such Merchant Transmission Facilities as determined in accordance with this Section 231, provided, however, that a Transmission Interconnection Customer that interconnects Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities with the Transmission System shall be entitled to Incremental Auction Revenue Rights associated with such Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities only if the Interconnection Customer has elected, pursuant to Section 36.1.03 of Part IV of the Tariff, to receive Incremental Auction Revenue Rights, Incremental Deliverability Rights, Incremental Capacity Transfer Rights, and Incremental Available Transfer Capability Revenue Rights in lieu of Transmission Injection Rights and/or Transmission Withdrawal Rights.

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### **231.2 Procedures for Assigning Incremental Auction Revenue Rights:**

No less than forty-five (45) days prior to the in-service date, as determined by the Office of the Interconnection, of the applicable Customer Facility or of a transmission facility or upgrade related to a New Service Request, the Office of the Interconnection shall notify the New Service Customer(s) which have responsibility to reimburse the costs of, or responsibility for, constructing or completing the facility or upgrade, that initial requests for Incremental Auction Revenue Rights associated with the facility or upgrade must be submitted to the Office of the Interconnection within a time period specified by the Office of the Interconnection in the notification. The Office of the Interconnection then shall commence a three-round allocation process. In round one, one-third of the Incremental Auction Revenue Rights available for each point-to-point combination requested in that round will be assigned to the requesters of the specific combinations in accordance with Section 231.3 of the Tariff.

In round two, two-thirds of the Incremental Auction Revenue Rights available for each requested point-to-point combination in that round will be assigned in accordance with Section 231.3 of the Tariff. In round three, all available Incremental Auction Revenue Rights will be assigned for the requested point-to-point combinations in that round in accordance with Section 231.3 of the Tariff. In each round, a requester may request the same point-to-point combination as in the previous rounds or submit a different combination. In rounds one and two, requesters may accept the assignment of Incremental Auction Revenue Rights or refuse them. Acceptance of the assignment in rounds one and two will remove the assigned Incremental Auction Revenue Rights from availability in the next rounds. Refusal of an Incremental Auction Revenue Rights assignment in rounds one and two will result in the Incremental Auction Revenue Rights being available for the next round. The Incremental Auction Revenue Rights assignments made in round three will be final and binding. The final and binding Incremental Auction Revenue Right assignment for a requested point-to-point combination in each round shall in no event be less than one third of 80% and no greater than one-third of 100% of the non-binding estimate of Incremental Auction Revenue Rights for that point-to-point combination that was provided to the New Service Customer under Section 206.5.2. For each round, a request for Incremental Auction Revenue Rights shall specify a single point-to-point combination for which the New Service Customer desires Incremental Auction Revenue Rights and shall be in a form specified by the Office of the Interconnection and in accordance with procedures set forth in the PJM Manuals. The Office of the Interconnection shall specify the deadlines for submission of requests in each round of the allocation process and shall complete the allocation process before the in-service date of the facility or upgrade.

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### **231.3 Determination of Incremental Auction Revenue Rights to be Provided to New Service Customer:**

The Office of the Interconnection shall determine the Incremental Auction Revenue Rights to be provided to New Service Customers associated with a particular transmission facility or upgrade pursuant to Section 231.2 using the tools described in Attachment K to the Tariff, including an assessment of the simultaneous feasibility of any Incremental Auction Revenue Rights and all other outstanding Auction Revenue Rights. For each requested point-to-point combination, the Office of the Interconnection shall determine, simultaneously with all other requested point-to-point combinations, the base system Auction Revenue Right capability, excluding the impact of any new transmission facilities or upgrades necessary to accommodate New Service Requests. The Office of the Interconnection then shall similarly determine, for each requested point-to-point combination, the Auction Revenue Rights capability, including the impact of any new facilities and upgrades. For each point-to-point combination, the Incremental Auction Revenue Right capability shall be the difference between the Auction Revenue Right capability in the base system analysis and the Auction Revenue Right capability in the analysis including the impact of the new facilities and upgrades. When multiple New Service Customers have cost responsibility for the same new transmission facility or upgrade, Incremental Auction Revenue Rights shall be assigned to each New Service Customer in proportion to the New Service Customers' relative cost responsibilities for the facility and in inverse proportion to the relative flow impact on constrained facilities or interfaces of the point-to-point combinations selected by the New Service Customers.

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#### **231.4 Reallocation of Incremental Auction Revenue Rights:**

(1) This section shall apply in the event that

(a) the Office of the Interconnection determines that accommodating a New Service Customer's New Service Request would require, in whole or in part, any Local Upgrade and/or Network Upgrade that the Office of the Interconnection determined to be required to accommodate a New Service Request that was part of an earlier New Services Queue, provided that such previously-constructed facility or upgrade meets the criteria stated in Section 219, and

(b) such New Service Customer (hereafter in this section, the "Current Customer") executes, as applicable, an Interconnection Service Agreement or an Upgrade Construction Service Agreement.

Upon determining that this section applies, the Office of the Interconnection shall:

(c) notify each New Service Customer that paid or incurred a portion of the costs of a pertinent, previously-constructed facility or upgrade (hereafter in this section, a "Preceding Customer") of the portion of the costs of such facility or upgrade for which the Current Customer is determined to be responsible, and

(d) afford each such Preceding Customer, subject to the terms of this Section 231.4, an opportunity to obtain, in exchange for a proportional share (as determined in accordance with Section 231.3) of the Incremental Auction Revenue Rights associated with such facility or upgrade that the Preceding Customer holds, reimbursement for a share of the cost of the facility or upgrade that the Preceding Customer paid or incurred that is proportional to the cost responsibility of the Current Customer for such facility or upgrade.

(2) A Preceding Customer shall have no obligation to exchange Incremental Auction Revenue Rights for cost reimbursement pursuant to this section. In the event, however, that a Preceding Customer chooses not to relinquish Incremental Auction Revenue Rights associated with a previously-constructed facility or upgrade, the Current Customer shall have no cost responsibility with respect to the portion of such facility or upgrade for which that Preceding Customer bore cost responsibility.

(3) In the event that a Preceding Customer elects to exchange Incremental Auction Revenue Rights for cost reimbursement pursuant to this section, (a) the Preceding Customer shall relinquish the Incremental Auction Revenue Rights that it elects to exchange in writing, in a form and at a time reasonably satisfactory to the Office of the Interconnection; (b) the Current Customer shall pay Transmission Provider, upon presentation of Transmission Provider's invoice therefor, an amount equal to the portion of such customer's cost responsibility for the relevant, previously-constructed facility or upgrade that is proportional to the Incremental Auction Revenue Rights that the Preceding Customer agreed to exchange; and (c) the Office of the Interconnection shall assign Incremental Auction Revenue Rights associated with the previously-constructed facility or upgrade to the Current Customer in accordance with the following:

(i) in the event that more than one Current Customer is contemporaneously eligible for a reallocation of Incremental Auction Revenue Rights associated with a facility or upgrade, the Office of the Interconnection shall use the procedures of Section 231.2 to reallocate the Incremental Auction Revenue Rights made feasible by retirement of the Incremental Auction Revenue Rights relinquished by the Preceding Customer;

(ii) in all other instances, the Current Customer shall be entitled to assignment of either (A) the Incremental Auction Revenue Rights associated with the pertinent facility or upgrade that the Preceding Customer relinquished pursuant to this section, or (B) any new Incremental Auction Revenue Rights that are made feasible by retirement of the Incremental Auction Revenue Rights relinquished by the Preceding Customer, provided, however,

(iii) that if it is not feasible to assign Incremental Auction Revenue Rights associated with the pertinent facility or upgrade to the Current Customer in proportion to such customer's cost responsibility for that facility or upgrade, then (A) the Current Customer's cost responsibility for the pertinent facility or upgrade shall be reduced to an amount proportional to the Incremental Auction Revenue Rights that can be feasibly assigned to it, and (B) the Preceding Customer's Incremental Auction Revenue Rights associated with the pertinent facility or upgrade shall be reduced only by a quantity proportional to the Current Customer's final cost responsibility. In the event of a reduction in the Current Customer's cost responsibility for a previously-constructed facility or upgrade pursuant to this subsection (3)(c)(iii), Transmission Provider shall refund to the Current Customer the difference between the amount such customer paid pursuant to subsection (3)(b) of this Section 231.4 and the amount of its final cost responsibility for the pertinent facility or upgrade. Upon completion of the reallocation process, Transmission Provider shall pay to the Preceding Customer an amount that is proportional to the Current Customer's final cost responsibility for the pertinent facility or upgrade and to the Incremental Auction Revenue Rights relinquished by the Preceding Customer.

(4) A Preceding Customer that elects to exchange rights for cost reimbursement pursuant to this section must exchange all Incremental Auction Revenue Rights and all other Upgrade-Related Rights associated with the same Local Upgrade and/or Network Upgrade.

(5) The Office of the Interconnection shall specify deadlines for the procedural steps in reallocating Incremental Auction Revenue Rights pursuant to this section and shall complete the reallocation process before the date of, as applicable, commencement of Interconnection Service, Transmission Service or Network Service for the Current Customer, or completion of the Customer-Funded Upgrade that precipitated the reallocation of such rights.

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### **231.5 Duration of Incremental Auction Revenue Rights:**

Incremental Auction Revenue Rights received by a New Service Customer pursuant to this section shall be available as of the first day of the first month that the Network Upgrades and/or Local Upgrades required to accommodate its New Service Request that are associated with the Incremental Auction Revenue Rights are included in the transmission system model for the monthly FTR auction and shall continue to be available for thirty (30) years or for the life of the associated facility or upgrade, whichever is less, subject to any subsequent pro-rata reductions of all Auction Revenue Rights (including Incremental Auction Revenue Rights) in accordance with the Appendix to Attachment K. At any time during this thirty-year period (or the life of the facility or upgrade, whichever is less), in lieu of continuing this thirty-year Auction Revenue Right, the New Service Customer shall have a one-time choice to switch to an optional mechanism, whereby, on an annual basis, the customer has the choice to request an Auction Revenue Right during the annual Auction Revenue Rights allocation process (pursuant to Section 7.4.2 of the Appendix to Attachment K of the Tariff) between the same source and sink, provided the Auction Revenue Right is simultaneously feasible, pursuant to Section 7.5 of the Appendix to Attachment K of the Tariff. A New Service Customer may return Incremental Auction Revenue Rights that it no longer desires at any time, provided that the Office of the Interconnection determines that it can simultaneously accommodate all remaining outstanding Auction Revenue Rights following the return of such Auction Revenue Rights. In the event a New Service Customer returns Incremental Auction Revenue Rights, the New Service Customer shall have no further rights regarding such Incremental Auction Revenue Rights.

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**231.5A Value of Incremental Auction Revenue Rights:**

The value of Incremental Auction Revenue Rights to be provided to a New Service Customer associated with a particular transmission facility or upgrade pursuant to Section 231.2 that become effective at the beginning of a Planning Period shall be determined in the same manner as annually allocated Auction Revenue Rights based on the nodal prices resulting from the annual Financial Transmission Rights auction. The value of such Incremental Auction Revenue Rights that become effective after the commencement of a Planning Period shall be determined on a monthly basis for each month in the Planning Period beginning with the month the Incremental Auction Revenue Right(s) becomes effective. The value of such Incremental Auction Revenue Right shall be equal to the megawatt amount of the Incremental Auction Revenue Rights multiplied by the LMP differential between the source and sink nodes of the corresponding FTR obligations in each prompt-month FTR auction that occurs from the effective date of the Incremental Auction Revenue Rights through the end of the relevant Planning Period. For each Planning Period thereafter, the value of such Incremental Auction Revenue Rights shall be determined in the same manner as Incremental Auction Revenue Rights that became effective at the beginning of a Planning Period.

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**231.6 Rate-based Facilities:**

No Incremental Auction Revenue Rights shall be received by a New Service Customer with respect to *transmission investment* that is included in the rate base of a public utility and on which a regulated return is earned.

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**232    Transmission Injection Rights and Transmission Withdrawal Rights:**

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

**232.1 Purpose:**

Transmission Injection Rights shall entitle the holder, as provided in this Section 232, to schedule energy transmitted on the associated Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities for injection into the Transmission System at a Point of Interconnection of the Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities with the Transmission System. Transmission Withdrawal Rights shall entitle the holder, as provided in this Section 232, to schedule for transmission on the associated Merchant Transmission Facilities energy to be withdrawn from the Transmission System at a Point of Interconnection of the Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities with the Transmission System.

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## **232.2 Right of Interconnection Customer to Transmission Injection Rights and Transmission Withdrawal Rights:**

Provided that such customer elects pursuant to Section 36.1.03 of the Tariff to receive Transmission Injection Rights and/or Transmission Withdrawal Rights in lieu of Incremental Deliverability Rights, Incremental Auction Revenue Rights, Incremental Capacity Transfer Rights, and Incremental Available Transfer Capability Revenue Rights, and subject to the terms of this Section 232, a Transmission Interconnection Customer that constructs Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities that interconnect with the Transmission System and with another control area outside the PJM Region shall be entitled to receive Transmission Injection Rights and/or Transmission Withdrawal Rights at each terminal where such customer's Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities interconnect with the Transmission System. A Transmission Interconnection Customer that is granted Firm Transmission Withdrawal Rights and/or transmission customers that have a Point of Delivery at the Border of PJM where the Transmission System interconnects with the Merchant D.C. Transmission Facilities may be responsible for a reasonable allocation of transmission upgrade costs added to the Regional Transmission Expansion Plan after such Transmission Interconnection Customer's Queue Position is established, in accordance with Section 3E and Schedule 12 of the Tariff. Notwithstanding the foregoing, any Transmission Injection Rights and Transmission Withdrawal Rights awarded to an Interconnection Customer that interconnects Controllable A.C. Merchant Transmission Facilities shall be, throughout the duration of the Interconnection Service Agreement applicable to such interconnection, conditioned on such customer's continuous operation of its Controllable A.C. Merchant Transmission Facilities in a controllable manner, i.e., in a manner effectively the same as operation of D.C. transmission facilities.

### **232.2.1 Total Capability:**

A Transmission Interconnection Customer or other party may hold Transmission Injection Rights and Transmission Withdrawal Rights simultaneously at the same terminal on the Transmission System. However, neither the aggregate Transmission Injection Rights nor the aggregate Transmission Withdrawal Rights held at a terminal may exceed the Nominal Rated Capability (as defined in Section 1.26F) of the interconnected Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities, as stated in the associated Interconnection Service Agreement.

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**232.3 Determination of Transmission Injection Rights and Transmission Withdrawal Rights to be Provided to Interconnection Customer:**

The Office of the Interconnection shall determine the Transmission Injection Rights and the Transmission Withdrawal Rights associated with Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities to be provided to eligible Transmission Interconnection Customer(s) pursuant to the procedures specified in the PJM Manuals. The Office of the Interconnection shall state in the System Impact Study the Transmission Injection Rights and Transmission Withdrawal Rights (including the quantity of each type of such rights) to be made available to the Transmission Interconnection Customer at the terminal(s) where the pertinent Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities interconnect with the Transmission System. Such rights shall become available to the Transmission Interconnection Customer pursuant to the Interconnection Service Agreement and upon commencement of Interconnection Service thereunder.

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**232.4 Duration of Transmission Injection Rights and Transmission Withdrawal Rights:**

Subject to the terms of Section 232.7 below, Transmission Injection Rights and/or Transmission Withdrawal Rights received by a Transmission Interconnection Customer shall be effective for the life of the associated Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities.

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**232.5 Rate-based Facilities:**

No Transmission Injection Rights or Transmission Withdrawal Rights shall be received by a Transmission Interconnection Customer with respect to transmission investment that is included in the rate base of a public utility and on which a regulated return is earned.

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**232.6 Transfer of Transmission Injection Rights and Transmission Withdrawal Rights:**

Transmission Injection Rights and/or Transmission Withdrawal Rights may be sold or otherwise transferred subject to compliance with such procedures as Transmission Provider may establish (by publication in the PJM Manuals) regarding such transfer and required notice to the Transmission Provider of use of such rights after the transfer. The transfer of Transmission Injection Rights or of Transmission Withdrawal Rights shall not itself extend the periods set forth in Section 232.7 regarding loss of such rights.

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## **232.7 Loss of Transmission Injection Rights and Transmission Withdrawal Rights:**

### **232.7.1 Operational Standards:**

To retain Transmission Injection Rights and Transmission Withdrawal Rights, the associated Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities must operate or be capable of operating at the capacity level associated with the rights. Operational capability shall be established consistent with applicable criteria stated in the PJM Manuals. Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities that meet these operational standards shall retain their Transmission Injection Rights and Transmission Withdrawal Rights regardless of whether they are used to transmit energy within or to points outside the PJM Region.

### **232.7.2 Failure To Meet Operational Standards:**

In the event that any Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities fail to meet the operational standards set forth in Section 232.7.1 of the Tariff for any consecutive three-year period, the holder(s) of the associated Transmission Injection Rights and Transmission Withdrawal Rights will lose such rights in an amount reflecting the loss of first contingency transfer capability. Any period during which the transmission facility fails to meet the standards set forth in Section 232.7.1 as a result of an event that would constitute a force majeure event under Section 10 of the Tariff shall be excluded from such consecutive three-year period, provided that the owner of the Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities exercises due diligence to remedy the event.

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**233 Incremental Available Transfer Capability Revenue Rights:**

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

**233.1 Right of Transmission Interconnection Customer to Incremental Available Transfer Capability Revenue Rights:**

An Interconnection Customer that interconnects a Customer Facility with the Transmission System shall be entitled to receive any Incremental Available Transfer Capability Revenue Rights that are associated with the interconnection of such facility as determined in accordance with this section. In addition, a New Service Customer that (a) reimburses the Transmission Provider for the costs of, or (b) pursuant to its Construction Service Agreement undertakes responsibility for, constructing or completing required Customer-Funded Upgrades to accommodate its New Service Request shall be entitled to receive any Incremental Available Transfer Capability Revenue Rights associated with such required facilities and upgrades as determined in accordance with this section.

**233.1.1 Certain Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities:**

An Interconnection Customer (a) that interconnects Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities with the Transmission System, one terminus of which is located outside the PJM Region and the other terminus of which is located within the PJM Region, and (b) that will be a Merchant Transmission Provider, shall not receive any Incremental Available Transfer Capability Revenue Rights with respect to its Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities. Transmission Provider shall not include available transfer capability at the interface(s) associated with such Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities in its calculations of Available Transfer Capability under Attachment C to the Tariff.

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

### **233.2 Procedures for Assigning Incremental Available Transfer Capability Revenue Rights:**

No less than forty-five (45) days prior to the in-service date of a Customer Facility or a Customer-Funded Upgrade, as determined by the Office of the Interconnection, the Office of the Interconnection shall determine the incremental available transfer capability resulting from the interconnection or addition of such facilities or upgrades. The Office of the Interconnection shall allocate the Incremental Available Transfer Capability Revenue Rights associated with a Customer Facility to the Interconnection Customer that is interconnecting such facility. The Office of the Interconnection shall allocate the Incremental Available Transfer Capability Revenue Rights associated with a Customer-Funded Upgrade to the New Service Customer(s) bearing cost responsibility for such facility or upgrade in proportion to each New Service Customer's cost responsibility for the facility or upgrade.

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**233.3 Determination of Incremental Available Transfer Capability Revenue Rights to be Provided to New Service Customer:**

The Office of the Interconnection shall determine the Incremental Available Transfer Capability Revenue Rights to be provided to New Service Customers pursuant to the procedures specified in the PJM Manuals.

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#### **233.4 Duration of Incremental Available Transfer Capability Revenue Rights:**

Incremental Available Transfer Capability Revenue Rights received by a New Service Customer shall be effective for thirty (30) years from commencement of, as and to the extent applicable, Interconnection Service, Transmission Service, or Network Service for such customer or the life of the pertinent facility or upgrade, whichever is shorter, subject to any subsequent pro-rata reallocations of all Available Transfer Capability Revenue Rights (including Incremental Available Transfer Capability Revenue Rights) in accordance with the PJM Manuals.

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### **233.5 Reallocation of Incremental Available Transfer Capability Revenue Rights:**

(1) This section shall apply in the event that

(a) the Office of the Interconnection determines that accommodating a New Service Customer's New Service Request would require, in whole or in part, any Local Upgrade and/or Network Upgrade that the Office of the Interconnection determined to be required to accommodate a New Service Request that was part of an earlier New Services Queue, provided that such previously-constructed facility or upgrade meets the criteria stated in Section 219, and

(b) such New Service Customer (hereafter in this section, the "Current Customer") executes, as applicable, an Interconnection Service Agreement or Upgrade Construction Service Agreement.

Upon determining that this section applies, the Office of the Interconnection:

(c) shall notify each New Service Customer that paid or incurred a portion of the costs of a pertinent, previously-constructed facility or upgrade (hereafter in this section, a "Preceding Customer") of the portion of the costs of such facility or upgrade for which the Current Customer is determined to be responsible, and (d) shall afford each such Preceding Customer, subject to the terms of this Section 233.5, an opportunity to obtain, in exchange for a proportional share (as determined in accordance with Section 233.2) of the Incremental Available Transfer Capability Revenue Rights associated with such facility or upgrade that the Preceding Customer holds, reimbursement for a share of the cost of the facility or upgrade that the Preceding Customer paid or incurred that is proportional to the cost responsibility of the Current Customer for such facility or upgrade.

(2) A Preceding Customer shall have no obligation to exchange Incremental Available Transfer Capability Revenue Rights for cost reimbursement pursuant to this section, provided, however, that in the event that a Preceding Customer chooses not to relinquish Incremental Available Transfer Capability Revenue Rights associated with a previously-constructed facility or upgrade, the Current Customer shall have no cost responsibility with respect to the portion of such facility or upgrade for which that Preceding Customer bore cost responsibility.

(3) In the event that a Preceding Customer elects to exchange Incremental Available Transfer Capability Revenue Rights for cost reimbursement pursuant to this section, (a) the Preceding Customer shall relinquish the Incremental Available Transfer Capability Revenue Rights that it elects to exchange in writing, in a form and at a time reasonably satisfactory to the Office of the Interconnection; (b) the Current Customer shall pay Transmission Provider, upon presentation of Transmission Provider's invoice therefor, an amount equal to the portion of such customer's cost responsibility for the relevant, previously-constructed facility or upgrade that is proportional to the Incremental Available Transfer Capability Revenue Rights that the Preceding Customer agreed to exchange; and (c) the Office of the Interconnection shall assign Incremental Available

Transfer Capability Revenue Rights associated with the previously-constructed facility or upgrade to the Current Customer in accordance with the following:

(i) in the event that more than one Current Customer is contemporaneously eligible for a reallocation of Incremental Available Transfer Capability Revenue Rights associated with a facility or upgrade, the Office of the Interconnection shall use the procedures of Section 233.2 to reallocate the Incremental Available Transfer Capability Revenue Rights made feasible by retirement of the Incremental Available Transfer Capability Revenue Rights relinquished by the Preceding Customer;

(ii) in all other instances, the Current Customer shall be entitled to assignment of either (A) the Incremental Available Transfer Capability Revenue Rights associated with the pertinent facility or upgrade that the Preceding Customer relinquished pursuant to this section, or (B) any new Incremental Available Transfer Capability Revenue Rights that are made feasible by retirement of the Incremental Available Transfer Capability Revenue Rights relinquished by the Preceding Customer, provided, however,

(iii) that if it is not feasible to assign Incremental Available Transfer Capability Revenue Rights associated with the pertinent facility or upgrade to the Current Customer in proportion to such customer's cost responsibility for that facility or upgrade, then (A) the Current Customer's cost responsibility for the pertinent facility or upgrade shall be reduced to an amount proportional to the Incremental Available Transfer Capability Revenue Rights that can be feasibly assigned to it, and (B) the Preceding Customer's Incremental Available Transfer Capability Revenue Rights associated with the pertinent facility or upgrade shall be reduced only by a quantity proportional to the Current Customer's final cost responsibility. In the event of a reduction in the Current Customer's cost responsibility for a previously-constructed facility or upgrade pursuant to this subsection (3)(c)(iii), Transmission Provider shall refund to the Current Customer the difference between the amount such customer paid pursuant to subsection (3)(b) of this Section 233.5 and the amount of its final cost responsibility for the pertinent facility or upgrade. Upon completion of the reallocation process, Transmission Provider shall pay to the Preceding Customer an amount that is proportional to the Current Customer's final cost responsibility for the pertinent facility or upgrade and to the Incremental Available Transfer Capability Revenue Rights relinquished by the Preceding Customer.

(4) A Preceding Customer that elects to exchange rights for cost reimbursement pursuant to this section must exchange all Incremental Auction Revenue Rights and all other Upgrade-Related Rights associated with the same Local Upgrade and/or Network Upgrade.

(5) The Office of the Interconnection shall specify deadlines for the procedural steps in reallocating Incremental Available Transfer Capability Revenue Rights pursuant to this section and shall complete the reallocation process before the date of, as applicable, commencement of Interconnection Service, Transmission Service, or Network Service for the Current Customer, or completion of the Customer-Funded Upgrade that precipitated the reallocation of such rights.

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**233.6 Rate-based Facilities:**

No Incremental Available Transfer Capability Revenue Rights shall be received by an Interconnection Customer with respect to transmission investment that is included in the rate base of a public utility and on which a regulated return is earned.

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**233.7 Compensation for Utilization of Incremental Available Transfer Capability Revenue Rights:**

At any time during the effective life, as specified in Section 233.4, of Incremental Available Transfer Capability Revenue Rights held by an Interconnection Customer that such rights are utilized to accommodate a subsequent Interconnection Request, the Interconnection Customer holding such rights will be compensated to the extent such rights are utilized according to the PJM Manuals.

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**234 Incremental Capacity Transfer Rights:**

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

#### **234.1 Right of New Service Customers to Incremental Capacity Transfer Rights:**

A Transmission Interconnection Customer that interconnects Merchant Transmission Facilities with the Transmission System shall be entitled to receive any Incremental Capacity Transfer Rights (as defined in Section 2.35 of Attachment DD of the Tariff) that are associated with the interconnection of such Merchant Transmission Facilities as determined in accordance with this section. In addition, a New Service Customer that (a) reimburses the Transmission Provider for the costs of, or (b) pursuant to its Construction Service Agreement, undertakes responsibility for, constructing or completing Customer-Funded Upgrades shall be entitled to receive any Incremental Capacity Transfer Rights associated with such required facilities and upgrades as determined in accordance with this section.

##### **234.1.1 Certain Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities:**

An Interconnection Customer (a) that interconnects Merchant D.C. transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities with the Transmission System, one terminus of which is located outside the PJM Region and the other terminus of which is located within the PJM Region, and (b) that will be a Merchant Transmission Provider, shall not receive any Incremental Capacity Transfer Rights with respect to its Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities. Transmission Provider shall not include available transfer capability at the interface(s) associated with such Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities in its calculations of Available Transfer Capability under Attachment C to the Tariff.

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#### **234.2 Procedures for Assigning Incremental Capacity Transfer Rights:**

The Office of the Interconnection shall determine the increase in Capacity Emergency Transfer Limit (as defined in the Reliability Assurance Agreement) resulting from the interconnection or addition of Merchant Transmission Facilities or a Customer-Funded Upgrade in the System Impact Study for the related New Service Request. Subject to the limitation of Section 234.1.1, the Office of the Interconnection shall allocate the Incremental Capacity Transfer Rights associated with Merchant Transmission Facilities to the New Service Customer that is interconnecting such facilities. The Office of the Interconnection shall allocate the Incremental Capacity Transfer Rights associated with a Customer-Funded Upgrade to the New Service Customer(s) bearing cost responsibility for such facility or upgrade in proportion to each New Service Customer's cost responsibility for the facility or upgrade.

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**234.3 Determination of Incremental Capacity Transfer Rights to be Provided to New Service Customer:**

The Office of the Interconnection shall determine the Incremental Capacity Transfer Rights to be provided to New Service Customers in accordance with the applicable terms of Attachment DD of the Tariff and pursuant to the procedures specified in the PJM Manuals.

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#### **234.4 Duration of Incremental Capacity Transfer Rights:**

Incremental Capacity Transfer Rights received by a New Service Customer shall be effective for thirty (30) years from, as applicable, commencement of Interconnection Service, Transmission Service, or Network Service for the affected New Service Customer or the life of the pertinent facility or upgrade, whichever is shorter, subject to any subsequent pro-rata reallocations of all Capacity Transfer Rights (including Incremental Capacity Transfer Rights) in accordance with the PJM Manuals.

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#### **234.5 Reallocation of Incremental Capacity Transfer Rights:**

(1) This section shall apply in the event that

(a) the Office of the Interconnection determines that accommodating an New Service Customer's New Service Request would require, in whole or in part, any Local Upgrade and/or Network Upgrade that the Office of the Interconnection determined to be required to accommodate an New Service Request that was part of an earlier New Services Queue, provided that such previously-constructed facility or upgrade meets the criteria stated in Section 219, and

(b) such New Service Customer (hereafter in this section, the "Current Customer") executes an Interconnection Service Agreement or Upgrade Construction Service Agreement, as applicable.

Upon determining that this section applies, the Office of the Interconnection:

(c) shall notify each New Service Customer that paid or incurred a portion of the costs of a pertinent, previously-constructed facility or upgrade (hereafter in this section, a "Preceding Customer") of the portion of the costs of such facility or upgrade for which the Current Customer is determined to be responsible, and

(d) shall afford each such Preceding Customer, subject to the terms of this Section 234.5, an opportunity to obtain, in exchange for a proportional share (as determined in accordance with Section 234.2) of the Incremental Capacity Transfer Rights associated with such facility or upgrade that the Preceding Customer holds, reimbursement for a share of the cost of the facility or upgrade that the Preceding Customer paid or incurred that is proportional to the cost responsibility of the Current Customer for such facility or upgrade.

(2) A Preceding Customer shall have no obligation to exchange Incremental Capacity Transfer Rights for cost reimbursement pursuant to this section, provided, however, that in the event that a Preceding Customer chooses not to relinquish Incremental Capacity Transfer Rights associated with a previously-constructed facility or upgrade, the Current Customer shall have no cost responsibility with respect to the portion of such facility or upgrade for which that Preceding Customer bore cost responsibility.

(3) In the event that a Preceding Customer elects to exchange Incremental Capacity Transfer Rights for cost reimbursement pursuant to this section, (a) the Preceding Customer shall relinquish the Incremental Capacity Transfer Rights that it elects to exchange in writing, in a form and at a time reasonably satisfactory to the Office of the Interconnection; (b) the Current Customer shall pay Transmission Provider, upon presentation of Transmission Provider's invoice therefor, an amount equal to the portion of such customer's cost responsibility for the relevant, previously-constructed facility or upgrade that is proportional to the Incremental Capacity Transfer Rights that the Preceding Customer agreed to exchange; and (c) the Office of the Interconnection shall assign Incremental Capacity Transfer Rights associated with the

previously-constructed facility or upgrade to the Current Customer in accordance with the following:

(i) in the event that more than one Current Customer is contemporaneously eligible for a reallocation of Incremental Capacity Transfer Rights associated with a facility or upgrade, the Office of the Interconnection shall use the procedures of Section 234.2 to reallocate the *Incremental Capacity Transfer Rights made feasible by retirement of the Incremental Capacity Transfer Rights* relinquished by the Preceding Customer;

(ii) in all other instances, the Current Customer shall be entitled to assignment of either (A) the Incremental Capacity Transfer Rights associated with the pertinent facility or upgrade that the Preceding Customer relinquished pursuant to this section, or (B) any new Incremental Capacity Transfer Rights that are made feasible by retirement of the Incremental Capacity Transfer Rights relinquished by the Preceding Customer, provided, however,

(iii) that if it is not feasible to assign Incremental Capacity Transfer Rights associated with the pertinent facility or upgrade to the Current Customer in proportion to such customer's cost responsibility for that facility or upgrade, then (A) the Current Customer's cost responsibility for the pertinent facility or upgrade shall be reduced to an amount proportional to the Incremental Capacity Transfer Rights that can be feasibly assigned to it, and (B) the Preceding Customer's Incremental Capacity Transfer Rights associated with the pertinent facility or upgrade shall be reduced only by a quantity proportional to the Current Customer's final cost responsibility. In the event of a reduction in the Current Customer's cost responsibility for a previously-constructed facility or upgrade pursuant to this subsection (3)(c)(iii), Transmission Provider shall refund to the Current Customer the difference between the amount such customer paid pursuant to subsection (3)(b) of this Section 234.5 and the amount of its final cost responsibility for the pertinent facility or upgrade. Upon completion of the reallocation process, Transmission Provider shall pay to the Preceding Customer an amount that is proportional to the Current Customer's final cost responsibility for the pertinent facility or upgrade and to the Incremental Capacity Transfer Rights relinquished by the Preceding Customer.

(4) A Preceding Customer that elects to exchange rights for cost reimbursement pursuant to this section must exchange all Incremental Capacity Transfer Rights and all other Upgrade-Related Rights associated with the same Local Upgrade and/or Network Upgrade.

(5) The Office of the Interconnection shall specify deadlines for the procedural steps in reallocating Incremental Capacity Transfer Rights pursuant to this section and shall complete the reallocation process before the date of, as applicable, commencement of Interconnection Service, Network Service or Transmission Service for the Current Customer, or completion of the Customer-Funded Upgrade that precipitated the reallocation of such rights.

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**234.6 Rate-based Facilities:**

No Incremental Capacity Transfer Rights shall be received by a New Service Customer with respect to transmission investment that is included in the rate base of a public utility and on which a regulated return is earned.

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**235 Incremental Deliverability Rights:**

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

**235.1 Right of Transmission Interconnection Customer to Incremental Deliverability Rights:**

A Transmission Interconnection Customer shall be entitled to receive the Incremental Deliverability Rights associated with its Merchant Transmission Facilities as determined in accordance with this section, provided, however, that a Transmission Interconnection Customer that proposes to interconnect Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities that connect the Transmission System with another control area shall be entitled to Incremental Deliverability Rights associated with such Merchant D.C. Transmission Facilities and/or Controllable A.C. Merchant Transmission Facilities only if the Interconnection Customer has elected, pursuant to Section 36.1.03 of the Tariff, to receive Incremental Deliverability Rights, Incremental Auction Revenue Rights, Incremental Capacity Transfer Rights, and Incremental Available Transfer Capability Revenue Rights in lieu of Transmission Injection Rights and/or Transmission Withdrawal Rights.

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**235.2 Procedures for Assigning Incremental Deliverability Rights:**

Transmission Provider shall include in the System Impact Study a determination of the Incremental Deliverability Rights associated with the Transmission Interconnection Customer's Merchant Transmission Facilities. Transmission Provider shall post on its OASIS the Incremental Deliverability Rights that it assigns to the Transmission Interconnection Customer under this section.

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**235.3 Determination of Incremental Deliverability Rights to be Provided to Interconnection Customer:**

Transmission Provider shall determine the Incremental Deliverability Rights to be provided to a Transmission Interconnection Customer associated with proposed Merchant Transmission Facilities under Section 235.2 pursuant to procedures specified in the PJM Manuals.

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#### **235.4 Duration of Incremental Deliverability Rights:**

Incremental Deliverability Rights assigned to a Transmission Interconnection Customer shall be effective until the earlier of the date that is one year after the commencement of Interconnection Service for such customer or the date that such Transmission Interconnection Customer's Transmission Interconnection Request is withdrawn and terminated, or deemed to be so, in accordance with Part IV or Part VI of the Tariff. Notwithstanding the preceding sentence, however, Incremental Deliverability Rights that are transferred pursuant to an IDR Transfer Agreement under Section 237 of the Tariff, shall be deemed to be Capacity Interconnection Rights of the generator that acquires them under such agreement upon commencement of Interconnection Service related to the generator's generation facility and shall remain effective for the life of such generation facility, or for the life of the Merchant Transmission Facilities associated with the transferred IDRs, whichever is shorter. The deemed conversion of IDRs to Capacity Interconnection Rights under this Section 235.4 shall not affect application to such IDRs of the other provisions of Section 235 of the Tariff. A Transmission Interconnection Customer may return Incremental Deliverability Rights that it no longer desires at any time. In the event that a Transmission Interconnection Customer returns Incremental Deliverability Rights, it shall have no further rights regarding such Incremental Deliverability Rights.

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**235.5 Transfer of Incremental Deliverability Rights:**

Incremental Deliverability Rights may be sold or otherwise transferred at any time after they are assigned pursuant to Section 235.2, subject to execution and submission of an IDR Transfer Agreement in accordance with Section 237 of the Tariff. The transfer of Incremental Deliverability Rights shall not itself extend the periods set forth in Section 235.7 regarding loss of Incremental Deliverability Rights.

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**235.6 Effectiveness of Incremental Deliverability Rights:**

Incremental Deliverability Rights shall not entitle the holder thereof to use the capability associated with such rights unless and until Transmission Provider commences Interconnection Service related to the Merchant Transmission Facilities associated with such rights.

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### **235.7 Loss of Incremental Deliverability Rights:**

Incremental Deliverability Rights shall be extinguished (a) in the event that the Transmission Interconnection Request of the Transmission Interconnection Customer to which the rights were assigned is withdrawn and terminated, or deemed to be so, as provided in Part IV or Part VI of the Tariff, without regard for whether the rights have been transferred pursuant to an IDR Transfer Agreement, or (b) such rights are not transferred pursuant to an IDR Transfer Agreement on or before the date that is one year after the commencement of Interconnection Service related to the Merchant Transmission Facilities with which the rights are associated.

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**235.8 Rate-based Facilities:**

No Incremental Deliverability Rights shall be received by a Transmission Interconnection Customer with respect to transmission investment that is included in the rate base of a public utility and on which a regulated return is earned.

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**236 Interconnection Rights for Certain Transmission Interconnections:**

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

**236.1 Qualification to Receive Certain Rights:**

In order to obtain the rights associated with Merchant Transmission Facilities (other than Merchant Network Upgrades) provided under this Subpart C of Part VI of the Tariff, prior to the commencement of Interconnection Service associated with such facilities, a Transmission Interconnection Customer that interconnects or adds Merchant Transmission Facilities (other than Merchant Network Upgrades) to the Transmission System must become and remain a signatory to the Consolidated Transmission Owners Agreement.

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### **236.2 Upgrades to Merchant Transmission Facilities:**

In the event that Transmission Provider determines in accordance with the Regional Transmission Expansion Planning Protocol of Schedule 6 of the Operating Agreement that an addition or upgrade to Merchant A.C. Transmission Facilities is necessary, the owner of such Merchant A.C. Transmission Facilities shall undertake such addition or upgrade and shall operate and maintain all facilities so constructed or installed in accordance with Good Utility Practice and with applicable terms of the Operating Agreement and the Consolidated Transmission Owners Agreement, as applicable. Cost responsibility for each such addition or upgrade shall be assigned in accordance with Schedule 6 of the Operating Agreement. Each Transmission Owner to whom cost responsibility for such an upgrade is assigned shall further be responsible for all costs of operating and maintaining the addition or upgrade in proportion to its respective assigned cost responsibilities.

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### **236.3 Limited Duration of Rights in Certain Cases:**

Notwithstanding any other provision of this Subpart C, in the case of any Merchant Transmission Facilities interconnected pursuant to Part VI that solely involves advancing the construction of a transmission enhancement or expansion other than a Merchant Transmission Facility that is included in the Regional Transmission Expansion Plan, any rights available to such facility under this Subpart C shall be limited in duration to the period from the inception of Interconnection Service for the affected Merchant Transmission Facility until the time when the Regional Transmission Expansion Plan originally provided for the pertinent transmission enhancement or expansion to be completed.

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**237 IDR Transfer Agreements:**

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

**237.1 Purpose:**

An Interconnection Customer (hereafter in this Section 237 the "Buyer Customer") may acquire Incremental Deliverability Rights assigned to another Interconnection Customer (hereafter in this Section 237, the "Seller Customer") by entering into an IDR Transfer Agreement with the Seller Customer. Subject to the terms of this Section 237, the Buyer Customer may rely upon such Incremental Deliverability Rights to satisfy, in whole or in part, its responsibility for Network Upgrades and/or Local Upgrades otherwise necessary to accommodate the Buyer Customer's Interconnection Request.

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

## **237.2 Requirements:**

A Buyer Customer may rely upon Incremental Deliverability Rights to satisfy, in whole or in part, the deliverability requirements applicable to its Interconnection Request only if it submits to Transmission Provider an IDR Transfer Agreement executed by both the Buyer Customer and the Seller Customer and only if such agreement meets all of the following requirements:

### **237.2.1 Required Elements:**

Any IDR Transfer Agreement submitted to Transmission Provider under this section:

(a) shall identify the Buyer Customer and the Seller Customer by full legal name, including the name of a contact person, with address and telephone number, for each party;

(b) shall identify the System Impact Study in which the Transmission Provider determined and assigned the Incremental Deliverability Rights transferred under the agreement;

(c) if the Seller Customer acquired the Incremental Deliverability Rights to be transferred under the proffered agreement from another party, shall describe the chain of title of such Incremental Deliverability Rights from their original holder to the Seller Customer;

(d) shall provide for the unconditional and irrevocable transfer of the subject Incremental Deliverability Rights to the Buyer Customer;

(e) shall include a warranty of the Seller Customer to the Buyer Customer and to the Transmission Provider that the Seller Customer holds, or has a legal right to acquire, the Incremental Deliverability Rights to be transferred under the proffered agreement;

(f) shall identify the location and shall state unequivocally the quantity of Incremental Deliverability Rights transferred under the agreement, provided that the transferred quantity may not exceed the total quantity of Incremental Deliverability Rights that the Seller Customer holds or has legal rights to acquire at the relevant location; and

(g) shall identify any IDR Transfer Agreement under which the Seller Customer previously transferred any Incremental Deliverability Rights associated with the same location.

### **237.2.2 Optional Election:**

When it submits the IDR Transfer Agreement to Transmission Provider, the Buyer Customer also (a) may identify any Network Upgrade or Local Upgrade for which the Buyer Customer has been assigned cost responsibility in association with a then-pending Interconnection Request submitted by it and for which it believes the Incremental Deliverability Rights transferred to it under the proffered IDR Transfer Agreement would satisfy the deliverability requirement applicable to such Interconnection Request; and (b) shall state whether it chooses to terminate its participation in (and cost responsibility for) any such Network Upgrade or Local Upgrade.

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### **237.3 Subsequent Election:**

A Buyer Customer that has submitted a valid IDR Transfer Agreement may elect to terminate its participation in any Network Upgrade or Local Upgrade for which it has not previously made such an election, at any time prior to its execution of an Interconnection Service Agreement related to the Interconnection Request with respect to which it was assigned responsibility for the affected facility or upgrade. The Buyer Customer must notify Transmission Provider in writing of such an election and its election shall be subject to Transmission Provider's determination and confirmation under Section 237.4 of the Tariff.

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#### **237.4 Confirmation by Transmission Provider:**

##### **237.4.1**

Transmission Provider shall determine whether and to what extent the Incremental Deliverability Rights transferred under an IDR Transfer Agreement would satisfy the deliverability requirements applicable to the Buyer Customer's Interconnection Request. Transmission Provider shall notify the parties to the IDR Transfer Agreement of its determination within 30 days after receipt of the agreement. If the Transmission Provider determines that the IDRs transferred under the proffered agreement would not satisfy, in whole or in part, the deliverability requirement applicable to the Buyer Customer's Interconnection Request, its notice to the parties shall explain the reasons for its determination and, to the extent of Transmission Provider's negative determination, the parties' IDR Transfer Agreement shall not be queued as an Interconnection Request pursuant to Section 237.6. Any dispute regarding Transmission Provider's determination may be submitted to dispute resolution under Section 12 of the Tariff or, if concerning the Regional Transmission Expansion Plan, consistent with Schedule 5 of the Operating Agreement.

##### **237.4.2**

To the extent that an election of the Buyer Customer under Section 237.2.2(b) or Section 237.3 to terminate participation in any Network Upgrade or Local Upgrade is consistent with Transmission Provider's determination, Transmission Provider shall confirm Buyer's termination election and shall recalculate accordingly the Buyer Customer's cost responsibility under Section 217 of the Tariff, as applicable. Transmission Provider shall provide its confirmation, along with any recalculation of cost responsibility, under this section in writing to the Buyer Customer within 30 days after receipt of notice of the Buyer Customer's election to terminate participation.

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**237.5 Effect of Election On Interconnection Request:**

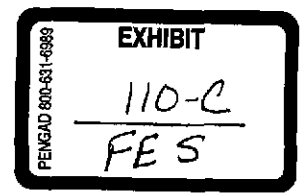
In the event that the Buyer Customer, pursuant to a confirmed election under this Section 237, terminates its participation in any Network Upgrade or Local Upgrade and the Interconnection Request underlying the Incremental Deliverability Rights acquired by the Buyer Customer under its IDR Transfer Agreement subsequently is terminated and withdrawn, or deemed to be so, under the terms of Part IV or Part VI of the Tariff, then the Buyer Customer's Interconnection Request also shall be deemed to be concurrently terminated and withdrawn.

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#### **237.6 Effect On Interconnection Studies:**

Each IDR Transfer Agreement shall be deemed to be an Interconnection Request and shall be queued, and shall be reflected as appropriate in subsequent Interconnection Studies, with other New Service Requests received under the Tariff. The Buyer Customer shall be the Interconnection Customer for purposes of application of the provisions of Part IV and Part VI, including, in the event that Transmission Provider determines that further analysis of the relevant IDRs is necessary, provisions relating to responsibility for the costs of Interconnection Studies.

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## ATTACHMENT DD

### Reliability Pricing Model

References to section numbers in this Attachment DD refer to sections of this Attachment DD, unless otherwise specified.

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

## 1. INTRODUCTION

This Attachment sets forth the terms and conditions governing the Reliability Pricing Model for the PJM Region. In the event of a conflict between this Attachment DD and Attachment M and its Appendix with respect to the responsibilities of the Market Monitoring Unit, the provisions of Attachment M and its Appendix shall control. As more fully set forth in this Attachment and the PJM Manuals, and in conjunction with the Reliability Assurance Agreement, the Reliability Pricing Model provides:

- (a) support for LSEs in satisfying Daily Unforced Capacity Obligations for future Delivery Years through Self Supply of Capacity Resources;
- (b) a competitive auction mechanism to secure the forward commitment of additional Capacity Resources and Qualifying Transmission Upgrades as necessary to satisfy the portion of LSEs' Unforced Capacity Obligations not satisfied through Self-Supply, in order to ensure the reliability of the PJM Region for future Delivery Years;
- (c) long-term pricing signals for the development of Capacity Resources, including demand resources and planned generation resources, to ensure the reliability of the PJM Region;
- (d) recognition for the locational benefits of Capacity Resources;
- (e) deficiency charges to ensure progress toward, and fulfillment of, forward commitments by demand and generation resources to satisfy capacity requirements;
- (f) measures to identify and mitigate capacity market structure deficiencies; and
- (g) a Reliability Backstop mechanism to ensure that sufficient generation, transmission and demand response solutions will be available to preserve system reliability.

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## **2. DEFINITIONS**

Definitions specific to this Attachment are set forth below. In addition, any capitalized terms used in this Attachment not defined herein shall have the meaning given to such terms elsewhere in this Tariff or in the RAA. References to section numbers in this Attachment DD refer to sections of this attachment, unless otherwise specified.

### **2.1A Annual Demand Resource**

“Annual Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.1B Annual Resource**

“Annual Resource” shall mean a Generation Capacity Resource, an Energy Efficiency Resource or an Annual Demand Resource.

### **2.1C Annual Resource Price Adder**

“Annual Resource Price Adder” shall mean an addition to the marginal value of Unforced Capacity and the Extended Summer Resource Price Adder as necessary to reflect the price of Annual Resources required to meet the applicable Minimum Annual Resource Requirement.

### **2.1D Annual Revenue Rate**

“Annual Revenue Rate” shall mean the rate employed to assess a compliance penalty charge on a Demand Resource Provider or ILR Provider under section 11.

## **2.2 Avoidable Cost Rate**

“Avoidable Cost Rate” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

## **2.3 Base Load Generation Resource**

“Base Load Generation Resource” shall mean a Generation Capacity Resource that operates at least 90 percent of the hours that it is available to operate, as determined by the Office of the Interconnection in accordance with the PJM Manuals.

## **2.4 Base Offer Segment**

“Base Offer Segment” shall mean a component of a Sell Offer based on an existing Generation Capacity Resource, equal to the Unforced Capacity of such resource, as determined in accordance with the PJM Manuals. If the Sell Offers of multiple Market Sellers are based on a single Existing Generation Capacity Resource, the Base Offer Segments of such Market Sellers shall be determined pro rata based on their entitlements to Unforced Capacity from such resource.

## **2.5 Base Residual Auction**

“Base Residual Auction” shall mean the auction conducted three years prior to the start of the Delivery Year to secure commitments from Capacity Resources as necessary to satisfy any portion of the Unforced Capacity Obligation of the PJM Region not satisfied through Self-Supply.

## **2.6 Buy Bid**

“Buy Bid” shall mean a bid to buy Capacity Resources in any Incremental Auction.

## **2.7 Capacity Credit**

“Capacity Credit” shall have the meaning specified in Schedule 11 of the Operating Agreement, including Capacity Credits obtained prior to the termination of such Schedule applicable to periods after the termination of such Schedule.

## **2.8 Capacity Emergency Transfer Limit**

“Capacity Emergency Transfer Limit” or “CETL” shall have the meaning provided in the Reliability Assurance Agreement.

## **2.9 Capacity Emergency Transfer Objective**

“Capacity Emergency Transfer Objective” or “CETO” shall have the meaning provided in the Reliability Assurance Agreement.

## **2.9A Capacity Export Transmission Customer**

“Capacity Export Transmission Customer” shall mean a customer taking point to point transmission service under Part II of this Tariff to export capacity from a generation resource located in the PJM Region that has qualified for an exception to the RPM must-offer requirement as described in section 6.6(g).

## **2.10 Capacity Market Buyer**

“Capacity Market Buyer” shall mean a Member that submits bids to buy Capacity Resources in any Incremental Auction.

## **2.11 Capacity Market Seller**

“Capacity Market Seller” shall mean a Member that owns, or has the contractual authority to control the output or load reduction capability of, a Capacity Resource, that has not transferred such authority to another entity, and that offers such resource in the Base Residual Auction or an Incremental Auction.

## **2.12 Capacity Resource**

“Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

## **2.13 Capacity Resource Clearing Price**

“Capacity Resource Clearing Price” shall mean the price calculated for a Capacity Resource that offered and cleared in a Base Residual Auction or Incremental Auction, in accordance with Section 5.

## **2.14 Capacity Transfer Right**

“Capacity Transfer Right” shall mean a right, allocated to LSEs serving load in a Locational Deliverability Area, to receive payments, based on the transmission import capability into such Locational Deliverability Area, that offset, in whole or in part, the charges attributable to the Locational Price Adder, if any, included in the Zonal Capacity Price calculated for a Locational Delivery Area.

## **2.14A Conditional Incremental Auction**

“Conditional Incremental Auction” shall mean an Incremental Auction conducted for a Delivery Year if and when necessary to secure commitments of additional capacity to address reliability criteria violations arising from the delay in a Backbone Transmission upgrade that was modeled in the Base Residual Auction for such Delivery Year.

## **2.15 CONE Area**

“CONE Area” shall mean the areas listed in section 5.10(a)(iv)(A) and any LDAs established as CONE Areas pursuant to section 5.10(a)(iv)(B).

## **2.16 Cost of New Entry**

“Cost of New Entry” or “CONE” shall mean the nominal levelized cost of a Reference Resource, as determined in accordance with section 5.

## **2.16A Credit-Limited Offer**

“Credit-Limited Offer” shall have the meaning provided in Attachment Q to this Tariff.

## **2.17 Daily Deficiency Rate**

“Daily Deficiency Rate” shall mean the rate employed to assess certain deficiency charges under sections 7, 8, 9, or 13.

## **2.18 Daily Unforced Capacity Obligation**

“Daily Unforced Capacity Obligation” shall mean the capacity obligation of a Load Serving Entity during the Delivery Year, determined in accordance with Schedule 8 of the Reliability Assurance Agreement.

#### **2.19 Delivery Year**

Delivery Year shall mean the Planning Period for which a Capacity Resource is committed pursuant to the auction procedures specified in Section 5.

#### **2.20 Demand Resource**

“Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.21 Demand Resource Factor**

“Demand Resource Factor” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.22 Demand Resource Provider**

“Demand Resource Provider” shall mean a PJM Member that has the capability to reduce load, or that aggregates customers capable of reducing load. The Demand Resource Provider shall notify the Office of the Interconnection whether such load reduction is provided by a Limited Demand Resource, Extended Summer Demand Resource or an Annual Demand Resource. A Curtailment Service Provider, as defined in the Operating Agreement, may be a Demand Resource Provider, provided it qualifies its load reduction capability as a Limited Demand Resource, Extended Summer Demand Resource, or Annual Demand Resource.

#### **2.23 EFORD**

“EFORD” shall have the meaning specified in the PJM Reliability Assurance Agreement.

#### **2.24 Energy Efficiency Resource**

“Energy Efficiency Resource” shall have the meaning specified in the PJM Reliability Assurance Agreement.

#### **2.24A Extended Summer Demand Resource**

“Extended Summer Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.24B Extended Summer Resource Price Adder**

“Extended Summer Resource Price Adder” shall mean an addition to the marginal value of Unforced Capacity as necessary to reflect the price of Annual Resources and Extended Summer Demand Resources required to meet the applicable Minimum Extended Summer Resource Requirement.

## **2.24C Extended Summer Demand Resource Reliability Target**

“Extended Summer Demand Resource Reliability Target” for the PJM Region or an LDA, shall mean the maximum amount of the combination of Extended Summer Demand Resources and Limited Demand Resources in Unforced Capacity determined by PJM to be consistent with the maintenance of reliability, stated in Unforced Capacity, that shall be used to calculate the Minimum Annual Resource Requirement. As more fully set forth in the PJM Manuals, PJM calculates the Extended Summer DR Reliability Target, by first determining a reference annual loss of load expectation (“LOLE”) assuming no Demand Resources. The calculation for the unconstrained portion of the PJM Region uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast and iteratively shifting the load distributions to result in the Installed Reserve Margin established for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Installed Reserve Margin study for the Delivery Year in question). The calculation for each relevant LDA uses a daily distribution of loads under a range of weather scenarios (based on the most recent load forecast for the Delivery Year in question) and a weekly capacity distribution (based on the cumulative capacity availability distributions developed for the Capacity Emergency Transfer Objective study for the Delivery Year in question). For the relevant LDA calculation, the weekly capacity distributions are adjusted to reflect the Capacity Emergency Transfer Limit for the Delivery Year in question.

For both the PJM Region and LDA analyses, PJM then models the commitment of varying amounts of DR (displacing otherwise committed generation) as interruptible from May 1 through October 31 and unavailable from November 1 through April 30 and calculates the LOLE at each DR level. The Extended Summer DR Reliability Target is the DR amount, stated as a percentage of the unrestricted peak load, that produces no more than a ten percent increase in the LOLE, compared to the reference value. The Extended Summer Demand Resource Reliability Target shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the DR Factor] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

## **2.25 [Reserved]**

## **2.26 Final RTO Unforced Capacity Obligation**

“Final RTO Unforced Capacity Obligation” shall mean the capacity obligation for the PJM Region, determined in accordance with Schedule 8 of the Reliability Assurance Agreement.

## **2.26A Final Zonal ILR Price**

“Final Zonal ILR Price” shall mean the Adjusted Zonal Capacity Price after the Second Incremental Auction, less the amount paid in CTR credits per MW of load in the Zone in which the ILR is to be certified.

## **2.27 First Incremental Auction**

"First Incremental Auction" shall mean an Incremental Auction conducted 20 months prior to the start of the Delivery Year to which it relates.

#### **2.28 Forecast Pool Requirement**

"Forecast Pool Requirement" shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.29 Forecast RTO ILR Obligation**

"Forecast RTO ILR Obligation" shall mean, in unforced capacity terms, the ILR Forecast for the PJM Region times the DR Factor, times the Forecast Pool Requirement, less the Unforced Capacity of all Demand Resources committed in FRR Capacity Plans by all FRR Entities in the PJM Region, for use in Delivery Years through May 31, 2012.

#### **2.30 Forecast Zonal ILR Obligation**

"Forecast Zonal ILR Obligation" shall mean, in unforced capacity terms, the ILR Forecast for the Zone times the DR Factor, times the Forecast Pool Requirement, less the Unforced Capacity of all Demand Resources committed in FRR Capacity Plans by all FRR Entities in such Zone, for use in Delivery Years through May 31, 2012.

#### **2.31 Generation Capacity Resource**

"Generation Capacity Resource" shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.32 ILR Forecast**

"ILR Forecast" shall mean, for any Delivery Year ending on or before May 31, 2012, the average annual megawatt quantity of ILR certified for the five Planning Periods preceding the date of the forecast; provided, however, that before such data becomes available for five Delivery Years under the Reliability Pricing Model, comparable data on Active Load Management (as defined in the preexisting reliability assurance agreements) from up to five prior Planning Periods shall be substituted as necessary; and provided further that, for transmission zones that were integrated into the PJM Region less than five years prior to the conduct of the Base Residual Auction for the Delivery Year, data on incremental load subject to mandatory interruption by Electric Distribution Companies within such zones shall be substituted as necessary.

#### **2.33 ILR Provider**

"ILR Provider" shall mean a Member that has the capability to reduce load, or that aggregates customers capable of reducing load. A Curtailment Service Provider, as such term is defined in the PJM Operating Agreement, may be an ILR Provider, provided it obtains certification of its load reduction capability as ILR.

## **2.34 Incremental Auction**

“Incremental Auction” shall mean any of several auctions conducted for a Delivery Year after the Base Residual Auction for such Delivery Year and before the first day of such Delivery Year, including the First Incremental Auction, Second Incremental Auction, Third Incremental Auction or Conditional Incremental Auction. Incremental Auctions (other than the Conditional Incremental Auction), shall be held for the purposes of:

(i) allowing Market Sellers that committed Capacity Resources in the Base Residual Auction for a Delivery Year, which subsequently are determined to be unavailable to deliver the committed Unforced Capacity in such Delivery Year (due to resource retirement, resource cancellation or construction delay, resource derating, EFORD increase, a decrease in the Nominated Demand Resource Value of a Planned Demand Resource, delay or cancellation of a Qualifying Transmission Upgrade, or similar occurrences) to submit Buy Bids for replacement Capacity Resources; and

(ii) allowing the Office of the Interconnection to reduce or increase the amount of committed capacity secured in prior auctions for such Delivery Year if, as a result of changed circumstances or expectations since the prior auction(s), there is, respectively, a significant excess or significant deficit of committed capacity for such Delivery Year, for the PJM Region or for an LDA.

## **2.35 Incremental Capacity Transfer Right**

“Incremental Capacity Transfer Right” shall mean a Capacity Transfer Right allocated to a Generation Interconnection Customer or Transmission Interconnection Customer obligated to fund a transmission facility or upgrade, to the extent such upgrade or facility increases the transmission import capability into a Locational Deliverability Area, or a Capacity Transfer Right allocated to a Responsible Customer in accordance with Schedule 12A of the Tariff.

## **2.36 Interruptible Load for Reliability (ILR)**

“Interruptible Load for Reliability” or “ILR” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.36A Limited Demand Resource**

“Limited Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.36B Limited Demand Resource Reliability Target**

“Limited Demand Resource Reliability Target” for the PJM Region or an LDA, shall mean the maximum amount of Limited Demand Resources determined by PJM to be consistent with the maintenance of reliability, stated in Unforced Capacity that shall be used to calculate the Minimum Extended Summer Demand Resource Requirement for the PJM Region or such LDA.

As more fully set forth in the PJM Manuals, PJM calculates the Limited Demand Resource Reliability Target by first: i) testing the effects of the ten-interruption requirement by comparing possible loads on peak days under a range of weather conditions (from the daily load forecast distributions for the Delivery Year in question) against possible generation capacity on such days under a range of conditions (using the cumulative capacity distributions employed in the Installed Reserve Margin study for the PJM Region and in the Capacity Emergency Transfer Objective study for the relevant LDAs for such Delivery Year) and, by varying the assumed amounts of DR that is committed and displaces committed generation, determines the DR penetration level at which there is a ninety percent probability that DR will not be called (based on the applicable operating reserve margin for the PJM Region and for the relevant LDAs) more than ten times over those peak days; and ii) testing the six-hour duration requirement by calculating the MW difference between the highest hourly unrestricted peak load and seventh highest hourly unrestricted peak load on certain high peak load days (e.g., the annual peak, loads above the weather normalized peak, or days where load management was called) in recent years, then dividing those loads by the forecast peak for those years and averaging the result. Second, PJM adopts the lower result from these two tests as the Limited Demand Resource Reliability Target. The Limited Demand Resource Reliability Target shall be expressed as a percentage of the forecasted peak load of the PJM Region or such LDA and is converted to Unforced Capacity by multiplying [the reliability target percentage] times [the Forecast Pool Requirement] times [the DR Factor] times [the forecasted peak load of the PJM Region or such LDA, reduced by the amount of load served under the FRR Alternative].

### **2.37 Load Serving Entity (LSE)**

“Load Serving Entity” or “LSE” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.38 Locational Deliverability Area (LDA)**

“Locational Deliverability Area” or “LDA” shall mean a geographic area within the PJM Region that has limited transmission capability to import capacity to satisfy such area’s reliability requirement, as determined by the Office of the Interconnection in connection with preparation of the Regional Transmission Expansion Plan, and as specified in Schedule 10.1 of the Reliability Assurance Agreement.

### **2.39 Locational Deliverability Area Reliability Requirement**

“Locational Deliverability Area Reliability Requirement” shall mean the projected internal capacity in the Locational Deliverability Area plus the Capacity Emergency Transfer Objective for the Delivery Year, as determined by the Office of the Interconnection in connection with preparation of the Regional Transmission Expansion Plan, less the minimum internal resources required for all FRR Entities in such Locational Deliverability Area.

### **2.40 Locational Price Adder**

“Locational Price Adder” shall mean an addition to the marginal value of Unforced Capacity within an LDA as necessary to reflect the price of Capacity Resources required to relieve applicable binding locational constraints.

#### **2.41 Locational Reliability Charge**

“Locational Reliability Charge” shall have the meaning specified in the Reliability Assurance Agreement.

##### **2.41A Locational UCAP**

“Locational UCAP” shall mean unforced capacity that a Member with available uncommitted capacity sells in a bilateral transaction to a Member that previously committed capacity through an RPM Auction but now requires replacement capacity to fulfill its RPM Auction commitment. The Locational UCAP Seller retains responsibility for performance of the resource providing such replacement capacity.

##### **2.41B Locational UCAP Seller**

“Locational UCAP Seller” shall mean a Member that sells Locational UCAP.

##### **2.41C Market Seller Offer Cap**

“Market Seller Offer Cap” shall mean a maximum offer price applicable to certain Market Sellers under certain conditions, as determined in accordance with section 6 of Attachment DD and section ILE of Attachment M - Appendix.

##### **2.41D Minimum Annual Resource Requirement**

“Minimum Annual Resource Requirement” shall mean the minimum amount of capacity that PJM will seek to procure from Annual Resources for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year. For the PJM Region, the Minimum Annual Resource Requirement shall be equal to the RTO Reliability Requirement minus [the Extended Summer Demand Resource Reliability Target for the RTO in Unforced Capacity]. For an LDA, the Minimum Annual Resource Requirement shall be equal to the LDA Reliability Requirement minus [the LDA CETL] minus [the Extended Summer Demand Resource Reliability Target for such LDA in Unforced Capacity]. The LDA CETL may be adjusted pro rata for the amount of load served under the FRR Alternative.

##### **2.41E Minimum Extended Summer Resource Requirement**

“Minimum Extended Summer Resource Requirement” shall mean the minimum amount of capacity that PJM will seek to procure from Extended Summer Demand Resources and Annual Resources for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a

separate VRR Curve for such Delivery Year. For the PJM Region, the Minimum Extended Summer Resource Requirement shall be equal to the RTO Reliability Requirement minus [the Limited Demand Resource Reliability Target for the PJM Region in Unforced Capacity]. For an LDA, the Minimum Extended Summer Resource Requirement shall be equal to the LDA Reliability Requirement minus [the LDA CETL] minus [the Limited Demand Resource Reliability Target for such LDA in Unforced Capacity]. The LDA CETL may be adjusted pro rata for the amount of load served under the FRR Alternative.

#### **2.42 Net Cost of New Entry**

“Net Cost of New Entry” shall mean the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset, as defined in Section 5.

#### **2.43 Nominated Demand Resource Value**

“Nominated Demand Resource Value” shall mean the amount of load reduction that a Demand Resource commits to provide either through direct load control, firm service level or guaranteed load drop programs. For existing Demand Resources, the maximum Nominated Demand Resource Value is limited, in accordance with the PJM Manuals, to the value appropriate for the method by which the load reduction would be accomplished, at the time the Base Residual Auction or Incremental Auction is being conducted.

#### **2.43A Nominated Energy Efficiency Value**

“Nominated Energy Efficiency Value” shall mean the amount of load reduction that an Energy Efficiency Resource commits to provide through installation of more efficient devices or equipment or implementation of more efficient processes or systems.

#### **2.44 Nominated ILR Value**

“Nominated ILR Value” shall mean the amount of load reduction that an ILR resource commits to provide either through direct load control, firm service level or guaranteed load drop programs. For ILR, the maximum Nominated ILR Capacity Value is limited, in accordance with the PJM Manuals, to the value appropriate for the method by which the load reduction would be accomplished, at the time the ILR is certified.

#### **2.45 Opportunity Cost**

“Opportunity Cost” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

#### **2.46 Peak-Hour Dispatch**

“Peak-Hour Dispatch” shall mean, for purposes of calculating the Energy and Ancillary Services Revenue Offset under section 5 of this Attachment, an assumption, as more fully set forth in the PJM Manuals, that the Reference Resource is *committed in the Day-Ahead Energy Market* in

four distinct blocks of four hours of continuous output for each block from the peak-hour period beginning with the hour ending 0800 EPT through to the hour ending 2300 EPT for any day when the average *day-ahead* LMP for the area for which the Net Cost of New Entry is being determined is greater than, or equal to, the cost to generate (including the cost for a complete start and shutdown cycle) for at least two hours during each four-hour block, where such blocks shall be assumed to be *committed* independently; provided that, if there are not at least two economic hours in any given four-hour block, then the Reference Resource shall be assumed not to be *committed* for such block; and to the extent not committed in any such block in the Day-Ahead Energy Market under the above conditions based on Day-Ahead LMPs, is dispatched in the Real-Time Energy Market for such block if the Real-Time LMP is greater than or equal to the cost to generate under the same conditions as described above for the Day-Ahead Energy Market. .

#### **2.47 Peak Season**

“Peak Season” shall mean the weeks containing the 24th through 36th Wednesdays of the calendar year. Each such week shall begin on a Monday and end on the following Sunday, except for the week containing the 36th Wednesday, which shall end on the following Friday.

#### **2.48 Percentage Internal Resources Required**

“Percentage Internal Resources Required” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.49 Planned Demand Resource**

“Planned Demand Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.50 Planned External Generation Capacity Resource**

“Planned External Generation Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.50A Planned Generation Capacity Resource**

“Planned Generation Capacity Resource” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.51 Planning Period**

“Planning Period” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.52 PJM Region**

“PJM Region” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.53 PJM Region Installed Reserve Margin**

“PJM Region Installed Reserve Margin” shall have the meaning specified in the Reliability Assurance Agreement.

### **2.54 PJM Region Peak Load Forecast**

“PJM Region Peak Load Forecast” shall mean the peak load forecast used by the Office of the Interconnection in determining the PJM Region Reliability Requirement, and shall be determined on both a preliminary and final basis as set forth in section 5.

### **2.55 PJM Region Reliability Requirement**

“PJM Region Reliability Requirement” shall mean, for purposes of the Base Residual Auction, the Forecast Pool Requirement multiplied by the Preliminary PJM Region Peak Load Forecast, less the sum of all Preliminary Unforced Capacity Obligations of FRR Entities in the PJM Region; and, for purposes of the Incremental Auctions, the Forecast Pool Requirement multiplied by the updated PJM Region Peak Load Forecast, less the sum of all updated Unforced Capacity Obligations of FRR Entities in the PJM Region.

### **2.56 Projected PJM Market Revenues**

“Projected PJM Market Revenues” shall mean a component of the Market Seller Offer Cap calculated in accordance with section 6.

### **2.57 Qualifying Transmission Upgrade**

“Qualifying Transmission Upgrade” shall mean a proposed enhancement or addition to the Transmission System that: (a) will increase the Capacity Emergency Transfer Limit into an LDA by a megawatt quantity certified by the Office of the Interconnection; (b) the Office of the Interconnection has determined will be in service on or before the commencement of the first Delivery Year for which such upgrade is the subject of a Sell Offer in the Base Residual Auction; (c) is the subject of a Facilities Study Agreement executed before the conduct of the Base Residual Auction for such Delivery Year and (d) a New Service Customer is obligated to fund through a rate or charge specific to such facility or upgrade.

### **2.58 Reference Resource**

“Reference Resource” shall mean a combustion turbine generating station, configured with two General Electric Frame 7FA turbines with inlet air cooling to 50 degrees, Selective Catalytic Reduction technology in *CONE Areas 1, 2, 3, and 4*, dual fuel capability, and a heat rate of 10.096 Mmbtu/ MWh.

### **2.59 Reliability Assurance Agreement**

“Reliability Assurance Agreement” shall mean that certain “Reliability Assurance Agreement Among Load-Serving Entities in the PJM Region,” on file with FERC as PJM Interconnection, L.L.C. Rate Schedule FERC No.44.

#### **2.60 Reliability Pricing Model Auction**

“Reliability Pricing Model Auction” or “RPM Auction” shall mean the Base Residual Auction or any Incremental Auction.

#### **2.61 Resource Substitution Charge**

“Resource Substitution Charge” shall mean a charge assessed on Capacity Market Buyers in an Incremental Auction to recover the cost of replacement Capacity Resources.

##### **2.61A Scheduled Incremental Auctions**

“Scheduled Incremental Auctions” shall refer to the First, Second, or Third Incremental Auction.

#### **2.62 Second Incremental Auction**

“Second Incremental Auction” shall mean an Incremental Auction conducted ten months before the Delivery Year to which it relates.

#### **2.63 Sell Offer**

“Sell Offer” shall mean an offer to sell Capacity Resources in a Base Residual Auction, Incremental Auction, or Reliability Backstop Auction.

#### **2.64 [Reserved for Future Use]**

#### **2.65 Self-Supply**

“Self-Supply” shall mean Capacity Resources secured by a Load-Serving Entity, by ownership or contract, outside a Reliability Pricing Model Auction, and used to meet obligations under this Attachment or the Reliability Assurance Agreement through submission in a Base Residual Auction or an Incremental Auction of a Sell Offer indicating such Market Seller’s intent that such Capacity Resource be Self-Supply. Self-Supply may be either committed regardless of clearing price or submitted as a Sell Offer with a price bid. A Load Serving Entity’s Sell Offer with a price bid for an owned or contracted Capacity Resource shall not be deemed “Self-Supply,” unless it is designated as Self-Supply and used by the LSE to meet obligations under this Attachment or the Reliability Assurance Agreement.

##### **2.65A Short-Term Resource Procurement Target**

“Short-Term Resource Procurement Target” shall mean, as to the PJM Region, for purposes of the Base Residual Auction, 2.5% of the PJM Region Reliability Requirement determined for such Base Residual Auction, for purposes of the First Incremental Auction, 2% of the of the

PJM Region Reliability Requirement as calculated at the time of the Base Residual Auction; and, for purposes of the Second Incremental Auction, 1.5% of the of the PJM Region Reliability Requirement as calculated at the time of the Base Residual Auction; and, as to any Zone, an allocation of the PJM Region Short-Term Resource Procurement Target based on the Preliminary Zonal Forecast Peak Load, reduced by the amount of load served under the FRR Alternative. For any LDA, the LDA Short-Term Resource Procurement Target shall be the sum of the Short-Term Resource Procurement Targets of all Zones in the LDA.

#### **2.65B Short-Term Resource Procurement Target Applicable Share**

“Short-Term Resource Procurement Target Applicable Share” shall mean: (i) for the PJM Region, as to the First and Second Incremental Auctions, 0.2 times the Short-Term Resource Procurement Target used in the Base Residual Auction and, as to the Third Incremental Auction for the PJM Region, 0.6 times such target; and (ii) for an LDA, as to the First and Second Incremental Auctions, 0.2 times the Short-Term Resource Procurement Target used in the Base Residual Auction for such LDA and, as to the Third Incremental Auction, 0.6 times such target.

#### **2.66 Third Incremental Auction**

“Third Incremental Auction” shall mean an Incremental Auction conducted three months before the Delivery Year to which it relates.

#### **2.67 Transition Adder**

“Transition Adder” shall mean a component of a Sell Offer permitted for certain Capacity Market Sellers for the Transition Period, as set forth in section 17.

#### **2.68 Transition Period**

“Transition Period” shall mean the four-year period consisting of the Delivery Years commencing June 1, 2007, June 1, 2008, June 1, 2009, and June 1, 2010.

#### **2.69 Unforced Capacity**

“Unforced Capacity” shall have the meaning specified in the Reliability Assurance Agreement.

#### **2.69A Updated VRR Curve**

“Updated VRR Curve” shall mean the Variable Resource Requirement Curve as defined in section 5.10(a) of this Attachment for use in the Base Residual Auction of the relevant Delivery Year, updated to reflect the Short-term Resource Procurement Target applicable to the relevant Incremental Auction and any change in the Reliability Requirement from the Base Residual Auction to such Incremental Auction.

#### **2.69B Updated VRR Curve Increment**

“Updated VRR Curve Increment” shall mean the portion of the Updated VRR Curve to the right of a vertical line at the level of Unforced Capacity on the x-axis of such curve equal to the net Unforced Capacity committed to the PJM Region as a result of all prior auctions conducted for such Delivery Year.

#### **2.69C Updated VRR Curve Decrement**

“Updated VRR Curve Decrement” shall mean the portion of the Updated VRR Curve to the left of a vertical line at the level of Unforced Capacity on the x-axis of such curve equal to the net Unforced Capacity committed to the PJM Region as a result of all prior auctions conducted for such Delivery Year.

#### **2.70 Variable Resource Requirement Curve**

“Variable Resource Requirement Curve” shall mean a series of maximum prices that can be cleared in a Base Residual Auction for Unforced Capacity, corresponding to a series of varying resource requirements based on varying installed reserve margins, as determined by the Office of the Interconnection for the PJM Region and for certain Locational Deliverability Areas in accordance with the methodology provided in Section 5.

#### **2.71 Zonal Capacity Price**

“Zonal Capacity Price” shall mean the clearing price required in each Zone to meet the demand for Unforced Capacity and satisfy Locational Deliverability Requirements for the LDA or LDAs associated with such Zone. If the Zone contains multiple LDAs with different Capacity Resource Clearing Prices, the Zonal Capacity Price shall be a weighted average of the Capacity Resource Clearing Prices for such LDAs, weighted by the Unforced Capacity of Capacity Resources cleared in each such LDA.

Effective Date: 2/18/2012 - Docket #: ER12-636-000

### **3. RESPONSIBILITIES OF THE OFFICE OF THE INTERCONNECTION**

#### **3.1 Support for Self-Supply and Bilateral Transactions**

The Office of the Interconnection shall:

(a) support electronic tools to facilitate communication by Market Sellers and Market Buyers of information to the Office of the Interconnection concerning Self-Supply arrangements;

(b) support an electronic bulletin board providing a forum for prospective buyers and sellers to transact Capacity Resources outside the Reliability Pricing Model Auctions, including Locational UCAP transactions (including mechanisms to allow prospective Sellers with partial-year resources to explore voluntary opportunities to combine their resources such that they can be offered together for a full Delivery Year) and support electronic tools to report bilateral capacity transactions between Market Participants to the Office of the Interconnection, in accordance with procedures set forth in the PJM Manuals; and

(c) define one or more capacity trading hubs and determine and publicize values for such hubs based on the capacity prices determined for one or more Locational Deliverability Areas, in accordance with the PJM Manuals.

#### **3.2 Administration of the Base Residual Auction and Incremental Auctions**

The Office of the Interconnection shall conduct and administer the Base Residual Auction and Incremental Auctions in accordance with this Attachment, the Operating Agreement, and the Reliability Assurance Agreement. Administration of the Base Residual Auction and Incremental Auctions shall include, but not be limited to, the following:

a) Determining the qualification of entities to become Capacity Market Sellers and Capacity Market Buyers;

b) Determining PJM Region Peak Load Forecasts and Locational Deliverability Area Reliability Requirements;

c) Determining the Minimum Annual Resource Requirements and the Minimum Extended Summer Resource Requirements for the PJM Region and applicable LDAs for Delivery Years starting June 1, 2014;

d) Determining ILR Forecasts for Delivery Years through May 31, 2012;

e) Determining the need, if any, for a Conditional Incremental Auction and providing appropriate prior notice of any such auction

f) Calculating the EFORD for each Generation Capacity Resource in the PJM Region to be used in the Third Incremental Auction;

g) Receiving Buy Bids and Sell Offers, determining Locational Deliverability Requirements and Variable Resource Requirement Curves, and determining the clearing price that reflects all such inputs;

h) Conducting settlements for auction transactions, including but not limited to rendering bills to, receiving payments from, and disbursing payments to, participants in Base Residual Auctions and Incremental Auctions.

i) Maintaining such records of Sell Offers and Buy Bids, clearing price determinations, and other aspects of auction transactions, as may be appropriate to the administration of Base Residual Auctions and Incremental Auctions; and

j) Posting of selected non-confidential data used in Reliability Pricing Model Auctions to calculate clearing prices and other auction results, as appropriate to inform market participants of auction conditions.

### **3.3 Records and Reports**

The Office of the Interconnection shall prepare and maintain such records as are required for the administration of the Base Residual Auction and Incremental Auctions. For each auction conducted, the Office of the Interconnection shall, consistent with section 18.17 of the Operating Agreement, publish the following: (i) Zonal Capacity Prices for each LDA; (ii) Capacity Resource Clearing Prices for each LDA; (iii) Locational Price Adders; (iv) the total megawatts of Unforced Capacity that cleared; and (v) such other auction data as may be appropriate to the efficient and competitive conduct of the Base Residual Auction and Incremental Auctions. Such information shall be available on the PJM internet site through the end of the Delivery Year to which such auctions apply.

### **3.4 Counterparty**

(a) PJMSettlement shall be the Counterparty to the transactions arising from the cleared Base Residual Auctions and Incremental Auctions; provided, however, PJMSettlement shall not be a contracting party to (i) any bilateral transactions between Market Participants, or (ii) with respect to Self-Supply for which designation of Self-Supply has been reported to the Office of the Interconnection.

(b) Charges. PJMSettlement shall be the Counterparty with respect to the obligations to pay, and the payment of, charges pursuant to this Attachment DD.

Effective Date: 7/14/2011 - Docket #: ER11-4040-000

## **4. GENERAL PROVISIONS**

### **4.1 Capacity Market Sellers**

Only Capacity Market Sellers shall be eligible to submit Sell Offers into the Base Residual Auction and Incremental Auctions. Capacity Market Sellers shall comply with the terms and conditions of all Sell Offers, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M - Appendix and the Operating Agreement.

### **4.2 Capacity Market Buyers**

Only Capacity Market Buyers shall be eligible to submit Buy Bids into an Incremental Auction. Capacity Market Buyers shall comply with the terms and conditions of all Buy Bids, as established by the Office of the Interconnection in accordance with this Attachment, Attachment M, Attachment M - Appendix and the Operating Agreement.

### **4.3 Agents**

A Capacity Market Seller may participate in a Base Residual Auction or Incremental Auction through an Agent, provided that the Capacity Market Seller informs the Office of the Interconnection in advance in writing of the appointment and authority of such Agent. A Capacity Market Buyer may participate in an Incremental Auction through an Agent, provided that the Capacity Market Buyer informs the Office of the Interconnection in advance in writing of the appointment and authority of such Agent. A Capacity Market Buyer or Capacity Market Seller participating in such an auction through an Agent shall be bound by all of the acts or representations of such Agent with respect to transactions in such auction. Any written instrument establishing the authority of such Agent shall provide that any such Agent shall comply with the requirements of this Attachment and the Operating Agreement.

### **4.4 General Obligations of Capacity Market Buyers and Capacity Market Sellers**

Each Capacity Market Buyer and Capacity Market Seller shall comply with all laws and regulations applicable to the operation of the Base Residual and Incremental Auctions and the use of these auctions shall comply with all applicable provisions of this Attachment, Attachment M, Attachment M - Appendix, the Operating Agreement, and the Reliability Assurance Agreement, and all procedures and requirements for the conduct of the Base Residual and Incremental Auctions and the PJM Region established by the Office of the Interconnection in accordance with the foregoing.

### **4.5 Confidentiality**

The following information submitted to the Office of the Interconnection in connection with any Base Residual Auction, Incremental Auction, or Reliability Backstop Auction shall be deemed confidential information for purposes of Section 18.17 of the Operating Agreement, Attachment M and Attachment M - Appendix: (i) the terms and conditions of the Sell Offers and Buy Bids; and (ii) the terms and conditions of any bilateral transactions for Capacity Resources.

#### **4.6 Bilateral Capacity Transactions**

(a) Unit-Specific Internal Capacity Bilateral Transaction Transferring All Rights and Obligations ("Section 4.6(a) Bilateral").

(i) Market Participants may enter into unit-specific internal bilateral capacity contracts for the purchase and sale of title and rights to a specified amount of installed capacity from a specific generating unit or units. Such bilateral capacity contracts shall be for the transfer of rights to capacity to and from a Market Participant and shall be reported to the Office of the Interconnection in accordance with this Attachment DD and the Office of the Interconnection's rules related to its eRPM tools.

(ii) For purposes of clarity, with respect to all Section 4.6(a) Bilateral transactions, the rights to, and obligations regarding, the capacity that is the subject of the transaction shall pass to the buyer under the contract at the location of the unit and further transactions and rights and obligations associated with such capacity shall be the responsibility of the buyer under the contract. Such obligations include any charges, including penalty charges, relating to the capacity under this Attachment DD. In no event shall the purchase and sale of the rights to capacity pursuant to a Section 4.6(a) Bilateral constitute a transaction with the Office of the Interconnection or PJMSettlement or a transaction in any auction under this Attachment DD.

(iii) All payments and related charges associated with a Section 4.6(a) Bilateral shall be arranged between the parties to the transaction and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The Office of the Interconnection, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Section 4.6(a) Bilateral reported to the Office of the Interconnection under this Attachment DD.

(iv) With respect to capacity that is the subject of a Section 4.6(a) Bilateral that has cleared an auction under this Attachment DD prior to a transfer, the buyer of the cleared capacity shall be considered in the Delivery Year the party to a transaction with PJMSettlement as Counterparty for the cleared capacity at the Capacity Resource Clearing Price published for the applicable auction.

(v) A buyer under a Section 4.6(a) Bilateral contract shall pay any penalties or charges associated with the capacity transferred under the contract. To the extent the capacity that is the subject of a Section 4.6(a) Bilateral contract has cleared an auction under this Attachment DD prior to a transfer, then the seller under the contract also shall guarantee and indemnify the Office of the Interconnection, PJMSettlement, and the Members for the buyer's obligation to pay any penalties or charges associated with the capacity and for which payment is not made to PJMSettlement by the buyer as determined by the Office of the Interconnection. All claims regarding a default of a buyer to a seller under a Section 4.6(a) Bilateral contract shall be resolved solely between the buyer and the seller.

(vi) To the extent the capacity that is the subject of the Section 4.6(a) Bilateral transaction already has cleared an auction under this Attachment DD, such bilateral capacity

transactions shall be subject to the prior consent of the Office of the Interconnection and its determination that sufficient credit is in place for the buyer with respect to the credit exposure associated with such obligations.

(b) **Bilateral Capacity Transaction Transferring Title to Capacity But Not Transferring Performance Obligations ("Section 4.6(b) Bilateral").**

(i) Market Participants may enter into bilateral capacity transactions for the purchase and sale of a specified megawatt quantity of capacity that has cleared an auction pursuant to this Attachment DD. The parties to a Section 4.6(b) Bilateral transaction shall identify (1) each unit from which the transferred megawatts are being sold, and (2) the auction in which the transferred megawatts cleared. Such bilateral capacity transactions shall transfer title and all rights with respect to capacity and shall be reported to the Office of the Interconnection on an annual basis prior to each Delivery Year in accordance with this Attachment DD and pursuant to the Office of the Interconnection's rules related to its eRPM tools. Reported transactions with respect to a unit will be accepted by the Office of the Interconnection only to the extent that the total of all bilateral sales from the reported unit (including Section 4.6(a) Bilaterals, Section 4.6(b) Bilaterals, and Locational UCAP bilaterals) do not exceed the unit's cleared unforced capacity.

(ii) For purposes of clarity, with respect to all Section 4.6(b) Bilateral transactions, the rights to the capacity shall pass to the buyer at the location of the unit(s) specified in the reported transaction. In no event shall the purchase and sale of the rights to capacity pursuant to a Section 4.6(b) Bilateral constitute a transaction with PJMSettlement or the Office of the Interconnection or a transaction in any auction under this Attachment DD.

(iii) With respect to a Section 4.6(b) Bilateral, the buyer of the cleared capacity shall be considered in the Delivery Year the party to a transaction with PJMSettlement as Counterparty for the cleared capacity at the Capacity Resource Clearing Price published for the applicable auction; provided, however, with respect to all Section 4.6(b) Bilateral transactions, such transactions do not effect a novation of the seller's obligations to make RPM capacity available to PJM pursuant to the terms and conditions originally agreed to by the seller; provided further, however, the buyer shall indemnify PJMSettlement, the LLC, and the Members for any failure by a seller under a Section 4.6(b) Bilateral to meet any resulting obligations, including the obligation to pay deficiency penalties and charges owed to PJMSettlement, associated with the capacity.

(iv) All payments and related charges associated with a Section 4.6(b) Bilateral shall be arranged between the parties to the contract and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The Office of the Interconnection, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Section 4.6(b) Bilateral capacity contract reported to the Office of the Interconnection under this Attachment DD.

(v) All claims regarding a default of a buyer to a seller under a Section 4.6(b) Bilateral shall be resolved solely between the buyer and the seller.

(c) Locational UCAP Bilateral Transactions Between Capacity Sellers.

(i) Market Participants may enter into Locational UCAP bilateral transactions as defined in, and pursuant to the rules set forth in, section 5.3A of this Attachment DD, which shall be reported to the Office of the Interconnection in accordance with this Attachment DD and the LLC's rules related to its eRPM tools.

(ii) For purposes of clarity, with respect to all Locational UCAP bilateral transactions, the rights to the Locational UCAP that are the subject of the Locational UCAP bilateral transaction shall pass to the buyer under the Locational UCAP bilateral contract subject to the provisions of section 5.3A. In no event, shall the purchase and sale of Locational UCAP pursuant to a Locational UCAP bilateral transaction constitute a transaction with the Office of the Interconnection or PJMSettlement, or a transaction in any auction under this Attachment DD.

(iii) A Locational UCAP Seller shall have the obligation to make the capacity available to PJM in the same manner as capacity that has cleared an auction under this Attachment DD and the Locational UCAP Seller shall have all obligations for charges and penalties associated with the capacity that is the subject of the Locational UCAP bilateral contract; provided, however, the buyer shall indemnify PJMSettlement, the LLC, and the Members for any failure by a seller to meet any resulting obligations, including the obligation to pay deficiency penalties and charges owed to PJMSettlement, associated with the capacity. All claims regarding a default of a buyer to a seller under a Locational UCAP bilateral contract shall be resolved solely between the buyer and the seller.

(iv) All payments and related charges for the Locational UCAP associated with a Locational UCAP bilateral contract shall be arranged between the parties to such bilateral contract and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The LLC, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Locational UCAP bilateral contract reported to the Office of the Interconnection under this Attachment DD.

(d) The bilateral transactions provided for in this section 4.6 shall be for the physical transfer of capacity to or from a Market Participant and shall be reported to and coordinated with the Office of the Interconnection in accordance with this Attachment DD and pursuant to the Office of the Interconnection's rules relating to its eRPM tools. Bilateral transactions that do not contemplate the physical transfer of capacity to and from a Market Participant are not subject to this Attachment DD and shall not be reported to and coordinated with the Office of the Interconnection.

Effective Date: 1/1/2011 - Docket #: ER11-2527-000

**5. CAPACITY RESOURCE COMMITMENT**

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

## **5.1 Introduction**

In accordance with the Reliability Assurance Agreement, each Load Serving Entity is obligated to pay a Locational Reliability Charge for each Zone in which it serves load based on the Daily Unforced Capacity Obligation of its loads in such Zone. An LSE may offset the Locational Reliability charge for a Delivery Year, in whole or in part, by: (a) Self-Supply of Capacity Resources in the Base Residual Auction or an Incremental Auction; (b) offering and clearing Capacity Resources in the Base Residual Auction or an Incremental Auction (but only to the extent of the additional resources committed to meet Unforced Capacity Obligations through such Incremental Auction); (c) obtaining certification of load reduction capability as ILR three months prior to the start of the Delivery Year (to the extent permitted hereunder); (d) receiving payments from Capacity Transfer Rights; or (e) offering and clearing Qualifying Transmission Upgrades in the Base Residual Auction.

Effective Date: 1/1/2011 - Docket #: ER11-2527-000

## **5.2 Nomination of Self Supplied Capacity Resources**

A Capacity Market Seller, including a Load Serving Entity, may designate a Capacity Resource as Self-Supply for a Delivery year by submitting a Sell Offer for such resource in the Base Residual Auction or an Incremental Auction in accordance with the procedure and time schedule set forth in the PJM Manuals. The LSE shall indicate its intent in the Sell Offer that the Capacity Resource be deemed Self-Supply and shall indicate whether it is committing the resource regardless of clearing price or with a price bid. Any such Sell Offer shall be subject to the minimum offer price rule set forth in section 5.14(h). Upon receipt of a Self-Supply Sell Offer, the Office of the Interconnection will verify that the designated Capacity Resource is available, in accordance with Section 5.6, and, if the LSE indicated that it is committing the resource regardless of clearing price, will treat such Capacity Resource as committed in the clearing process of the Reliability Pricing Model Auction for which it was offered for such Delivery Year. To address capacity obligation quantity uncertainty associated with the Variable Resource Requirement Curve, a Load Serving Entity may submit a Sell Offer with a contingent designation of a portion of its Capacity Resources as either Self-Supply (to the extent required to meet a portion (as specified by the LSE) of the LSE's peak load forecast in each transmission zone) or as not Self-Supply (to the extent not so required) and subject to an offer price, in accordance with the PJM Manuals. PJMSettlement shall not be the Counterparty with respect to a Capacity Resource designated as Self-Supply.

Effective Date: 4/13/2011 - Docket #: ER11-2875-000

### **5.3 Commitment of Contractually Purchased Capacity Resources**

A Load Serving Entity that has purchased the right to the capacity output of a generation resource and desires to commit such right as a Capacity Resource for a Delivery Year shall be considered a Capacity Market Seller. Such an LSE must submit a Sell Offer in the Base Residual Auction for such Delivery Year, in accordance with the procedure and time schedule set forth in the PJM Manuals. In such Sell Offer, the Capacity Resource offered by the LSE may be submitted as Self-Supply or with an offer price. PJMSettlement shall not be the Counterparty with respect to a Capacity Resource designated as Self-Supply.

Effective Date: 1/1/2011 - Docket #: ER11-2527-000

### **5.3A Locational UCAP Bilateral Transactions**

A Member that has committed capacity through an RPM Auction for a Delivery Year may purchase Locational UCAP as replacement capacity from a Member with available uncommitted capacity for such Delivery Year in accordance with the terms of this section and the PJM Manuals. Locational UCAP may not be sold or purchased prior to the date that the final EFORD is established for such Delivery Year, and if designated to PJM by the Locational UCAP Seller as sold prior to the Third Incremental Auction for a Delivery Year must be confirmed by the buyer prior to such Third Incremental Auction as purchased for replacement capacity, or such transaction shall be rejected. In accordance with procedures specified in the PJM Manuals, the parties to a Locational UCAP transaction must notify PJM of such transaction, which notification must specify: i) the buyer, ii) the Locational UCAP Seller, iii) the start and end dates of the transaction (which may not be retroactive), iv) the Locational UCAP amount (no less than 0.1 megawatts), v) the demand or generation resource with available uncommitted capacity that is the basis for the sale, and vi) the Locational Delivery Area in which the resource is located. The Locational UCAP Seller shall be responsible for any charges imposed under sections 7, 8, 9, 10, 11, or 13, as applicable, for such Delivery Year, with respect to the increment of capacity sold as Locational UCAP; any other settlement of charges under the Locational UCAP transaction shall be between the parties. A purchaser of Locational UCAP may not offer such capacity into an RPM Auction.

Effective Date: 7/14/2011 - Docket #: ER11-4040-000

#### **5.4 Reliability Pricing Model Auctions**

The Office of the Interconnection shall conduct the following Reliability Pricing Model Auctions:

a) **Base Residual Auction.**

PJM shall conduct for each Delivery Year a Base Residual Auction to secure commitments of Capacity Resources as needed to satisfy the portion of the RTO Unforced Capacity Obligation not satisfied through Self-Supply of Capacity Resources for such Delivery Year. All Self-Supply Capacity Resources must be offered in the Base Residual Auction. As set forth in section 6.6, all other Capacity Resources, and certain other existing generation resources, must be offered in the Base Residual Auction. The Base Residual Auction shall be conducted in the month of May that is three years prior to the start of such Delivery Year. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement from Load Serving Entities through the Locational Reliability Charge during such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and the payments, by Load Serving Entities; provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

b) **Scheduled Incremental Auctions.**

PJM shall conduct for each Delivery Year a First, a Second, and a Third Incremental Auction for the purposes set forth in section 2.34. The First Incremental Auction shall be conducted in the month of September that is twenty months prior to the start of the Delivery Year; the Second Incremental Auction shall be conducted in the month of July that is ten months prior to the start of the Delivery Year; and the Third Incremental Auction shall be conducted in the month of February that is three months prior to the start of the Delivery Year.

c) **Adjustment through Scheduled Incremental Auctions of Capacity Previously Committed.**

The Office of the Interconnection shall recalculate the PJM Region Reliability Requirement and each LDA Reliability Requirement prior to each Scheduled Incremental Auction, based on an updated peak load forecast, updated Installed Reserve Margin and an updated Capacity Emergency Transfer Objective; shall update such reliability requirements for the Third Incremental Auction to reflect any change from such recalculation; and shall update such reliability requirements for the First Incremental Auction or Second Incremental Auction only if the change is greater than or equal to the lesser of: (i) 500 MW or (ii) one percent of the applicable prior reliability requirement. Based on such update, the Office of the Interconnection shall, under certain conditions, seek through the Scheduled Incremental Auction to secure additional commitments of capacity or release sellers from prior capacity commitments. Specifically, the Office of the Interconnection shall:

1) seek additional capacity commitments to serve the PJM Region or an LDA if the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year is less than, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; provided, however, that in the First Incremental Auction or Second Incremental Auction the Office of the Interconnection shall seek such additional capacity commitments only if such shortfall is in an amount greater than or equal to the lesser of: (i) 500 MW or (ii) one percent of the applicable prior reliability requirement;

2) seek additional capacity commitments to serve the PJM Region or an LDA if:

i) the updated PJM Region Reliability Requirement less the PJM Region Short-Term Resource Procurement Target utilized in the most recent auction conducted for the Delivery Year, or if the LDA Reliability Requirement less the LDA Short Term Resource Procurement Target applicable to such auction, exceeds the total capacity committed in all prior auctions in such region or area, respectively, for such Delivery Year by an amount greater than or equal to the lesser of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement; or

ii) PJM conducts a Conditional Incremental Auction for such Delivery Year and does not obtain all additional commitments of Capacity Resources sought in such Conditional Incremental Auction, in which case, PJM shall seek in the Incremental Auction the commitments that were sought in the Conditional Incremental Auction but not obtained.

3) seek agreements to release prior capacity commitments to the PJM Region or to an LDA if:

i) the PJM Region Reliability Requirement or LDA Reliability Requirement utilized in the most recent prior auction conducted for the Delivery Year exceeds, respectively, the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement; provided, however, that in the First Incremental Auction or Second Incremental Auction the Office of the Interconnection shall seek such agreements only if such excess is in an amount greater than or equal to the lesser of: (A) 500 MW or (B) one percent of the applicable prior reliability requirement; or

ii) PJM obtains additional commitments of Capacity Resources in a Conditional Incremental Auction, in which case PJM shall seek release of an equal number of megawatts (comparing the total purchase amount for all LDAs and the PJM Region related to the delay in Backbone Transmission with the total sell amount for all LDAs and the PJM Region related to the delay in Backbone Transmission) of prior committed capacity that would not have been committed had the delayed Backbone Transmission upgrade that prompted the Conditional

Incremental Auction not been assumed, at the time of the Base Residual Auction, to be in service for the relevant Delivery Year; and if PJM obtains additional commitments of capacity in an incremental auction pursuant to subsection c.2.ii above, PJM shall seek in such Incremental Auction to release an equal amount of capacity (in total for all LDAs and the PJM Region related to the delay in Backbone Transmission) previously committed that would not have been committed absent the Backbone Transmission upgrade.

4) The cost of payments to Market Sellers for additional Capacity Resources cleared in such auctions, and the credits from payments from Market Sellers for the release of previously committed Capacity Resources, shall be apportioned to Load Serving Entities in the PJM Region or LDA, as applicable, through adjustments to the Locational Reliability Charge for such Delivery Year.

5) PJMSettlement shall be the Counterparty to the sales (including releases) of Capacity Resources that clear in such auctions and to the obligations to pay, and the payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

d) Commitment of Replacement Capacity through Scheduled Incremental Auctions.

Each Scheduled Incremental Auction for each Delivery Year shall allow Capacity Market Sellers that committed Capacity Resources in any prior Reliability Pricing Model Auction for such Delivery Year to submit Buy Bids for replacement Capacity Resources. Capacity Market Sellers that submit Buy Bids into an Incremental Auction must specify the type of Unforced Capacity desired, i.e., Annual Resource, Extended Summer Demand Resource, or Limited Demand Resource. The need to purchase replacement Capacity Resources may arise for any reason, including but not limited to resource retirement, resource cancellation or construction delay, resource derating, EFORd increase, a decrease in the Nominated Demand Resource Value of a Planned Demand Resource, delay or cancellation of a Qualifying Transmission Upgrade, or similar occurrences. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be paid by PJMSettlement from amounts collected by PJMSettlement from Capacity Market Buyers that purchase replacement Capacity Resources in such auction. PJMSettlement shall be the Counterparty to the sales and purchases that clear in such auction, provided, however, PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

e) Conditional Incremental Auction.

PJM shall conduct for any Delivery Year a Conditional Incremental Auction if the in service date of a Backbone Transmission Upgrade that was modeled in the Base Residual Auction is announced as delayed by the Office of the Interconnection beyond July 1 of the Delivery Year for which it was modeled and if such delay causes a reliability criteria violation. If conducted, the Conditional Incremental Auction shall be for the purpose of securing commitments of

additional capacity for the PJM Region or for any LDA to address the identified reliability criteria violation. If PJM determines to conduct a Conditional Incremental Auction, PJM shall post on its website the date and parameters for such auction (including whether such auction is for the PJM Region or for an LDA) at least one month prior to the start of such auction. The cost of payments to Market Sellers for Capacity Resources cleared in such auction shall be collected by PJMSettlement from Load Serving Entities in the PJM Region or LDA, as applicable, through an adjustment to the Locational Reliability Charge for such Delivery Year. PJMSettlement shall be the Counterparty to the sales that clear in such auction and to the obligations to pay, and payments, by Load Serving Entities, provided, however, that PJMSettlement shall not be a Counterparty to committed Self-Supply Capacity Resources.

Effective Date: 7/14/2011 - Docket #: ER11-4040-000

## **5.5 Eligibility for Participation in RPM Auctions**

A Capacity Market Seller may submit a Sell Offer for a Capacity Resource in a Base Residual or Incremental Auction only if such seller owns or has the contractual authority to control the output or load reduction capability of such resource and has not transferred such authority to another entity. Capacity Resources must satisfy the capability and deliverability requirements of Schedules 9 and 10 of the PJM Reliability Assurance Agreement, and, as applicable, the requirements for Demand Resources or Energy Efficiency Resources in Attachment DD-1 and Schedule 6 of the Reliability Assurance Agreement.

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

## **5.6 Sell Offers**

Sell Offers shall be submitted or withdrawn via the internet site designated by the Office of the Interconnection, in accordance with the procedures and time schedule set forth in the PJM Manuals.

### **5.6.1 Specifications**

A Sell Offer shall state quantities in increments of 0.1 megawatts and shall specify, as appropriate:

a) Identification of the Generation Capacity Resource, Annual Demand Resource, Extended Summer Demand Resource, Limited Demand Resource or Energy Efficiency Resource on which such Sell Offer is based;

b) Minimum and maximum megawatt quantity of installed capacity that the Capacity Market Seller is willing to offer (notwithstanding such specification, the product offered shall be Unforced Capacity), or designate as Self-Supply, from a Generation Capacity Resource;

i) Price, in dollars and cents per megawatt-day, that will be accepted by the Capacity Market Seller for the megawatt quantity of Unforced Capacity offered from such Generation Capacity Resource.

ii) The Sell Offer may take the form of offer segments with varying price-quantity pairs for varying output levels from the underlying resource, but may not take the form of an offer curve with nonzero slope.

c) EFORD of each Generation Capacity Resource offered.

i) If a Capacity Market Seller is offering such resource in a Base Residual Auction, First Incremental Auction, Second Incremental Auction, or Conditional Incremental Auction occurring before the Third Incremental Auction, the Capacity Market Seller shall specify the EFORD to apply to the offer.

ii) If a Capacity Market Seller is committing the resource as Self-Supply, the Capacity Market Seller shall specify the EFORD to apply to the commitment.

iii) The EFORD applied to the Third Incremental Auction will be the final EFORD established by the Office of the Interconnection six (6) months prior to the Delivery Year, based on the actual EFORD in the PJM Region during the 12-month period ending September 30 that last precedes such Delivery Year.

d) The Nominated Demand Resource Value for each Demand Resource offered and the Nominated Energy Efficiency Value for each Energy Efficiency Resource offered. The Office of the Interconnection shall, in both cases, convert such value to an Unforced Capacity basis by multiplying such value by the DR Factor times the Forecast Pool Requirement. Demand Resources shall specify the LDA in which the Demand Resource is located, including the

location of such resource within any Zone that includes more than one LDA as identified on Schedule 10.1 of the RAA.

e) A Demand Resource with the potential to qualify as two or more of a Limited Demand Resource, Extended Summer Demand Resource or Annual Demand Resource may submit separate but coupled Sell Offers for each Demand Resource type for which it qualifies at different prices and the auction clearing algorithm will select the Sell Offer that yields the least-cost solution. For such coupled Demand Resource offers, the offer price of an Annual Demand Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Extended Summer Demand Resource offer and the offer price of a Extended Summer Demand Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Limited Demand Resource offer.

f) For a Qualifying Transmission Upgrade, the Sell Offer shall identify such upgrade, and the Office of the Interconnection shall determine and certify the increase in CETL provided by such upgrade. The Capacity Market Seller may offer the upgrade with an associated increase in CETL to an LDA in accordance with such certification, including an offer price that will be accepted by the Capacity Market Seller, stated in dollars and cents per megawatt-day as a price difference between a Capacity Resource located outside such an LDA and a Capacity Resource located inside such LDA; and the increase in CETL into such LDA to be provided by such Qualifying Transmission Upgrade, as certified by the Office of the Interconnection.

#### **5.6.2 Compliance with PJM Credit Policy**

Capacity Market Sellers shall comply with the provisions of the PJM Credit Policy as set forth in Attachment Q to this Tariff, including the provisions specific to the Reliability Pricing Model, *prior to submission of Sell Offers in any Reliability Pricing Model Auction*. A Capacity Market Seller desiring to submit a Credit-Limited Offer shall specify in its Sell Offer the maximum auction credit requirement, in dollars, and the maximum amount of Unforced Capacity, in megawatts, applicable to its Sell Offer.

#### **5.6.3 [reserved]**

#### **5.6.4 Qualifying Transmission Upgrades**

A Qualifying Transmission Upgrade may not be the subject of any Sell Offer in a Base Residual Auction unless it has been approved by the Office of the Interconnection, including certification of the increase in Import Capability to be provided by such Qualifying Transmission Upgrade, no later than 45 days prior to such Base Residual Auction. No such approval shall be granted unless, at a minimum, a Facilities Study Agreement has been executed with respect to such upgrade, and such upgrade conforms to all applicable standards of the Regional Transmission Expansion Plan process.

#### **5.6.5 Market-based Sell Offers**

Subject to section 6, a Market Seller authorized by FERC to sell electric generating capacity at market-based prices, or that is not required to have such authorization, may submit Sell Offers that specify market-based prices in any Base Residual Auction or Incremental Auction.

#### **5.6.6 Availability of Capacity Resources for Sale**

(a) The Office of the Interconnection shall determine the quantity of megawatts of available installed capacity that each Capacity Market Seller must offer in any RPM Auction pursuant to Section 6.6 of Attachment DD, through verification of the availability of megawatts of installed capacity from: (i) all Generation Capacity Resources owned by or under contract to the Capacity Market Seller, including all Generation Capacity Resources obtained through bilateral contract; (ii) the results of prior Reliability Pricing Model Auctions, if any, for such Delivery Year (including consideration of any restriction imposed as a consequence of a prior failure to offer); and (iii) such other information as may be available to the Office of the Interconnection. The Office of the Interconnection shall reject Sell Offers or portions of Sell Offers for Capacity Resources in excess of the quantity of installed capacity that it determines to be available for sale.

(b) The Office of the Interconnection shall determine the quantity of installed capacity available for sale in a Base Residual Auction or Incremental Auction as of the beginning of the period during which Buy Bids and Sell Offers are accepted for such auction, as applicable, in accordance with the time schedule set forth in the PJM Manuals. Removal of a resource from Capacity Resource status shall not be reflected in the determination of available installed capacity unless the associated unit-specific bilateral transaction is approved, the designation of such resource (or portion thereof) as a network resource for the external load is demonstrated to the Office of the Interconnection, or equivalent evidence of a firm external sale is provided prior to the deadline established therefor. The determination of available installed capacity shall also take into account, as they apply in proportion to the share of each resource owned or controlled by a Capacity Market Seller, any approved capacity modifications, and existing capacity commitments established in a prior RPM Auction, an FRR Capacity Plan, Locational UCAP transactions and/or replacement capacity transactions under this Attachment DD. To enable the Office of the Interconnection to make this determination, no bilateral transactions for Capacity Resources applicable to the period covered by an auction will be processed from the beginning of the period for submission of Sell Offers and Buy Bids, as appropriate, for that auction until completion of the clearing determination for such auction. Processing of such bilateral transactions will reconvene once clearing for that auction is completed. A Generation Capacity Resource located in the PJM Region shall not be removed from Capacity Resource status to the extent the resource is committed to service of PJM loads as a result of an RPM Auction, FRR Capacity Plan, Locational UCAP transaction and/or by designation as a replacement resource under this Attachment DD.

(c) In order for a bilateral transaction for the purchase and sale of a Capacity Resource to be processed by the Office of the Interconnection, both parties to the transaction must notify the Office of the Interconnection of the transfer of the Capacity Resource from the seller to the buyer in accordance with procedures established by the Office of the Interconnection and set forth in the PJM Manuals. If a material change with respect to any of the prerequisites for the application of Section 5.6.6 to the Generation Capacity Resource occurs, the Capacity Resource Owner shall immediately notify the Market Monitoring Unit and the Office of the Interconnection.

## **5.7 Buy Bids**

Buy Bids may be submitted in any Incremental Auction. Buy Bids shall specify, as appropriate:

- a) The quantity of Unforced Capacity desired, in increments of 0.1 megawatt;
- b) The maximum price, in dollars and cents per megawatt per day, that will be paid by the buyer for the megawatt quantity of Unforced Capacity desired;
- c) The type of Unforced Capacity desired, i.e., Annual Resource, Extended Summer Demand Resource, or Limited Demand Resource; and
- d) The desired LDA for a replacement Capacity Resource. In the event of delay or cancellation of a Qualifying Transmission Upgrade, the Buy Bid shall specify Capacity Resources in the LDA for which such Qualifying Transmission Upgrade was to increase CETL.

Effective Date: 7/14/2011 - Docket #: ER11-4040-000

## **5.8 Submission of Sell Offers and Buy Bids**

Submission of Sell Offers and Buy Bids shall be subject to the following requirements:

- a) A Sell Offer or Buy Bid that fails to specify a positive megawatt quantity shall be rejected by the Office of the Interconnection.
- b) A Buy Bid that fails to specify price shall be rejected by the Office of the Interconnection. A Sell Offer that fails to either designate such offer as self-scheduled or to specify an offer price shall be rejected by the Office of the Interconnection.
- c) A Buy Bid that fails to designate the type of Unforced Capacity desired, i.e., an Annual Resource, Extended Summer Demand Resource, or Limited Demand Resource, shall be rejected by the Office of the Interconnection.
- d) All Sell Offers and Buy Bids must be received by the Office of the Interconnection during a specified period, as determined by the Office of the Interconnection, in accordance with the PJM Manuals. A Sell Offer or Buy Bid may be withdrawn by a notification of withdrawal received by the Office of the Interconnection at any time during the foregoing period, but may not be withdrawn after such period.
- e) Sell Offers or Buy Bids shall be submitted or withdrawn via the Internet site designated by the Office of the Interconnection; provided, however, that if the Internet site cannot be accessed at any time during the period specified for the applicable auction, a Sell Offer or Buy Bid may be submitted or withdrawn by electronic mail transmitted to the e-mail address, or faxed to the fax number specified by the Office of the Interconnection.
- f) Sell Offers must be based on the Capacity Market Seller's Capacity Resource position at the opening of the auction's bidding window.
- g) The Office of the Interconnection shall accept a Sell Offer only up to the megawatt amount of installed capacity of Capacity Resources owned or controlled by such Capacity Market Seller that has not previously been committed for the applicable Delivery Year.
- h) No Sell Offer shall be accepted from an FRR Entity unless it meets the requirements applicable to such offers under Schedule 8.1 of the Reliability Assurance Agreement.
- i) The Office of the Interconnection shall have final authority to determine whether to accept a Sell Offer in accordance with the terms of the Tariff and the PJM Manuals.

Effective Date: 2/18/2012 - Docket #: ER12-636-000

## **5.9 Time Standard**

All deadlines for the submission or withdrawal of Sell Offers or Buy Bids, or for other purposes specified in this Attachment, shall be determined by the prevailing time observed in the Eastern Time zone.

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

## 5.10 Auction Clearing Requirements

The Office of the Interconnection shall clear each Base Residual Auction and Incremental Auction for a Delivery Year in accordance with the following:

### a) Variable Resource Requirement Curve

The Office of the Interconnection shall determine Variable Resource Requirement Curves for the PJM Region and for such Locational Deliverability Areas as determined appropriate in accordance with subsection (a)(iii) for such Delivery Year to establish the level of Capacity Resources that will provide an acceptable level of reliability consistent with the Reliability Principles and Standards. It is recognized that the variable resource requirement reflected in the Variable Resource Requirement Curve can result in an optimized auction clearing in which the level of Capacity Resources committed for a Delivery Year exceeds the PJM Region Reliability Requirement (less the Forecast RTO ILR Obligation for Delivery Years through May 31, 2012, or less the Short-Term Resource Procurement Target for Delivery Years thereafter) or Locational Deliverability Area Reliability Requirement (less the Forecast Zonal ILR Obligation for Delivery Years through May 31, 2012, or less the Short-Term Resource Procurement Target for Delivery Years thereafter for the Zones associated with such LDA) for such Delivery Year. For any auction, the Updated Forecast Peak Load, and Short-Term Resource Procurement Target applicable to such auction, shall be used.

### i) Methodology to Establish the Variable Resource Requirement Curve

Prior to the Base Residual Auction, in accordance with the schedule in the PJM Manuals, the Office of the Interconnection shall establish the Variable Resource Requirement Curve for the PJM Region as follows:

- Each Variable Resource Requirement Curve shall be plotted on a graph on which Unforced Capacity is on the x-axis and price is on the y-axis;
- The Variable Resource Requirement Curve for the PJM Region shall be plotted by first combining (i) a horizontal line from the y-axis to point (1), (ii) a straight line connecting points (1) and (2), (iii) a straight line connecting points (2) and (3), and (iv) a vertical line from point (3) to the x-axis, where:
  - For point (1), price equals: {the greater of [the Cost of New Entry] or [1.5 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)]} divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus the approved PJM Region Installed Reserve Margin ("IRM")% minus 3%) divided by (100% plus IRM%)] minus the Forecast RTO ILR Obligation for Delivery Years through May 31, 2012 or less the Short-Term Resource Procurement Target for Delivery Years thereafter;

- For point (2), price equals: (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset) divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 1%) divided by (100% plus IRM%)] minus the Forecast RTO ILR Obligation for Delivery Years through May 31, 2012 or less the Short-Term Resource Procurement Target for Delivery Years thereafter; and
- For point (3), price equals [0.2 times (the Cost of New Entry minus the Net Energy and Ancillary Service Revenue Offset)] divided by (one minus the pool-wide average EFORD) and Unforced Capacity equals: [the PJM Region Reliability Requirement multiplied by (100% plus IRM% plus 5%) divided by (100% plus IRM%)] minus the Forecast RTO ILR Obligation for Delivery Years through May 31, 2012 or less the Short-Term Resource Procurement Target for Delivery Years thereafter;

ii) For any Delivery Year, the Office of the Interconnection shall establish a separate Variable Resource Requirement Curve for each LDA for which:

- A. the Capacity Emergency Transfer Limit is less than 1.15 times the Capacity Emergency Transfer Objective, as determined by the Office of the Interconnection in accordance with NERC and Applicable Regional Reliability Council guidelines; or
- B. such LDA had a Locational Price Adder in any one or more of the three immediately preceding Base Residual Auctions; or
- C. such LDA is determined in a preliminary analysis by the Office of the Interconnection to be likely to have a Locational Price Adder, based on historic offer price levels; provided however that for the Base Residual Auction conducted for the Delivery Year commencing on June 1, 2012, the EMAAC, SWMAAC and MAAC LDAs shall employ separate Variable Resource Requirement Curves regardless of the outcome of the above three tests; and provided further that the Office of the Interconnection may establish a separate Variable Resource Requirement Curve for an LDA not otherwise qualifying under the above three tests if it finds that such is required to achieve an acceptable level of reliability consistent with the Reliability Principles and Standards, in which case the Office of the Interconnection shall post such finding, such LDA, and such Variable Resource Requirement Curve on its internet site no later than the March 31 last preceding the Base Residual Auction for such Delivery Year. The same process as set forth in subsection (a)(i) shall be used to establish the Variable Resource Requirement Curve for any such LDA, except that the Locational Deliverability Area Reliability Requirement for

such LDA shall be substituted for the PJM Region Reliability Requirement and the LDA Short-Term Resource Procurement Target shall be substituted for the PJM Region Short-Term Resource Procurement Target. For purposes of calculating the Capacity Emergency Transfer Limit under this section, all generation resources located in the PJM Region that are, or that qualify to become, Capacity Resources, shall be modeled at their full capacity rating, regardless of the amount of capacity cleared from such resource for the immediately preceding Delivery Year.

iii) Procedure for ongoing review of Variable Resource Requirement Curve shape.

Beginning no later than for the Delivery Year that commences June 1, 2015, and continuing no later than for every third Delivery Year thereafter, the Office of the Interconnection shall perform a review of the shape of the Variable Resource Requirement Curve, as established by the requirements of the foregoing subsection. Such analysis shall be based on simulation of market conditions to quantify the ability of the market to invest in new Capacity Resources and to meet the applicable reliability requirements on a probabilistic basis. Based on the results of such review, PJM shall prepare a recommendation to either modify or retain the existing Variable Resource Requirement Curve shape. The Office of the Interconnection shall post the recommendation and shall review the recommendation through the stakeholder process to solicit stakeholder input. If a modification of the Variable Resource Requirement Curve shape is recommended, the following process shall be followed:

- A) If the Office of the Interconnection determines that the Variable Resource Requirement Curve shape should be modified, Staff of the Office of the Interconnection shall propose a new Variable Resource Requirement Curve shape on or before September 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
- B) The PJM Members shall review the proposed modification to the Variable Resource Requirement Curve shape.
- C) The PJM Members shall either vote to endorse the proposed modification, to propose alternate modifications or to recommend no modification by October 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
- D) The PJM Board of Managers shall consider a proposed modification to the Variable Resource Requirement Curve shape, and the Office of the Interconnection shall file any approved modified Variable Resource Requirement Curve shape with the FERC by December 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.

iv) Cost of New Entry

- A) For the Delivery Year commencing on June 1, 2012, and continuing thereafter unless and until changed pursuant to subsection (B) below, the Cost of New Entry for the PJM Region shall be \$112,868 per MW-year. The Cost of New Entry for each LDA shall be determined based upon the Transmission Owner zones that comprise such LDA, as provided in the table below. If an LDA combines transmission zones with differing Cost of New Entry values, the lowest such value shall be used.

Geographic Location Within the PJM Region Encompassing These Zones	Cost of New Entry in \$/MW-Year
PS, JCP&L, AE, PECO, DPL, RECO ("CONE Area 1")	122,040
BGE, PEPCO ("CONE Area 2")	112,868
AEP, Dayton, ComEd, APS, DQL, ATSI, DEOK ("CONE Area 3")	115,479
PPL, MetEd, Penelec ("CONE Area 4")	112,868
Dominion ("CONE Area 5")	112,868

- B) Beginning with the 2013-2014 Delivery Year, the CONE shall be adjusted to reflect changes in generating plant construction costs based on changes in the Applicable H-W Index, in accordance with the following:

(1) The Applicable H-W Index for any Delivery Year shall be the most recently published twelve-month change, at the time CONE values are required to be posted for the Base Residual Auction for such Delivery Year, in the Total Other Production Plant Index shown in the Handy-Whitman Index of Public Utility Construction Costs for the North Atlantic Region for purposes of CONE Areas 1, 2, and 4, for the North Central Region for purposes of CONE Area 3, and for the South Atlantic Region for purposes of CONE Area 5.

(2) The CONE in a CONE Area shall be adjusted prior to the Base Residual Auction for each Delivery Year by applying the Applicable H-W Index for such CONE Area to the Benchmark CONE for such CONE Area.

(3) The Benchmark CONE for a CONE Area shall be the CONE used for such CONE Area in the Base Residual Auction for the prior Delivery Year.

(4) Notwithstanding the foregoing, CONE values for any CONE Area for any Delivery Year shall be subject to amendment pursuant to appropriate filings with FERC under

the Federal Power Act, including, without limitation, any filings resulting from the process described in section 5.10(a)(vii)(C) or any filing to establish new or revised CONE Areas.

v) Net Energy and Ancillary Services Revenue Offset

A) The Office of the Interconnection shall determine the Net Energy and Ancillary Services Revenue Offset each year for the PJM Region as (A) the annual average of the revenues that would have been received by the Reference Resource from the PJM energy markets during a period of three consecutive calendar years preceding the time of the determination, based on (1) the heat rate and other characteristics of such Reference Resource; (2) fuel prices reported during such period at an appropriate pricing point for the PJM Region with a fuel transmission adder appropriate for such region, as set forth in the PJM Manuals, assumed variable operation and maintenance expenses for such resource of \$6.47 per MWh, and actual PJM hourly average Locational Marginal Prices recorded in the PJM Region during such period; and (3) an assumption that the Reference Resource would be dispatched for both the Day-Ahead and Real-Time Energy Markets on a Peak-Hour Dispatch basis; plus (B) ancillary service revenues of \$2,199 per MW-year.

B) The Office of the Interconnection also shall determine a Net Energy and Ancillary Service Revenue Offset each year for each sub-region of the PJM Region for which the Cost of New Entry is determined as identified above, using the same procedures and methods as set forth in the previous subsection; provided, however, that: (1) the average hourly LMPs for the Zone in which the Reference Resource was assumed to be installed for purposes of the CONE estimate (as specified in the PJM Manuals) shall be used in place of the PJM Region average hourly LMPs; (2) if such sub-region was not integrated into the PJM Region for the entire applicable period, then the offset shall be calculated using only those whole calendar years during which the sub-region was integrated; and (3) a posted fuel pricing point in such sub-region, if available, and (if such pricing point is not available) a fuel transmission adder appropriate to each assumed Cost of New Entry location from an appropriate PJM Region pricing point shall be used for each such sub-region.

vi) Adjustment to Net Energy and Ancillary Services Revenue Offset

Beginning with the Base Residual Auction scheduled for May 2010, the Net Energy and Ancillary Services Revenue Offset for a CONE Area shall be adjusted following any Delivery Year during which Scarcity Pricing was effective in such CONE Area pursuant to the Scarcity Pricing provisions of section 6A of Schedule 1 to the PJM Operating Agreement. Following

each Delivery Year, the Scarcity Pricing revenues the Reference Resource in each CONE Area would have received during such Delivery Year shall be calculated based on the assumed heat rate and other characteristics of the Reference Resource, assumed Peak-Hour Dispatch, and the actual locational marginal prices and actual fuel prices during the Delivery Year for the applicable location, which shall be the transmission zone in which such resource was assumed to be installed for purposes of the estimate of CONE applicable to such CONE Area. The Scarcity Pricing revenues so determined shall be subtracted from the Net CONE otherwise calculated for such CONE Area for use in the Base Residual Auction next occurring after the Delivery Year in which Scarcity Pricing was effective in such CONE Area.

vii) Process for Establishing Parameters of Variable Resource Requirement Curve

- A) The parameters of the Variable Resource Requirement Curve will be established prior to the conduct of the Base Residual Auction for a Delivery Year and will be used for such Base Residual Auction.
- B) The Office of the Interconnection shall determine the PJM Region Reliability Requirement and the Locational Deliverability Area Reliability Requirement for each Locational Deliverability Area for which a Variable Resource Requirement Curve has been established for such Base Residual Auction on or before February 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values will be applied, in accordance with the Reliability Assurance Agreement.
- C) Beginning no later than for the Delivery Year that commences June 1, 2015, and continuing no later than for every third Delivery Year thereafter, the Office of the Interconnection shall review the calculation of the Cost of New Entry for each CONE Area.
  - 1) If the Office of the Interconnection determines that the Cost of New Entry values should be modified, the Staff of the Office of the Interconnection shall propose new Cost of New Entry values on or before September 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
  - 2) The PJM Members shall review the proposed values.
  - 3) The PJM Members shall either vote to endorse the proposed values or propose alternate values by October 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.

- 4) The PJM Board of Managers shall consider Cost of New Entry values, and the Office of the Interconnection shall file any approved modified Cost of New Entry values with the FERC by December 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.
- D) Beginning no later than for the Delivery Year that commences June 1, 2015, and continuing no later than for every third Delivery Year thereafter, the Office of the Interconnection shall review the methodology set forth in this Attachment for determining the Net Energy and Ancillary Services Revenue Offset for the PJM Region and for each Zone.
- 1) If the Office of the Interconnection determines that the Net Energy and Ancillary Services Revenue Offset methodology should be modified, Staff of the Office of the Interconnection shall propose a new Net Energy and Ancillary Services Revenue Offset methodology on or before September 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new methodology would be applied.
  - 2) The PJM Members shall review the proposed methodology.
  - 3) The PJM Members shall either vote to endorse the proposed methodology or propose an alternate methodology by October 31, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new methodology would be applied.
  - 4) The PJM Board of Managers shall consider the Net Revenue Offset methodology, and the Office of the Interconnection shall file any approved modified Net Energy and Ancillary Services Revenue Offset values with the FERC by December 1, prior to the conduct of the Base Residual Auction for the first Delivery Year in which the new values would be applied.

b) Locational Requirements

The Office of Interconnection shall establish locational requirements prior to the Base Residual Auction to quantify the amount of Unforced Capacity that must be committed in each Locational Deliverability Area, in accordance with the PJM Reliability Assurance Agreement.

c) Minimum Annual Resource Requirements

Prior to the Base Residual Auction and each Incremental Auction for each Delivery Year, beginning with the Delivery Year that starts on June 1, 2014, the Office of the Interconnection shall establish the Minimum Annual Resource Requirement and the Minimum Extended Summer Resource Requirement for the PJM Region and for each Locational Deliverability Area for which the Office of the Interconnection is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year.

d) Preliminary PJM Region Peak Load Forecast for the Delivery Year

The Office of the Interconnection shall establish the Preliminary PJM Region Load Forecast for the Delivery Year in accordance with the PJM Manuals by February 1, prior to the conduct of the Base Residual Auction for such Delivery Year.

e) Updated PJM Region Peak Load Forecasts for Incremental Auctions

The Office of the Interconnection shall establish the updated PJM Region Peak Load Forecast for a Delivery Year in accordance with the PJM Manuals by February 1, prior to the conduct of the First, Second, and Third Incremental Auction for such Delivery Year.

Effective Date: 1/31/2012 - Docket #: ER12-513-001

### **5.11 Posting of Information Relevant to the RPM Auctions**

a) In accordance with the schedule provided in the PJM Manuals, PJM will post the following information for a Delivery Year prior to conducting the Base Residual Auction for such Delivery Year:

i) The Preliminary PJM Region Peak Load Forecast (for the PJM Region, and allocated to each Zone) and, for Delivery Years through May 31, 2012, the ILR Forecast by Locational Deliverability Area;

ii) The PJM Region Installed Reserve Margin, the Pool-wide average EFORD, and the Forecast Pool Requirement;

iii) The Demand Resource Factor;

iv) The PJM Region Reliability Requirement, and the Variable Resource Requirement Curve for the PJM Region;

v) The Locational Deliverability Area Reliability Requirement and the Variable Resource Requirement Curve for each Locational Deliverability Area for which a separate Variable Resource Requirement Curve has been established for such Base Residual Auction, and the CETO and CETL values for all Locational Deliverability Areas;

vi) For Delivery Years starting with June 1, 2014, the Minimum Annual Resource Requirement and the Minimum Extended Summer Resource Requirement for the PJM Region and for each Locational Deliverability Area for which PJM is required under section 5.10(a) of this Attachment DD to establish a separate VRR Curve for such Delivery Year;

vii) Any Transmission Upgrades that are expected to be in service for such Delivery Year, provided that a Transmission Upgrade that is Backbone Transmission satisfies the project development milestones set forth in section 5.11A;

viii) The bidding window time schedule for each auction to be conducted for such Delivery Year;

ix) The Net Energy and Ancillary Services Revenue Offset values for the PJM Region for use in the Variable Resource Requirement Curves for the PJM Region and each Locational Deliverability Area for which a separate Variable Resource Requirement Curve has been established for such Base Residual Auction; and

x) The results of the Preliminary Market Structure Screen in accordance with section 6.2(a).

b) The information listed in (a) will be posted and applicable for the First, Second, Third, and Conditional Incremental Auctions for such Delivery Year, except to the extent updated as required by other provisions of this Tariff.

c) In accordance with the schedule provided in the PJM Manuals, PJM will post the Final PJM Region Peak Load Forecast and the allocation to each zone of the obligation resulting from such final forecast, following the completion of the final Incremental Auction (including any Conditional Incremental Auction) conducted for such Delivery Year;

d) In accordance with the schedule provided in the PJM Manuals, PJM will advise owners of Generation Capacity Resources of the updated EFORD values for such Generation Capacity Resources prior to the conduct of the Third Incremental Auction for such Delivery Year.

e) After conducting the Reliability Pricing Model Auctions, PJM will post the results of each auction as soon thereafter as possible. The posted results shall include graphical supply curves that are (a) provided for the entire PJM Region, (b) provided for any Locational Deliverability Area for which there are four (4) or more suppliers, and (c) developed using a formulaic approach to smooth the curves using a statistical technique that fits a smooth curve to the underlying supply curve data while ensuring that the point of intersection between supply and demand curves is at the market clearing price.

If PJM discovers an error in the initial posting of auction results for a particular Reliability Pricing Model Auction, it shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 5:00 p.m. of the fifth business day following the initial publication of the results of the auction. After this initial notification, if PJM determines it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the seventh business day following the initial publication of the results of the auction. Thereafter, PJM must post on its Web site any corrected auction results by no later than 5:00 p.m. of the tenth business day following the initial publication of the results of the auction. Should any of the above deadlines pass without the associated action on the part of the Office of the Interconnection, the originally posted results will be considered final. Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced auction results are under publicly noticed review by the FERC.

Effective Date: 7/14/2011 - Docket #: ER11-4040-000

### **5.11A Backbone Transmission Upgrade Project Development Milestones**

A Transmission Upgrade including transmission facilities at voltages of 500 kV or higher that is in an approved Regional Transmission Expansion Plan ("Backbone Transmission") shall be included in the system model for an RPM Auction only if it satisfies the project development milestones set forth in this section.

#### **a) Base Residual Auction**

Backbone Transmission shall be included in the system model used for a Base Residual Auction only if:

i) No later than 60 days before posting of the planning parameters for the Base Residual Auction, a corporate officer of the project sponsor submits a current critical path project development schedule containing intermediate milestones and showing the project in full commercial operation no later than the start of the Delivery Year corresponding to such Base Residual Auction, and must certify that such schedule is reasonably achievable based on information then known to and reasonably anticipated by the project sponsor. Such notice must identify all states in which such project is subject to the requirement to obtain a certificate of public convenience and necessity, or functional equivalent approval or licensure requirement, and must describe the nature and current status of such approval requirement;

ii) such development schedule additionally must show the scope, schedule, and current status of all other key milestones, including, at a minimum, right-of-way acquisition, engineering design, equipment procurement, construction permitting, and construction activities;

iii) applications for certificates of public convenience and necessity (or for equivalent approval) have been filed in all states applicable to such project that have such requirement.

#### **b) Incremental Auctions**

A Backbone Transmission project shall be included in the system models for Incremental Auctions only if the following requirements are satisfied no later than 60 days before each Incremental Auction, as indicated below:

i) a corporate officer submits, and certifies to, an updated project development schedule for the First Incremental Auction that shows, among other things, that 50% of the right-of-way by linear distance has been secured;

ii) a corporate officer submits, and certifies to, an updated project development schedule for the Second Incremental Auction that shows, among other things, that 75% of the right-of-way by linear distance has been secured, and that all certificates of public convenience and necessity (or equivalent approvals) have been issued by the responsible regulatory bodies;

iii) a corporate officer submits, and certifies to, an updated project development schedule for the Third Incremental Auction that shows, among other things, that 100% of the right-of-way by linear distance has been secured.

c) Audit, Removal from System Model, and Reinstatement in System Model

i) for the Backbone Transmission project to remain in the applicable system model, the Office of the Interconnection or independent third party with established expertise in such area must audit the project development schedule and affirm, no later than 30 days before each applicable auction, that the schedule is reasonable and remains on progress to full commercial operation prior to the commencement of the relevant Delivery Year. Audits may include site visits as deemed necessary by the auditor to verify progress.

ii) a Backbone Transmission project that fails to satisfy any of the requirements indicated for the Base Residual Auction shall not be included in the system model for such Base Residual Auction or any Incremental Auction for the relevant Delivery Year. A Backbone Transmission project that fails to satisfy any of the requirements indicated for an Incremental Auction shall not be included in the system model for such Incremental Auction or any subsequent Incremental Auction for the relevant Delivery Year.

iii) a Backbone Transmission project that is excluded from the system model for any RPM Auction for a Delivery Year may be included in the system model for RPM Auctions for a subsequent Delivery Year only if it demonstrates that all deficiencies have been cured and the project is on schedule for full commercial operation prior to such subsequent Delivery Year.

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

## 5.12 Conduct of RPM Auctions

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

### a) Base Residual Auction

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

- all Sell Offers submitted in such auction;
- the Variable Resource Requirement Curves for the PJM Region and each LDA;
- any constraints resulting from the Locational Deliverability Requirement;
- *for Delivery Years starting with June 1, 2014, the Minimum Annual Resource Requirement and the Minimum Extended Summer Resource Requirement for the PJM Region and for each Locational Deliverability Area for which a separate VRR Curve is required by section 5.10(a) of this Attachment DD;*
- the PJM Region Reliability Requirement, minus, for Delivery Years through May 31, 2012, the Forecast RTO ILR Obligation and, for Delivery Years thereafter, minus the Short-Term Resource Procurement Target.

The optimization algorithm shall be applied to calculate the overall clearing result to minimize the cost of satisfying the reliability requirements across the PJM Region, regardless of whether the quantity clearing the Base Residual Auction is above or below the applicable target quantity, while respecting all applicable requirements and constraints, including any restrictions specified in any Credit-Limited Offers. Where the supply curve formed by the Sell Offers submitted in an auction falls entirely below the Variable Resource Requirement Curve, the auction shall clear at the price-capacity point on the Variable Resource Requirement Curve corresponding to the total Unforced Capacity provided by all such Sell Offers. Where the supply curve consists only of Sell Offers located entirely below the Variable Resource Requirement Curve and Sell Offers located entirely above the Variable Resource Requirement Curve, the auction shall clear at the price-capacity point on the Variable Resource Requirement Curve corresponding to the total Unforced Capacity provided by all Sell Offers located entirely below the Variable Resource Requirement Curve. In determining the lowest-cost overall clearing result that satisfies all applicable constraints and requirements, the optimization may select from among multiple possible alternative clearing results that satisfy such requirements, including, for example (without limitation by such example), accepting a lower-priced Sell Offer that intersects the Variable Resource Requirement Curve and that specifies a minimum capacity block, accepting a higher-priced Sell Offer that intersects the Variable Resource Requirement Curve and that

contains no minimum-block limitations, or rejecting both of the above alternatives and clearing the auction at the higher-priced point on the Variable Resource Requirement Curve that corresponds to the Unforced Capacity provided by all Sell Offers located entirely below the Variable Resource Requirement Curve.

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

b) Scheduled Incremental Auctions

For purposes of a Scheduled Incremental Auction, the optimization algorithm shall consider:

- The PJM Region Reliability Requirement, less the Forecast RTO ILR Obligation or Short-term Resource Procurement Target, as applicable;
- Updated LDA Reliability Requirements taking into account any updated Capacity Emergency Transfer Objectives;
- the Capacity Emergency Transfer Limit used in the Base Residual Auction, or any updated value resulting from a Conditional Incremental Auction;
- For each LDA, such LDA's updated Reliability Requirement, less the Forecast LDA ILR Obligation or Short-Term Resource Procurement Target, as applicable;
- *for Delivery Years starting with June 1, 2014, the Minimum Annual Resource Requirement and the Minimum Extended Summer Resource Requirement for the PJM Region and for each LDA for which PJM is required to establish a separate VRR Curve for the Base Residual Auction for the relevant Delivery Year;*
- A demand curve consisting of the Buy Bids submitted in such auction and, if indicated for use in such auction in accordance with the provisions below, the Updated VRR Curve Increment;
- The Sell Offers submitted in such auction; and
- The Unforced Capacity previously committed for such Delivery Year.

(i) When the requirement to seek additional resource commitments in a Scheduled Incremental Auction is triggered by section 5.4(c)(2) of this Attachment, the Office of the Interconnection shall employ in the clearing of such auction the Updated VRR Curve Increment.

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

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

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

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

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

(vii) The optimization algorithm shall calculate the overall clearing result to minimize the cost to satisfy the Unforced Capacity Obligation of the PJM Region to account for the updated PJM Peak Load Forecast and the cost of committing replacement capacity in response to the Buy Bids submitted, while satisfying or honoring such reliability requirements and constraints, in the same manner as set forth in subsection (a) above.

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

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

c) Conditional Incremental Auction

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

- The quantity and location of capacity required to address the identified reliability concern that gave rise to the Conditional Incremental Auction;

- the same Capacity Emergency Transfer Limits that were modeled in the Base Residual Auction, or any updated value resulting from a Conditional Incremental Auction; and
- the Sell Offers submitted in such auction.

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

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

d) Equal-priced Sell Offers

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

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

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

Effective Date: 6/17/2011 - Docket #: ER11-3365-000

### **5.13 Certification of ILR**

For any Delivery Year up to and including the Delivery Year that commences on June 1, 2011, ILR Providers may submit, no later than three months prior to the start of such Delivery Year, resources for review and certification by the Office of the Interconnection, in accordance with Attachment DD-1, the Reliability Assurance Agreement, and the PJM Manuals, as ILR Resources for the Delivery Year; provided, however, that for the 2011-2012 Delivery Year only, the ILR certification deadline shall be no later than two months prior to the first day of such Delivery Year. In accordance with Attachment DD-1 and Schedule 6 of the Reliability Assurance Agreement, ILR Providers must provide the Nominated ILR Value for the ILR resources certified. Provided, however, an ILR Provider may, by written notice to the Office of the Interconnection no later than one day prior to the start of the relevant Delivery Year, withdraw certified ILR. In such event, the ILR Provider shall receive no ILR Credit, and any adjustments to the applicable load charges made in anticipation of such certified ILR shall be allocated to Load Serving Entities in all Zones on a load ratio share basis.

If the Certified ILR Obligation, adjusted for any ILR withdrawn as above, exceeds the Forecast ILR Obligation for the LDA, the excess will be allocated to the Load Serving Entities that are charged a Locational Reliability Charge, provided the amount does not exceed the ratio (MW) of increase in load charges (due to higher Certified ILR) divided by Final Zonal ILR Price within the LDA. These "Excess ILR MW Credits" shall be allocated based on the Daily Unforced Capacity Obligation of Load Serving Entities as of June 1 of the Delivery Year and shall be constant for the entire Delivery Year. Excess ILR MW Credits may be used as Replacement Capacity or traded bilaterally.

Effective Date: 9/17/2010 - Docket #: ER10-2710-000

## **5.14 Clearing Prices and Charges**

### **a) Capacity Resource Clearing Prices**

For each Base Residual Auction and Incremental Auction, the Office of the Interconnection shall calculate a clearing price to be paid for each megawatt-day of Unforced Capacity that clears in such auction. The Capacity Resource Clearing Price for each LDA will be the sum of the following: (1) the marginal value of system capacity for the PJM Region, without considering locational constraints, (2) the Locational Price Adder, if any in such LDA, (3) the Annual Resource Price Adder, if any, and (4) the Extended Summer Resource Price Adder, if any, all as determined by the Office of the Interconnection based on the optimization algorithm. If a Capacity Resource is located in more than one Locational Deliverability Area, it shall be paid the highest Locational Price Adder in any applicable LDA in which the Sell Offer for such Capacity Resource cleared. The Annual Resource Price Adder is applicable for Annual Resources only. The Extended Summer Resource Price Adder is applicable for Annual Resources and Extended Summer Demand Resources.

### **b) Resource Make-Whole Payments**

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

### **c) New Entry Price Adjustment**

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

1. Such Capacity Market Seller provides notice of such election at the time it submits its Sell Offer for such resource in the BRA for the first Delivery Year for which such resource is eligible to be considered a Planned Generation Capacity Resource;

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

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

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

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

- (i) in the first Delivery Year, the Resource sets the Capacity Resource Clearing Price for the LDA and all cleared resources in the LDA receive the Capacity Resource Clearing Price set by the Sell Offer as the marginal offer, in accordance with sections 5.12(a) and 5.14(a).
- (ii) in either of the subsequent two BRAs, if any part of the Sell Offer from the Resource clears, it shall receive the Capacity Resource Clearing Price for such LDA for its cleared capacity and for any additional minimum block quantity pursuant to section 5.14(b); or
- (iii) if the Resource does not clear, it shall be deemed resubmitted at the highest price per MW-day at which the megawatt quantity of Unforced Capacity of such Resource that cleared the first-year BRA will clear the subsequent-year BRA pursuant to the optimization algorithm described in section 5.12(a) of this Attachment, and
- (iv) the resource with its Sell Offer submitted shall clear and shall be committed to the PJM Region in the amount cleared, plus any additional minimum-block quantity from its Sell Offer for such Delivery Year, but such additional amount shall be no greater than the portion of a minimum-block quantity, if any, from its first-year Sell Offer satisfying section 5.14(c)(1)-(3) that is entitled to compensation pursuant to section 5.14(b) of this Attachment; and

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

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

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

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

d) Qualifying Transmission Upgrade Payments

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

e) Locational Reliability Charge

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

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

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

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

iii) The Office of the Interconnection shall, through May 31, 2012, calculate and post the Final Zonal Capacity Price after all ILR resources are certified for the Delivery Years and, thereafter, shall calculate and post such price after the final auction is held for such Delivery Year, as set forth above. The Final Zonal Capacity Price for each Zone shall equal the Adjusted Zonal Capacity Price, as further adjusted (for the Delivery Years through May 31, 2012) to reflect the certified ILR compared to the ILR Forecast previously used for such

Delivery Year, and any decreases in the Nominated Demand Resource Value of any existing Demand Resource cleared in the Base Residual Auction and Second Incremental Auction. For such purpose, for the three consecutive Delivery Years ending May 31, 2012 only, the Forecast ILR allocated to loads located in the AEP transmission zone that are served under the Reliability Pricing Model shall be in proportion for each such year to the load ratio share of such RPM loads compared to the total peak loads of such zone for such year; and any remaining ILR Forecast that otherwise would be allocated to such loads shall be allocated to all Zones in the PJM Region pro rata based on their Preliminary Zonal Peak Load Forecasts.

g) Resource Substitution Charge

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

h) Minimum Offer Price Rule for Certain Planned Generation Capacity Resources

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

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

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

(3) For purposes of this provision, the net energy and ancillary services revenue estimate for a combustion turbine generator shall be that determined by section 5.10(a)(v)(A) of this Attachment DD, provided that the energy revenue estimate for each CONE Area shall be based on the Zone within such CONE Area that has the highest energy revenue estimate calculated under the methodology in that subsection. The net energy and ancillary services revenue estimate for a combined cycle generator shall be determined in the same manner as that prescribed for a combustion turbine generator in the previous sentence, except that the heat rate assumed for the combined cycle resource shall be 6.722 MMbtu/Mwh, the variable operations and maintenance expenses for such resource shall be \$3.23 per MWh, the Peak-Hour Dispatch scenario for both the Day-Ahead and Real-Time Energy Markets shall be modified to dispatch the CC resource continuously during the full peak-hour period, as described in section 2.46, for each such period that the resource is economic (using the test set forth in such section), rather than only during the four-hour blocks within such period that such resource is economic, and the ancillary service revenues shall be \$3198 per MW-year.

(4) *Any Sell Offer that is based on*

(i) *a Planned Generation Capacity Resource located in the PJM Region that is submitted in an RPM Auction for a Delivery Year unless a Sell Offer based on that resource has cleared an RPM Auction for that or any prior Delivery Year, or until a Sell Offer based on that resource clears an RPM auction for that or any subsequent Delivery Year; or*

(ii) *a Planned External Generation Capacity Resource that requires sufficient transmission investment for delivery to the PJM Region to indicate a long-term commitment to providing capacity to the PJM Region, for the first Delivery Year in which such resource qualifies as a Planned External Generation Capacity Resource, or submitted in any RPM Auction for that or any subsequent Delivery Year until an offer based on that resource first clears an RPM Auction,*

in any LDA for which a separate VRR Curve is established for use in the Base Residual Auction for the Delivery Year relevant to the RPM Auction in which such offer is submitted, and that is less than 90 percent of the applicable Net Asset Class Cost of New Entry or, if there is no applicable Net Asset Class Cost of New Entry, less than 70 percent of the Net Asset Class Cost of New Entry for a combustion turbine generator as provided in subsection (h)(1) above shall be set to equal 90 percent of the applicable Net Asset Class Cost of New Entry (or set equal to 70 percent of such cost for a combustion turbine, where there is no otherwise applicable net asset class figure), unless the Capacity Market Seller obtains the prior determination from the Office of the Interconnection described in subsection (5) hereof. This provision applies to Sell Offers submitted in Incremental Auctions conducted after December 19, 2011, provided that the Net Asset Class Cost of New Entry values for any such Incremental Auctions for the 2012-13 or 2013-14 Delivery Years shall be the Net Asset Class Cost of New Entry values posted by the Office of the Interconnection for the Base Residual Auction for the 2014-15 Delivery Year.

(5) A Sell Offer meeting the criteria in subsection (4) shall be permitted and shall not be re-set to the price level specified in that subsection if the Capacity Market Seller

obtains a determination from the Office of the Interconnection prior to the RPM Auction in which it seeks to submit the Sell Offer, that such Sell Offer is permissible because it is consistent with the competitive, cost-based, fixed, net cost of new entry were the resource to rely solely on revenues from PJM-administered markets. The following process and requirements shall apply to requests for such determinations:

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

(ii) As more fully set forth in the PJM Manuals, the Capacity Market Seller must include in its request for an exception under this subsection documentation to support the fixed development, construction, operation, and maintenance costs of the planned generation resource, as well as estimates of offsetting net revenues. Estimates of costs or revenues shall be supported at a level of detail comparable to the cost and revenue estimates used to support the Net Asset Class Cost of New Entry established under this section 5.14(h). As more fully set forth in the PJM Manuals, supporting documentation for project costs may include, as applicable and available, a complete project description; environmental permits; vendor quotes for plant or equipment; evidence of actual costs of recent comparable projects; bases for electric and gas interconnection costs and any cost contingencies; bases and support for property taxes, insurance, operations and maintenance ("O&M") contractor costs, and other fixed O&M and administrative or general costs; financing documents for construction-period and permanent financing or evidence of recent debt costs of the seller for comparable investments; and the bases and support for the claimed capitalization ratio, rate of return, cost-recovery period, inflation rate, or other parameters used in financial modeling. Such documentation also shall identify and support any sunk costs that the Capacity Market Seller has reflected as a reduction to its Sell Offer. The request shall include a certification, signed by an officer of the Capacity Market Seller, that the claimed costs accurately reflect, in all material respects, the seller's reasonably expected costs of new entry and that the request satisfies all standards for an exception hereunder. The request also shall identify all revenue sources relied upon in the Sell Offer to offset the claimed fixed costs, including, without limitation, long-term power supply contracts, tolling agreements, or tariffs on file with state regulatory agencies, and shall demonstrate that such offsetting revenues are consistent, over a reasonable time period identified by the Capacity Market Seller, with the standard prescribed above. In making such demonstration, the Capacity Market Seller may rely upon forecasts of competitive electricity prices in the PJM Region based on well defined models that include fully

documented estimates of future fuel prices, variable operation and maintenance expenses, energy demand, emissions allowance prices, and expected environmental or energy policies that affect the seller's forecast of electricity prices in such region, employing input data from sources readily available to the Office of the Interconnection and the Market Monitoring Unit. Documentation for net revenues also may include, as available and applicable, plant performance and capability information, including heat rate, start-up times and costs, forced outage rates, planned outage schedules, maintenance cycle, fuel costs and other variable operations and maintenance expenses, and ancillary service capabilities. In addition to the documentation identified herein and in the PJM Manuals, the Capacity Market Seller shall provide any additional supporting information requested by the Office of the Interconnection or the Market Monitoring Unit to evaluate the Sell Offer.

(iii) A Sell Offer evaluated hereunder shall be permitted if the information provided reasonably demonstrates that the Sell Offer's competitive, cost-based, fixed, net cost of new entry is below the minimum offer level prescribed by subsection (4), based on competitive cost advantages relative to the costs estimated for subsection (4), including, without limitation, competitive cost advantages resulting from the Capacity Market Seller's business model, financial condition, tax status, access to capital or other similar conditions affecting the applicant's costs, or based on net revenues that are reasonably demonstrated hereunder to be higher than estimated for subsection (4). Capacity Market Sellers shall be asked to demonstrate that claimed cost advantages or sources of net revenue that are irregular or anomalous, that do not reflect arm's-length transactions, or that are not in the ordinary course of the Capacity Market Seller's business are consistent with the standards of this subsection. Failure to adequately support such costs or revenues so as to enable the Office of the Interconnection to make the determination required in this section will result in denial of an exception hereunder by the Office of the Interconnection.

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

i) Capacity Export Charges and Credits

(1) Charge

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

## (2) Credit

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

Export Customer's Allocated Share equals

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

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

Where:

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

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

## (3) Distribution of Revenues

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

Locational Reliability Charge for such Delivery Year, pro rata based on the Daily Unforced Capacity Obligations of such Load-serving Entities in such Zone during such Delivery Year. If

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

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

A. *This Transition Provision applies only with respect to Demand Resources cleared in the Base Residual Auction for any or all of the 2012/2013, 2013/2014, or 2014/2015 Delivery Years (hereafter, "Transition Delivery Years" and each a "Transition Delivery Year") by a Curtailment Service Provider as an aggregator of end-use customers registered for the Emergency Load Response Program as Full Program Option or Capacity Only Option. A Curtailment Service Provider meeting the description of the preceding sentence is hereafter in this Section 5.14A referred to as a "Qualified DR Provider."*

B. *In the event that a Qualified DR Provider concludes that its cleared Demand Resource for a Transition Delivery Year is not viable under the revised Reporting and Compliance provisions of the Emergency Load Response Program which became effective on November 7, 2011, pursuant to the Commission's order issued on November 4, 2011, in Docket No. ER11-3322-000 (137 FERC ¶ 61,108), the Qualified DR Provider must so inform PJM in writing by no later than 30 days prior to the next Incremental Auction for the Transition Delivery Year for which the identified Demand Resource was cleared. A Qualified DR Provider that does not timely provide the notice described in this paragraph shall be excluded from application of the remainder of this Transition Provision.*

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

$$DRTC = (IAP - BRP) * DRMW$$

*Where:*

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

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

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

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

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

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

- 1. The Qualified DR Provider must provide timely notice to PJM in accordance with paragraph B of this Transition Provision, and*
- 2. The Qualified DR Provider must demonstrate to PJM's reasonable satisfaction, not later than 60 days prior to the start of the applicable Transition Delivery Year, that*
  - a. the Qualified DR Provider entered into contractual arrangements on or before April 7, 2011, with one or more end-use customers registered for the Emergency Load Response Program as Full Program Option or Capacity Only Option,*
  - b. under which the Qualified DR Provider is unavoidably obligated to pay to such end-use customers during the relevant Transition Delivery Year*
  - c. an aggregate amount that exceeds the amount for the same Transition Delivery Year which equals:*

*(i) the amount to which the Qualified DR Provider was entitled for its Demand Resource at the applicable clearing price in the Base Residual Auction, plus*

*(ii) any monetary gains the Qualified DR Provider realizes from purchases of Capacity Resources in Incremental Auctions for the same Transition Delivery Year to replace resources (including, but not limited to, any Demand Resource which is the subject of a notice by the Qualified DR Provider to PJM pursuant to paragraph B above) that the Qualified DR Provider cleared in the applicable Base Residual Auction,*

*(iii) where "monetary gains" for the purpose of clause (ii) shall be any*

*positive difference between (A) the aggregate amount the Qualified DR Provider is entitled to receive in payment for any Demand Resource it cleared in the Base Residual Auction, and (B) the aggregate amount the provider is obligated to pay for capacity resources it purchased in the applicable Incremental Auctions to replace any Demand Resource the provider cleared in the Base Residual Auction.*

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

Effective Date: 1/31/2012 - Docket #: ER12-513-001

## **5.15 Capacity Transfer Rights**

(a) To recognize the value of Import Capability and provide a partial offset to potential Locational Price Adders that may be determined for an LDA (as to any Zone that encompasses two or more LDAs, the term "LDA" as used herein shall refer to such Zone, rather than to the LDAs it encompasses), the Office of the Interconnection shall allocate Capacity Transfer Rights to each LSE serving load in such LDA pro rata based on such LSE's Daily Unforced Capacity Obligation in such LDA. The total megawatts of Capacity Transfer Rights available for allocation shall equal the megawatts of Unforced Capacity imported into such LDA determined based on the results of the Base Residual Auction and Incremental Auctions ("Capacity Imported"), less any megawatts of CETL increase into such LDA attributable to Qualifying Transmission Upgrades cleared in an RPM Auction and any Incremental Capacity Transfer Rights into such LDA allocated pursuant to section 5.16 (but not less than zero), and shall be subject to change in subsequent Delivery Years as a result of changes in the quantity of such Capacity Imported into such LDA. Each change in an LSE's Daily Unforced Capacity Obligation during a Delivery Year shall result in a corresponding change in the Capacity Transfer Rights allocated to such LSE.

(b) For LDAs in which the RPM Auctions for the Delivery Year resulted in a positive average weighted Locational Price Adder with respect to the immediate higher level LDA, the holder of the Capacity Transfer Rights in such LDA shall receive a payment during the Delivery Year equal to (i) the average weighted Locational Price Adder for such LDA determined with respect to the immediate higher level LDA as a result of all RPM Auctions for such Delivery Year, multiplied by (ii) the megawatt quantity of the Capacity Transfer Right allocated to such LSE in such LDA.

(c) Capacity Transfer Rights shall be transferable. A purchaser of Capacity Transfer Rights from the original party allocated such rights shall receive any payments due under this section or section 5.16, provided the seller and purchaser of such rights timely notify the Office of the Interconnection of such purchase, in accordance with procedures specified in the PJM manuals.

Effective Date: 2/18/2012 - Docket #: ER12-636-000

## 5.16 Incremental Capacity Transfer Rights

(a) The Office of the Interconnection shall allocate Incremental Capacity Transfer Rights to a New Service Customer (or, for facilities or upgrades in a PJM queue prior to March 1, 2007, to an Interconnection Customer) obligated to fund a transmission facility or upgrade through a rate or charge specific to such facility or upgrade, to the extent such upgrade or facility increases the Import Capability into a Locational Deliverability Area, with respect to any such transmission facility or upgrade interconnected to the Transmission System pursuant to Part IV of this Tariff, including transmission facilities or upgrades interconnected to the Transmission System pursuant to Part IV prior to the effective date of this Attachment. Incremental Capacity Transfer Rights shall be available for a facility or upgrade for a Delivery Year only if the Office of the Interconnection certifies the quantity of Import Capability provided by such facility or upgrade at least 45 days prior to the Base Residual Auction for such Delivery Year. The megawatt quantity of Incremental Capacity Transfer Rights allocated to such a New Service Customer (or Interconnection Customer) shall equal the megawatt quantity of the increase in Import Capability across a locational constraint resulting from such upgrade or facility, provided that the total Incremental Capacity Transfer Rights awarded as to an LDA (including those allocated pursuant to Schedule 12A of the Tariff) may not exceed the total Capacity Transfer Rights determined as to such LDA. A Capacity Market Seller that offers and clears a Qualifying Transmission Upgrade in the Base Residual Auction for a Delivery Year shall not receive Incremental Capacity Transfer Rights with respect to such upgrade for such Delivery Year. Terms and conditions for the allocation of Incremental Capacity Transfer Rights to New Service Customers shall be as further set forth in Part VI of this Tariff, and those for the allocation of Incremental Capacity Transfer Rights to Responsible Customers shall be as further set forth in Schedule 12A of this Tariff.

(b) For LDAs in which the RPM Auctions for such Delivery Year result in a positive average weighted Locational Price Adder with respect to the immediate higher level LDA, the holder of an Incremental Capacity Transfer Right into such LDA shall receive a payment equal to the average weighted Locational Price Adder for the LDA into which the associated facility or upgrade increased Import Capability, multiplied by the megawatt quantity of the Incremental Capacity Transfer Right allocated to such Interconnection Customer.

Effective Date: 2/18/2012 - Docket #: ER12-636-000

## **6. MARKET POWER MITIGATION**

### **6.1 Applicability**

The provisions of the Market Monitoring Plan (in Attachment M and Attachment - M Appendix to this Tariff and this section 6) shall apply to the Reliability Pricing Model Auctions.

### **6.2 Process**

(a) By no later than 90 days (or such other time period as established for purposes of the Transition Period) prior to the conduct of the Base Residual Auction and each Incremental Auction for such Delivery Year, the Office of the Interconnection shall post or continue to post the results of the Market Monitoring Unit's application of the Preliminary Market Structure Screen determined pursuant to section II.D of Attachment M - Appendix.

(b) In accordance with the schedule specified in the PJM Manuals, following PJM's conduct of a Base Residual Auction or Incremental Auction pursuant to section 5.12, but prior to the Office of the Interconnection's final determination of clearing prices and charges pursuant to section 5.14, the Office of the Interconnection shall: (i) apply the Market Structure Test to any LDA having a Locational Price Adder greater than zero and to the entire PJM region; (ii) apply Market Seller Offer Caps, if required under this section 6; and (iii) recompute the optimization algorithm to clear the auction with the Market Seller Offer Caps in place.

(c) Within seven days after the deadline for submission of Sell Offers in a Base Residual Auction or Incremental Auction, the Office of the Interconnection shall file with FERC a report of any determination made pursuant to sections 5.14(h), 6.5(a)(ii), or 6.7(c) identified in such sections as subject to the procedures of this section. Such report shall list each such determination, the information considered in making each such determination, and an explanation of each such determination. Any entity that objects to any such determination may file a written objection with FERC no later than seven days after the filing of the report. Any such objection must not merely allege that the determination was in error, and must provide support for the objection, demonstrating that the determination overlooked or failed to consider relevant evidence. In the event that no objection is filed, the determination shall be final. In the event that an objection is filed, FERC shall issue any decision modifying the determination no later than 60 days after the filing of such report; otherwise, the determination shall be final. Final auction results shall reflect any decision made by FERC regarding the report.

### **6.3 Market Structure Tests**

#### **(a) Preliminary Market Structure Screen.**

The Market Monitoring Unit shall apply the Preliminary Market Structure Screen pursuant to section II.D of Attachment M - Appendix. Potential Capacity Market Sellers owning or controlling any Existing Generation Capacity Resources in the PJM Region shall be required to provide to the Market Monitoring Unit the additional information specified in section II.D of Attachment M - Appendix if such Generation Capacity is located in an LDA, "Unconstrained

LDA Group” (as defined in Attachment M - Appendix), or the entire PJM Region that fails the Preliminary Market Structure Screen, as applied pursuant to section II.D below.

(b) Market Structure Test.

A constrained LDA or the PJM Region shall fail the Market Structure Test, and mitigation shall be applied to all jointly pivotal suppliers (including all Affiliates of such suppliers, and all third-party supply in the relevant LDA controlled by such suppliers by contract), if, as to the Sell Offers that comprise the incremental supply determined pursuant to section 6.3(c) that are based on Generation Capacity Resources, there are not more than three jointly pivotal suppliers. The Office of the Interconnection shall apply the Market Structure Test. The Office of the Interconnection shall confirm the results of the Market Structure Test with the Market Monitoring Unit.

(c) Determination of Incremental Supply

In applying the Market Structure Test, the Office of the Interconnection shall consider all (i) incremental supply (provided, however, that the Office of the Interconnection shall consider only such supply available from Generation Capacity Resources) available to solve the constraint applicable to a constrained LDA offered at less than or equal to 150% of the cost-based clearing price; or (ii) supply for the PJM Region, offered at less than or equal to 150% of the cost-based clearing price, provided that supply in this section includes only the lower of cost-based or priced based offers from Generation Capacity Resources. Cost-based clearing prices are the prices resulting from the RPM auction algorithm using the lower of cost-based or price-based offers for all Capacity Resources.

#### **6.4 Market Seller Offer Caps**

(a) The Market Seller Offer Cap, stated in dollars per MW-day of unforced capacity, applicable to price-quantity offers within the Base Offer Segment for an Existing Generation Capacity Resource shall be the Avoidable Cost Rate for such resource, less the Projected PJM Market Revenues for such resource, stated in dollars per MW of unforced capacity. During the first three Delivery Years of the Transition Period, the Market Seller Offer Cap shall be increased for Sell Offers submitted by eligible Capacity Market Sellers in any Unconstrained LDA Group by the Transition Adder set forth in section 17.5 of this Attachment. The Market Seller Offer Cap for an Existing Generation Capacity Resource shall be the Opportunity Cost for such resource, if applicable, as determined in accordance with section 6.7. Nothing herein shall preclude any Capacity Market Seller and the Market Monitoring Unit from agreeing to, nor require either such entity to agree to, an alternative market seller offer cap determined on a mutually agreeable basis. Any such alternative offer cap shall be filed with the Commission for its approval. This provision is duplicated in section II.E.3 of Attachment M- Appendix.

(b) For each Existing Generation Capacity Resource, a potential Capacity Market Seller must timely provide to the Market Monitoring Unit data and documentation required under section 6.6 to establish the level of the Market Seller Offer Cap applicable to each resource. The Capacity Market Seller must promptly address any concerns identified by the Market Monitoring Unit regarding the data and documentation provided, review the proposed

Market Seller Offer Cap, and attempt to reach agreement with the Market Monitoring Unit on the level of the Market Seller Offer Cap.

(c) If the Market Monitoring Unit informs the Office of the Interconnection that a Capacity Market Seller has failed to submit costs consistent with section 6.7, it shall be required to submit any Sell Offer in the applicable auction as Self-Supply committed regardless of clearing price. If such Capacity Market Seller submits a Sell Offer that is not Self-Supply committed regardless of clearing price, the Market Monitoring Unit may seek relief from the Commission pursuant to section II.E of Attachment M - Appendix.

(d) In the event that a Capacity Market Seller and the Market Monitoring Unit cannot agree on the level of a Market Seller Offer Cap, the Office of the Interconnection shall make its own determination of the level of the Market Seller Offer Cap based on the requirements of the Tariff and the PJM Manuals. If the Capacity Market Seller submits a Sell Offer that the Office of the Interconnection determines would result in an increase of greater than five percent in any Zonal Capacity Price determined through such auction compared to the Office of the Interconnection's determination of the level of the Market Seller Offer Cap, the Office of the Interconnection shall apply to FERC for an order, on an expedited basis, directing such Capacity Market Seller to submit a Sell Offer consistent with the Office of the Interconnection's determination, or for other appropriate relief, and PJM shall postpone clearing the auction pending FERC's decision on the matter. Should the Market Monitoring Unit exercise its powers to inform Commission staff of its concerns and request a determination, on an expedited basis, directing a Capacity Market Seller to submit a Sell Offer consistent with the Market Monitoring Unit's determination, or for other appropriate relief, pursuant to section II.E of Attachment M - Appendix, PJM may postpone clearing the auction pending FERC's decision on the matter.

(e) Nothing in this section precludes the Capacity Market Seller from filing a petition with FERC seeking a determination of whether the Sell Offer complies with the requirements of the Tariff.

(f) Notwithstanding the foregoing, a Capacity Market Seller may submit a Sell Offer that it chooses, provided that (i) it has participated in good faith with the process described in this section 6.4 and in section II.E of Attachment M - Appendix, (ii) the offer is no higher than the level defined in any agreement reached by the Capacity Market Seller and the Market Monitoring Unit that resulted from the foregoing process, and (iii) the offer is accepted by the Office of the Interconnection subject to the criteria set forth in the Tariff and the PJM Manuals.

(g) For any Third Incremental Auction, the Market Seller Offer Cap for an Existing Generation Capacity Resource shall be determined pursuant to paragraph (a) of this Section 6.4, or if elected by the Capacity Market Seller, shall be equal to 1.1 times the Capacity Resource Clearing Price in the Base Residual Auction for the relevant LDA and Delivery Year.

## **6.5 Mitigation**

The Office of the Interconnection shall apply market power mitigation measures in any Base Residual Auction or Incremental Auction for any LDA, Unconstrained LDA Group, or the PJM Region that fails the Market Structure Test.

(a) Mitigation for Generation Capacity Resources.

i) Existing Generation Capacity Resource

Mitigation will be applied on a unit-specific basis and only if the Sell Offer of Unforced Capacity from an Existing Generation Capacity Resource: (1) is greater than the Market Seller Offer Cap applicable to such resource; and (2) would, absent mitigation, increase the Capacity Resource Clearing Price in the relevant auction. If such conditions are met, such Sell Offer shall be set equal to the Market Seller Offer Cap.

ii) Planned Generation Capacity Resources

(A) Sell Offers based on Planned Generation Capacity Resources (including External Planned Generation Capacity Resources) shall be presumed to be competitive and shall not be subject to market power mitigation in any Base Residual Auction or Incremental Auction for which such resource qualifies as a Planned Generation Capacity Resource, but any such Sell Offer shall be rejected if it meets the criteria set forth in subsection (C) below, unless the Capacity Market Seller obtains approval from FERC for use of such offer prior to the deadline for submission of such offers in the applicable auction. Such resources are Existing Generation Capacity Resources in the auctions for any Delivery Year following the Delivery Year for which such resource cleared an RPM Auction. Such resources may receive certain price assurances for the two Delivery Years immediately following the first Delivery Year of service under certain conditions as set forth in section 5.14 of this Attachment. Notwithstanding the foregoing, a Generation Capacity Resource for which construction has not commenced and which would otherwise have been treated as a Planned Generation Capacity Resource but for the fact that it was bid into RPM Auctions for at least two consecutive Delivery Years, and cleared the last such auction only because it was considered existing and its mitigated offer cap was accepted when its price offer would not have otherwise been accepted, shall be deemed to be a Planned Generation Capacity Resource.

(B) Sell Offers based on Planned Generation Capacity Resources (including External Planned Generation Capacity Resources) submitted for the first year in which such resources qualify as Planned Generation Capacity Resources shall be deemed competitive and not be subject to mitigation if: (1) collectively all such Sell Offers provide Unforced Capacity in an amount equal to or greater than two times the incremental quantity of new entry required to meet the LDA Reliability Requirement; and (2) at least two unaffiliated suppliers have submitted Sell Offers for Planned Generation Capacity Resources in such LDA. Notwithstanding the foregoing, any Capacity Market Seller, together with Affiliates, whose Sell Offers based on Planned Generation Capacity Resources in that LDA are pivotal, shall be subject to mitigation.

(C) Where the two conditions stated in subsection (B) are not met, or the Sell Offer is pivotal, the Sell Offer shall be rejected if it exceeds 140 percent of: 1) the average of location-adjusted Sell Offers for Planned Generation Capacity Resources from the same asset class as such Sell Offer, submitted (and not rejected) (Asset-Class New Plant Offers) for such Delivery Year; or 2) if there are no Asset-Class New Plant Offers for such Delivery Year, the average of Asset-Class New Plant Offers for all prior Delivery Years; or 3) if there are no Asset-Class New Plant Offers for any prior Delivery Year, the Net CONE applicable for such Delivery Year in the LDA for which such offer was submitted. For purposes of this section, asset classes shall be as stated in section 6.7(c) as effective for such Delivery Year, and Asset-Class New Plant Offers shall be location-adjusted by the ratio between the Net CONE effective for such Delivery Year for the LDA in which the Sell Offer subject to this section was submitted and the average, weighted by installed capacity, of the Net CONEs for all LDAs in which the units underlying such Asset Class New Plant Offers are located. Following the conduct of the applicable auction and before the final determination of clearing prices, in accordance with Section 6.2(b) above, each Capacity Market Seller whose Sell Offer is so rejected shall be notified and allowed an opportunity to submit a revised Sell Offer that does not exceed such threshold. The Office of the Interconnection then shall clear the auction with such revised Sell Offer in place.

(b) Mitigation for Demand Resources

The Market Seller Offer Cap shall not be applied to Sell Offers of Demand Resources or Energy Efficiency Resources.

**6.6 Offer Requirement for Capacity Resources**

(a) To avoid application of subsection (h), all of the installed capacity of all Existing Generation Capacity Resources located in the PJM Region shall be offered by the Capacity Market Seller that owns or controls all or part of such resource (which may include submission as Self-Supply) in all RPM Auctions for each Delivery Year, less any amount determined by the Office of the Interconnection to be eligible for an exception to the must-offer requirement, where installed capacity is determined as of the date on which bidding commences for each RPM Auction pursuant to Section 5.6.6 of Attachment DD of the Tariff. The Unforced Capacity of such resources is determined using the EFORD value that is submitted by the Capacity Market Seller in its Sell Offer, which shall not exceed the maximum EFORD for that resource as defined in Section 6.6(b). If a resource should be included on the list of Existing Generation Capacity Resources subject to the must-offer requirement that is maintained by the Market Monitoring Unit pursuant to Section II.C.1 of Attachment M – Appendix of the Tariff, but is omitted therefrom whether by mistake of the Market Monitoring Unit or failure of the Capacity Market Seller that owns or controls all or part of such resource to provide information about the resource

to the Market Monitoring Unit, this shall not excuse such resource from the must-offer requirement.

(b) For each Existing Generation Capacity Resource, a potential Capacity Market Seller must timely provide to the Market Monitoring Unit data and documentation required under section 6.6 to establish the maximum EFORD applicable to each resource. The maximum EFORD that may be used in a Sell Offer for Base Residual Auctions, First Incremental Auctions and Second Incremental Auctions, and for Conditional Incremental Auctions held prior to the date on which the final EFORDs used for a Delivery Year are posted, is the greater of (i) the average EFORD for the five consecutive years ending on the September 30 that last precedes the Base Residual Auction, or (ii) the EFORD for the 12 months ending on the September 30 that last precedes the Base Residual Auction. The maximum EFORD that may be used in a Sell Offer for Third Incremental Auctions, and for Conditional Incremental Auctions held after the date on which the final EFORD used for a Delivery Year is posted, is the EFORD for the 12 months ending on the September 30 that last precedes the submission of such offers. The Capacity Market Seller must promptly address any concerns identified by the Market Monitoring Unit regarding the data and documentation provided, review the proposed maximum EFORD, and attempt to reach agreement with the Market Monitoring Unit on the maximum level of the EFORD

(c) If the Market Monitoring Unit informs the Office of the Interconnection that a Capacity Market Seller has failed to submit costs consistent with section 6.7, it shall be required to submit any Sell Offer in the applicable auction as Self-Supply committed regardless of clearing price. If such Capacity Market Seller submits a Sell Offer that is not Self-Supply committed regardless of clearing price, the Market Monitoring Unit may seek relief from the Commission pursuant to section 6.4(d) below and section II.E of Attachment M - Appendix.

(d) In the event that a Capacity Market Seller and the Market Monitoring Unit cannot agree on the maximum level of the EFORD, the Office of the Interconnection shall make its own determination of the maximum level of the EFORD based on the requirements of the Tariff and the PJM Manuals. If the Capacity Market Seller submits an EFORD that the Office of the Interconnection determines would result in an increase of greater than five percent in any Zonal Capacity Price determined through such auction compared to the Office of the Interconnection's determination of the maximum level of the EFORD, the Office of the Interconnection shall apply to FERC for an order, on an expedited basis, directing such Capacity Market Seller to submit an EFORD consistent with the Market Monitoring Unit's determination, or for other appropriate relief, and PJM shall postpone clearing the auction pending FERC's decision on the matter. Should the Market Monitoring Unit exercise its powers to inform Commission staff of its concerns and request a determination, on an expedited basis, directing a Capacity Market Seller to submit an EFORD consistent with the Market Monitoring Unit's determination, or for other appropriate relief, pursuant to section II.C of Attachment M - Appendix, PJM may postpone clearing the auction pending FERC's decision on the matter.

(e) Nothing in this section precludes the Capacity Market Seller from filing a petition with FERC seeking a determination of whether the EFORD complies with the requirements of the Tariff.

(f) Notwithstanding the foregoing, a Capacity Market Seller may submit an EFORD that it chooses, provided that (i) it has participated in good faith with the process described in this section 6.6 and in section II.C of Attachment M - Appendix, (ii) the offer is no higher than the level defined in any agreement reached by the Capacity Market Seller and the Market Monitoring Unit that resulted from the foregoing process, and (iii) the offer is accepted by the Office of the Interconnection subject to the criteria set forth in the Tariff and the PJM Manuals.

(g) A Capacity Market Seller that owns or controls an existing generation resource in the PJM Region that is capable of qualifying as an Existing Generation Capacity Resource as of the date on which bidding commences for an RPM Auction may not avoid the rule in subsection (a) or be removed from Capacity Resource status by failing to qualify as a Generation Capacity Resource, or by attempting to remove a unit previously qualified as a Generation Capacity Resource from classification as a Capacity Resource for that RPM Auction. However, generation resource may qualify for an exception to the must-offer requirement, as shown by appropriate documentation, if the Capacity Market Seller that owns or controls such resource demonstrates that it: (i) is reasonably expected to be physically unable to participate in the relevant Delivery Year; (ii) has a financially and physically firm commitment to an external sale of its capacity, or (iii) was interconnected to the Transmission System as an Energy Resource and not subsequently converted to a Capacity Resource.

In order to establish that a resource is reasonably expected to be physically unable to participate in the relevant auction as set forth in (i) above, the Capacity Market Seller must demonstrate that:

- A. It has a documented plan in place to retire the resource prior to or during the Delivery Year, and has submitted a notice of Deactivation to the Office of the Interconnection consistent with Section 113.1 of the PJM Tariff, without regard to whether the Office of the Interconnection has requested the Capacity Market Seller to continue to operate the resource beyond its desired deactivation date in accordance with Section 113.2 of the PJM Tariff for the purpose of maintaining the reliability of the PJM Transmission System and the Capacity Market Seller has agreed to do so;
- B. Significant physical operational restrictions cause long term or permanent changes to the installed capacity value of the resource, or the resource is under major repair that will extend into the applicable Delivery Year, that will result in the imposition of RPM performance penalties pursuant to Attachment DD of the PJM Tariff;
- C. The Capacity Market Seller is involved in an ongoing regulatory proceeding (e.g. – regarding potential environmental restrictions) specific to the resource and has received an order, decision, final rule, opinion or other final directive from the regulatory authority that will result in the retirement of the resource; or
- D. A resource considered an Existing Generating Capacity Resource because it cleared an RPM Auction for a Delivery Year prior to the Delivery Year of the relevant auction, but which is not yet in service, is unable to achieve full commercial operation prior to the Delivery Year of the relevant auction. The Capacity Market Seller must submit to the Office of the Interconnection and the Market Monitoring Unit a written sworn, notarized

statement of a corporate officer certifying that the resource will not be in full commercial operation prior to the referenced Delivery Year.

In order to establish that a resource has a financially and physically firm commitment to an external sale of its capacity as set forth in (ii) above, the Capacity Market Seller must demonstrate that it has entered into a unit-specific bilateral transaction for service to load located outside the PJM Region, by a demonstration that such resource is identified on a unit-specific basis as a network resource under the transmission tariff for the control area applicable to such external load, or by an equivalent demonstration of a financially and physically firm commitment to an external sale. The Capacity Market Seller additionally shall identify the megawatt amount, export zone, and time period (in days) of the export.

A Capacity Market Seller that seeks to remove a Generation Capacity Resource from PJM Capacity Resource status and/or seeks approval for an exception to the must-offer requirement shall first submit such request to the Market Monitoring Unit for evaluation. A Capacity Market Seller may only remove the Generation Capacity Resource from PJM Capacity Resource status if (i) the Market Monitoring Unit has determined that the Generation Capacity Resource meets the applicable criteria set forth in Sections 5.6.6 and 6.6 of Attachment DD and the Office of the Interconnection agrees with this determination, or, (ii) the potential Capacity Market Seller and the Market Monitoring Unit cannot come to agreement on whether a Generation Capacity Resource should be removed from PJM Capacity Resource status or satisfied the criteria for an exception to the must-offer requirement, the potential Capacity Market Seller has submitted its request to remove the resource from PJM Capacity Resource status to the Office of the Interconnection, and the Office of the Interconnection has determined that the Generation Capacity Resource meets the applicable criteria set forth in Sections 5.6.6 and 6.6 of Attachment DD. Nothing herein shall require a Market Seller to offer its resource into an RPM Auction prior to seeking to remove a resource from Capacity Resource status, subject to satisfaction of Section 6.6.

After the Market Monitoring Unit has made its determination of whether a resource has satisfied the must-offer requirement or meets one of the exceptions thereto and has notified the Capacity Market Seller and the Office of the Interconnection of the same pursuant to Section II.C.4 of Attachment M – Appendix, the Office of the Interconnection shall approve or deny the exception request. The exception request shall be deemed to be approved or denied by the Office of the Interconnection, consistent with the determination of the Market Monitoring Unit, unless the Office of the Interconnection notifies the Capacity Market Seller and Market Monitoring Unit that it disagrees with the Market Monitoring Unit's determination. After the Market Monitoring Unit and the Office of the Interconnection have made their determinations of whether a resource meets the criteria to qualify for an exception to the must-offer requirement and prior to the date on which bidding commences for the applicable RPM Auction, the Capacity Market Seller must notify the Market Monitoring Unit and the Office of the Interconnection whether it intends to exclude from its Sell Offer some or all of the subject capacity on the basis of an identified exception. PJM does not make determinations of whether withholding of capacity constitutes market power. A Generation Capacity Resource that does not qualify for submission into an RPM Auction because it is not owned or controlled by the Capacity Market Seller for a full Delivery Year is not subject to the offer requirement hereunder; provided, however, that a Capacity Market Seller planning to transfer ownership or control of a Generation

Capacity Resource during a Delivery Year pursuant to a sale or transfer agreement shall be required to satisfy the offer requirement hereunder for the entirety of such Delivery Year and may satisfy such requirement by providing for the assumption of this requirement by the transferee of ownership or control under such agreement.

(h) Any existing generation resource located in the PJM Region that satisfies the criteria in the definition of Existing Generation Capacity Resource as of the date on which bidding commences for the Base Residual Auction for a Delivery Year, that is not offered into such Base Residual Auction, and that does not meet any of the exceptions stated in the prior subsection (g): (i) may not participate in any subsequent Incremental Auctions conducted for such Delivery Year; (ii) shall not receive any payments under section 5.14 for such Delivery Year for the capacity of such Generation Capacity Resources; and (iii) shall not be permitted to satisfy any LSE's Unforced Capacity Obligation, or any entity's obligation to obtain the commitment of Capacity Resources, for such Delivery Year.

All generation resources located in the PJM Region that satisfy the criteria in the definition of Existing Generation Capacity Resource as of the date on which bidding commences for an Incremental Auction for a particular Delivery Year, but that did not satisfy such criteria as of the date that on which bidding commenced in the Base Residual Auction for that Delivery Year, that is not offered into that Incremental Auction, and that does not meet any of the exceptions stated in the prior subsection (g): (i) may not participate in any subsequent Incremental Auctions conducted for such Delivery Year; (ii) shall not receive any payments under section 5.14 for such Delivery Year for the capacity of such Generation Capacity Resources; and (iii) shall not be permitted to satisfy any LSE's Unforced Capacity Obligation, or any entity's obligation to obtain the commitment of Capacity Resources, for such Delivery Year.

All Existing Generation Capacity Resources that are offered into a Base Residual Auction or Incremental Auction for a particular Delivery Year but do not clear in such auction, that are not offered into each subsequent Incremental Auction, and that do not meet any of the exceptions stated in the prior subsection (g): (i) may not participate in any Incremental Auctions conducted for such Delivery Year subsequent to such failure to offer; (ii) shall not receive any payments under section 5.14 for such Delivery Year for the capacity of such Generation Capacity Resources; and (iii) shall not be permitted to satisfy any LSE's Unforced Capacity Obligation, or any entity's obligation to obtain the commitment of Capacity Resources, for such Delivery Year.

Any such Existing Generation Capacity Resources may also be subject to further action by the Market Monitoring Unit under the terms of Attachment M and Attachment M – Appendix.

(i) In addition to the remedies set forth in subsections (g) and (h) above, if the Market Monitoring Unit determines that one or more Capacity Market Sellers' failure to offer part or all of one or more existing generation resources, for which the Office of the Interconnection has not approved an exception to the must-offer requirement, into an RPM Auction as required by this Section 6.6 would result in an increase of greater than five percent in any Zonal Capacity Price determined through such auction, and the Office of the Interconnection agrees with that determination, the Office of the Interconnection shall apply to FERC for an order, on an expedited basis, directing such Capacity Market Seller to participate in the relevant RPM Auction, or for other appropriate relief, and PJM will postpone clearing the auction

pending FERC's decision on the matter. If the Office of the Interconnection disagrees with the Market Monitoring Unit's determination and does not apply to FERC for an order directing the Capacity Market Seller to participate in the auction or for other appropriate relief, the Market Monitoring Unit may exercise its powers to inform Commission staff of its concerns and to seek appropriate relief.

## **6.7 Data Submission**

(a) Potential participants in any PJM Reliability Pricing Model Auction shall submit, together with supporting documentation for each item, to the Market Monitoring Unit no later than four months prior to the posted date for the conduct of such auction, a list of owned or controlled generation resources by PJM transmission zone for the specified Delivery Year, including the amount of gross capacity, the EFORD and the net (unforced) capacity.

(b) Except as provided in subsection (c) below, potential participants in any PJM Reliability Pricing Model Auction in any LDA or Unconstrained LDA Group that fails the Preliminary Market Structure Screen (or, if such region fails the screen, potential auction participants in the entire PJM Region) shall, in addition, submit the following data, together with supporting documentation for each item, to the Market Monitoring Unit no later than two months prior to the conduct of such auction:

i. If the Capacity Market Seller intends to submit a non-zero price in its Sell Offer in any such auction, the Capacity Market Seller shall submit a calculation of the Avoidable Cost Rate and Projected PJM Market Revenues, as defined in subsection (d) below, together with detailed supporting documentation.

ii. If the Capacity Market Seller intends to submit a Sell Offer based on opportunity cost, the Capacity Market Seller shall also submit a calculation of Opportunity Cost, as defined in subsection (d), with detailed supporting documentation.

(c) Potential auction participants identified in subsection (b) above need not submit the data specified in that subsection for any Generation Capacity Resource:

i. that is in an Unconstrained LDA Group or, if this is the relevant market, the entire PJM Region, and is in a resource class identified in the table below as not likely to include the marginal price-setting resources in such auction; or

ii. for which the potential participant commits that any Sell Offer it submits as to such resource shall not include any price above: (1) the level identified below for the relevant resource class, less (2) the Projected PJM Market Revenues for such resource, as determined in accordance with this Tariff.

Nothing herein precludes the Market Monitoring Unit from requesting additional information from any potential auction participant as deemed necessary by the Market Monitoring Unit, including, without limitation, additional cost data on resources in a class that is not otherwise expected to include the marginal price setting resource; and compliance with such request shall be a condition of participation in any auction. Any Sell Offer submitted in any auction that is

inconsistent with any commitment made pursuant to this subsection shall be rejected, and the Capacity Market Seller shall be required promptly to resubmit a Sell Offer that complies with such commitments. If the Capacity Market Seller does not timely resubmit its Sell Offer, it shall be deemed to have submitted a Sell Offer that complies with the commitments made under this subsection, with a default price equal to the maximum price for the class of resource determined under section (c)(ii) above. The obligation imposed under section 6.6(a) shall not be satisfied unless and until the Capacity Market Seller submits (or is deemed to have submitted) a Sell Offer that conforms to its commitments made pursuant to this subsection or subject to the procedures set forth in section 6.4 and section II.H of Attachment M - Appendix. The default Avoidable Cost Rates referenced in section (c)(ii) above are as set forth in the tables below for any auction conducted after September 1, 2009 for any Delivery Year through the 2012-2013 Delivery Year. To determine the default ACR values for the 2013-2014 and subsequent Delivery Years, the Office of the Interconnection shall multiply the ACR values for the immediately preceding Delivery Year by a factor equal to the most recent ten-calendar-year annual average rate of change in the applicable Handy-Whitman Index of Public Utility Construction Costs or a comparable index approved by the Commission, as calculated by the Office of the Interconnection and posted to its Web site; provided, however, that after the Handy-Whitman indexing methodology has been employed to determine the default ACR values for the RPM Auctions for three consecutive Delivery Years, the Office of the Interconnection shall: i) review the default ACR values to determine whether any changes other than those produced by such methodology are warranted for subsequent Delivery Years (including seeking the analysis and advice of the Market Monitoring Unit on such matter) and report its conclusions to the Members in writing no later than four months after the Base Residual Auction for the third such Delivery Year; and ii) file with FERC resulting changes, if any, to this section no later than seven months after such Base Residual Auction, to be effective for the Base Residual Auction for the following Delivery Year; provided further, that nothing herein precludes the Office of the Interconnection from filing with FERC changes to the default ACR values or any other provision of this section prior to the deadline stated in the previous clause, or at any other time. Capacity Market Sellers shall use the one-year mothball Avoidable Cost Rate shown below, unless such Capacity Market Seller satisfies the criteria set forth in section 6.7(e), in which case the Capacity Market Seller may use the retirement Avoidable Cost Rate. PJM shall also publish on its Web site the number of Generation Capacity Resources and megawatts per LDA that use the retirement Avoidable Cost Rates.

Technology Classes Not Likely to be the Marginal Price Setting Resource						
Technology	2010-2011 Mothball Avoidable Cost Rate (\$/MW- Day)	2010-2011 Retirement Avoidable Cost Rate (\$/MW- Day)	2011-2012 Mothball Avoidable Cost Rate (\$/MW- Day)	2011-2012 Retirement Avoidable Cost Rate (\$/MW-Day)	2012-2013 Mothball Avoidable Cost Rate (\$/MW- Day)	2012 -2013 Retirement Avoidable Cost Rate (\$/MW- Day)
Nuclear	N/a	N/a	N/a	N/a	N/a	N/a
Pumped Storage	\$20.77	\$29.17	\$21.72	\$30.50	\$22.71	\$31.89
Hydro	\$71.01	\$92.87	\$74.24	\$97.10	\$77.62	\$101.52
Sub-Critical Coal	\$170.48	\$188.98	\$178.24	\$197.58	\$186.35	\$206.57
Super Critical Coal	\$176.13	\$192.65	\$184.15	\$201.42	\$192.53	\$210.59
Waste Coal - Small	\$224.83	\$272.31	\$235.06	\$284.70	\$245.75	\$297.65
Waste Coal – Large	\$83.15	\$100.45	\$86.94	\$105.02	\$90.89	\$109.80
Wind	N/a	N/a	N/a	N/a	N/a	N/a

Maximum Avoidable Cost Rates by Technology Class						
Technology	2010-2011 Mothball Avoidable Cost Rate (\$/MW- Day)	2010-2011 Retirement Avoidable Cost Rate (\$/MW- Day)	2011-2012 Mothball Avoidable Cost Rate (\$/MW- Day)	2011-2012 Retirement Avoidable Cost Rate (\$/MW-Day)	2012-2013 Mothball Avoidable Cost Rate (\$/MW- Day)	2012-2013 Retirement Avoidable Cost Rate (\$/MW- Day)
CC- 2 on 1 Frame F	\$30.92	\$43.86	\$32.33	\$45.85	\$33.80	\$47.94
CC- 3 on 1 Frame E/Siemens	\$34.33	\$46.48	\$35.89	\$48.60	\$37.52	\$50.81
CC – 3 or More on 1 or More Frame F	\$26.76	\$37.16	\$27.98	\$38.85	\$29.26	\$40.62
CC-NUG Cogen. Frame B or E Technology	\$114.93	\$154.43	\$120.16	\$161.45	\$125.62	\$168.80
CT - 1st & 2nd Gen. Aero (P&W FT 4)	\$24.57	\$32.68	\$25.69	\$34.17	\$26.86	\$35.73
CT - 1st & Gen. Frame B	\$24.28	\$32.41	\$25.38	\$33.87	\$26.54	\$35.42
CT - 2nd Gen. Frame E	\$23.08	\$30.89	\$24.13	\$32.29	\$25.23	\$33.76
CT - 3rd Gen. Aero (GE LM 6000)	\$55.87	\$82.36	\$58.42	\$86.10	\$61.07	\$90.02
CT - 3rd Gen. Aero (P&W FT - 8 TwinPak)	\$29.30	\$43.20	\$30.64	\$45.17	\$32.03	\$47.23
CT - 3rd Gen. Frame F	\$23.69	\$34.12	\$24.77	\$35.68	\$25.90	\$37.30
Diesel	\$26.29	\$33.39	\$27.49	\$34.91	\$28.74	\$36.49
Oil and Gas Steam	\$65.21	\$79.39	\$68.18	\$83.01	\$71.28	\$86.78

After the Market Monitoring Unit conducts its annual review of the table of default Avoided Cost Rates included in section 6.7(c) above in accordance with the procedure specified in section II.H of Attachment M – Appendix, it will provide updated values or notice of its determination that updated values are not needed to Office of the Interconnection. In the event that the Office of the Interconnection disagrees with the values proposed for revising the matrix, the Office of the Interconnection shall file its values.

(d) In order for costs to qualify for inclusion in the Market Seller Offer Cap, the Capacity Market Seller must provide to the Market Monitoring Unit relevant cost data concerning each data item specified as set forth in section 6. If cost data is not available at the time of submission for the time periods specified in section 6.8, costs may be estimated for such period based on the most recent data available, with an explanation of and basis for the estimate used. Based on the data and calculations submitted by the Capacity Market Sellers for each existing generation resource and the formulas specified below, the Market Monitoring Unit shall calculate the Market Seller Offer Cap for each such resource, and notify the Capacity Market Seller one month prior to the auction of its determination.

i. **Avoidable Cost Rate:** The Avoidable Cost Rate for an existing generation resource shall be determined using the formula below and applied to the unit's Base Offer Segment.

ii. **Opportunity Cost:** Opportunity Cost shall be the documented price available to an existing generation resource in a market external to PJM. In the event that the total MW of existing generation resources submitting opportunity cost offers in any auction for a Delivery Year exceeds the firm export capability of the PJM system for such Delivery Year, or the capability of external markets to import capacity in such year, the Office of the Interconnection will accept such offers on a competitive basis. PJM will construct a supply curve of opportunity cost offers, ordered by opportunity cost, and accept such offers to export starting with the highest opportunity cost, until the maximum level of such exports is reached. The maximum level of such exports is the lesser of the Office of the Interconnection's ability to permit firm exports or the ability of the importing area(s) to accept firm imports or imports of capacity, taking account of relevant export limitations by location. If, as a result, an opportunity cost offer is not accepted from an existing generation resource, the Market Seller Offer Cap applicable to Sell Offers relying on such generation resource shall be the Avoidable Cost Rate less the Projected Market Revenues for such resource (as defined in Section 6.4). The default Avoidable Cost Rate shall be the one year mothball Avoidable Cost Rate set forth in the tables in section 6.7(c) above unless Capacity Market Seller satisfies the criteria delineated in section 6.7(e) below.

iii. **Projected PJM Market Revenues,** as defined by section 6.8(d), for any Generation Capacity Resource to which the Avoidable Cost Rate is applied.

(e) In order for the retirement Avoidable Cost Rate set forth in the table in section 6.7(c) to apply, a Capacity Market Seller must timely submit to the Office of the Interconnection and the Market Monitoring Unit a written sworn, notarized statement of a corporate officer representing that the Capacity Market Seller will retire the Generation Capacity Resource if it does not receive during the relevant Delivery Year at least the applicable retirement Avoidable Cost Rate because it would be uneconomic to continue to operate the Generation Capacity Resource in the Delivery Year without the retirement Avoidable Cost Rate, and specifying the date the Generation Capacity Resource would otherwise be retired.

## **6.8 Avoidable Cost Definition**

### **(a) Avoidable Cost Rate:**

The Avoidable Cost Rate for a Generation Capacity Resource that is the subject of a Sell Offer shall be determined using the following formula, expressed in dollars per MW-year:

$$\text{Avoidable Cost Rate} = [\text{Adjustment Factor} * (\text{AOML} + \text{AAE} + \text{AME} + \text{AVE} + \text{ATFI} + \text{ACC} + \text{ACLE}) + \text{ARPIR} + \text{APIR}]$$

Where:

- **Adjustment Factor** equals 1.10 (to provide a margin of error for understatement of costs) plus an additional adjustment referencing the 10-year average Handy-Whitman Index in order to account for expected inflation from the time interval between the submission of the Sell Offer and the commencement of the Delivery Year.
- **AOML (Avoidable Operations and Maintenance Labor)** consists of the avoidable labor expenses related directly to operations and maintenance of the generating unit for the twelve months preceding the month in which the data must be provided. The categories of expenses included in AOML are those incurred for: (a) on-site based labor engaged in operations and maintenance activities; (b) off-site based labor engaged in on-site operations and maintenance activities directly related to the generating unit; and (c) off-site based labor engaged in off-site operations and maintenance activities directly related to generating unit equipment removed from the generating unit site.
- **AAE (Avoidable Administrative Expenses)** consists of the avoidable administrative expenses related directly to employees at the generating unit for twelve months preceding the month in which the data must be provided. The categories of expenses included in AAE are those incurred for: (a) employee expenses (except employee expenses included in AOML); (b) environmental fees; (c) safety and operator training; (d) office supplies; (e) communications; and (f) annual plant test, inspection and analysis.
- **AME (Avoidable Maintenance Expenses)** consists of avoidable maintenance expenses (other than expenses included in AOML) related directly to the generating unit for the twelve months preceding the month in which the data must be provided. The categories of expenses included in AME are those incurred for: (a) chemical and materials consumed during maintenance of the generating unit; and (b) rented maintenance equipment used to maintain the generating unit.
- **AVE (Avoidable Variable Expenses)** consists of avoidable variable expenses related directly to the generating unit incurred in the twelve months preceding the month in which the data must be provided. The categories of expenses included in AVE are those incurred for: (a) water treatment chemicals and lubricants; (b) water, gas, and electric service (not for power generation); and (c) waste water treatment.
- **ATFI (Avoidable Taxes, Fees and Insurance)** consists of avoidable expenses related directly to the generating unit incurred in the twelve months preceding the month in which the data must be provided. The categories of expenses included in AFTI are those incurred for: (a) insurance, (b) permits and licensing fees, (c) site security and utilities for maintaining security at the site; and (d) property taxes.

- **ACC (Avoidable Carrying Charges)** consists of avoidable short-term carrying charges related directly to the generating unit in the twelve months preceding the month in which the data must be provided. Avoidable short-term carrying charges shall include short term carrying charges for maintaining reasonable levels of inventories of fuel and spare parts that result from short-term operational unit decisions as measured by industry best practice standards. For the purpose of determining ACC, short term is the time period in which a reasonable replacement of inventory for normal, expected operations can occur.
- **ACLE (Avoidable Corporate Level Expenses)** consists of avoidable corporate level expenses directly related to the generating unit incurred in the twelve months preceding the month in which the data must be provided. Avoidable corporate level expenses shall include only such expenses that are directly linked to providing tangible services required for the operation of the generating unit proposed for Deactivation. The categories of avoidable expenses included in ACLE are those incurred for: (a) legal services, (b) environmental reporting; and (c) procurement expenses.
- **APIR (Avoidable Project Investment Recovery Rate) =  $PI * CRF$**

Where:

- **PI** is the amount of project investment completed prior to June 1 of the Delivery Year, except for Mandatory Capital Expenditures ("CapEx") for which the project investment must be completed during the Delivery Year, that is reasonably required to enable a Generation Capacity Resource that is the subject of a Sell Offer to continue operating or improve availability during Peak-Hour Periods during the Delivery Year.
- **CRF** is the annual capital recovery factor from the following table, applied in accordance with the terms specified below.

Age of Existing Units (Years)	Remaining Life of Plant (Years)	Levelized CRF
1 to 5	30	0.107
6 to 10	25	0.114
11 to 15	20	0.125
16 to 20	15	0.146
21 to 25	10	0.198
25 Plus	5	0.363
Mandatory CapEx	4	0.450

Unless otherwise stated, Age of Existing Unit shall be equal to the number of years since the Unit commenced commercial operation, up to and through the relevant Delivery Year.

Remaining Life of Plant defines the amortization schedule (i.e., the maximum number of years over which the Project Investment may be included in the Avoidable Cost Rate.)

### **Capital Expenditures and Project Investment**

For any given Project Investment, a Capacity Market Seller may make a one-time election to recover such investment using: (i) the highest CRF and associated recovery schedule to which it is entitled; or (ii) the next highest CRF and associated recovery schedule. For these purposes, the CRF and recovery schedule for the 25Plus category is the next highest CRF and recovery schedule for both the Mandatory CapEx and the 40 Plus Alternative categories. The Capacity Market Seller using the above table must provide the Market Monitoring Unit with information, identifying and supporting such election, including but not limited to the age of the unit, the amount of the Project Investment, the purpose of the investment, evidence of corporate commitment (e.g., an SEC filing, a press release, or a letter from a duly authorized corporate officer indicating intent to make such investment), and detailed information concerning the governmental requirement (if applicable). Absent other written notification, such election shall be deemed based on the CRF such Seller employs for the first Sell Offer reflecting recovery of any portion of such Project Investment.

For any resource using the CRF and associated recovery schedule from the CRF table that set the Capacity Resource Clearing Price in any Delivery Year, such Capacity Market Seller must also provide to the Market Monitoring Unit, for informational purposes only, evidence of the actual expenditure of the Project Investment, when such information becomes available.

If the project associated with a Project Investment that was included in a Sell Offer using a CRF and associated recovery schedule from the above table has not entered into commercial operation prior to the end of the relevant Delivery Year, and the resource's Sell Offer sets the clearing price for the relevant LDA, the Capacity Market Seller shall be required to elect to either (i) pay a charge that is equal to the difference between the Capacity Resource Clearing Price for such LDA for the relevant Delivery Year and what the clearing price would have been absent the APIR component of the Avoidable Cost Rate, this difference to be multiplied by the cleared MW volume from such Resource ("rebate payment"); (ii) hold such rebate payment in escrow, to be released to the Capacity Market Seller in the event that the project enters into commercial operation during the subsequent Delivery Year or rebated to LSEs in the relevant LDA if the project has not entered into commercial operation during the subsequent Delivery Year; or (iii) make a reasonable investment in the amount of the PI in other Existing Generation Capacity Resources owned or controlled by the Capacity Market Seller or its Affiliates in the relevant LDA. The revenue from such rebate payments shall be allocated pro rata to LSEs in the relevant LDA(s) that were charged a Locational Reliability Charge for such Delivery Year, based on their Daily Unforced Capacity Obligation in the relevant LDA(s). If the Sell Offer from the Generation Capacity Resource did not set the Capacity Resource Clearing Price in the relevant LDA, no alternative investment or rebate payment is required. If the difference between the

Capacity Resource Clearing Price for such LDA for the relevant Delivery Year and what the clearing price would have been absent the APIR amount does not exceed the greater of \$10 per MW-day or a 10% increase in the clearing price, no alternative investment or rebate payment is required.

### **Mandatory CapEx Option**

The Mandatory CapEx CRF and recovery schedule is an option available, beginning in the third BRA (Delivery Year 2009-10), to a resource that must make a Project Investment to comply with a governmental requirement that would otherwise materially impact operating levels during the Delivery Year, where: (i) such resource is a coal, oil or gas-fired resource that began commercial operation no fewer than fifteen years prior to the start of the first Delivery Year for which such recovery is sought, and such Project Investment is equal to or exceeds \$200/kW of capitalized project cost; or (ii) such resource is a coal-fired resource located in an LDA for which a separate VRR Curve has been established for the relevant Delivery Years, and began commercial operation at least 50 years prior to the conduct of the relevant BRA.

A Capacity Market Seller that wishes to elect the Mandatory CapEx option for a Project Investment must do so beginning with the Base Residual Auction for the Delivery Year in which such project is expected to enter commercial operation. A Sell Offer submitted in any Base Residual Auction for which the Mandatory CapEx option is selected may not exceed an offer price equivalent to 0.90 times the then-current Net CONE (on an unforced-equivalent basis).

### **40 Plus Alternative Option**

The 40 Plus Alternative CRF and recovery schedule is an option available, beginning in the third BRA (Delivery Year 2009-10), for a resource that is a gas- or oil-fired resource that began commercial operation no less than 40 years prior to the conduct of the relevant BRA (excluding, however, any resource in any Delivery Year for which the resource is receiving a payment under Part V of the PJM Tariff. Generation Capacity Resources electing this 40 Plus Alternative CRF shall be treated as At Risk Generation for purposes of the sensitivity runs in the RTEP process). Resources electing the 40 Plus Alternative option will be modeled in the RTEP process as "at-risk" at the end of the one-year amortization period.

A Capacity Market Seller that wishes to elect the 40 Plus Alternative option for a Project Investment must provide written notice of such election to the Office of the Interconnection no later than six months prior to the Base Residual Auction for which such election is sought; provided however that shorter notice may be provided if unforeseen circumstances give rise to the need to make such election and such seller gives notice as soon as practicable.

The Office of the Interconnection shall give market participants reasonable notice of such election, subject to satisfaction of requirements under the PJM Operating Agreement for protection of confidential and commercially sensitive information. A Sell Offer submitted in any Base Residual Auction for which the 40 Plus Alternative option is selected may not exceed an offer price equivalent to the then-current Net CONE (on an unforced-equivalent basis).

### **Multi-Year Pricing Option**

A Seller submitting a Sell Offer with an APIR component that is based on a Project Investment of at least \$450/kW may elect this Multi-Year Pricing Option by providing written notice to such effect the first time it submits a Sell Offer that includes an APIR component for such Project Investment. Such option shall be available on the same terms, and under the same conditions, as are available to Planned Generation Capacity Resources under section 5.14(c) of this Attachment.

- ARPIR (Avoidable Refunds of Project Investment Reimbursements) consists of avoidable refund amounts of Project Investment Reimbursements payable by a Generation Owner to PJM under Part V, Section 118 of this Tariff or avoidable refund amounts of project investment reimbursements payable by a Generation Owner to PJM under a Cost of Service Recovery Rate filed under Part V, Section 119 of the Tariff and approved by the Commission.

(b) For the purpose of determining an Avoidable Cost Rate, avoidable expenses are incremental expenses directly required to operate a Generation Capacity Resource that a Generation Owner would not incur if such generating unit did not operate in the Delivery Year or meet Availability criteria during Peak-Hour Periods during the Delivery Year.

(c) For the purpose of determining an Avoidable Cost Rate, avoidable expenses shall exclude variable costs recoverable under cost-based offers to sell energy from operating capacity on the PJM Interchange Energy Market under the Operating Agreement.

(d) Projected PJM Market Revenues for any Generation Capacity Resource to which the Avoidable Cost Rate is applied shall include all actual unit-specific revenues from PJM energy markets, ancillary services, and unit-specific bilateral contracts from such Generation Capacity Resource, net of marginal costs for providing such energy (i.e., costs allowed under cost-based offers pursuant to Section 6.4 of Schedule 1 of the Operating Agreement) and ancillary services from such resource.

(i) For the first three BRAs (for Delivery Years 2007-08, 2008-09, 2009-10), the calculation of Projected PJM Market Revenues shall be equal to the simple average of such net revenues as described above for calendar years 2001-2006; and

(ii) For the fourth BRA (delivery year 2010-11) and thereafter, the calculation of Projected PJM Market Revenues shall be equal to the rolling simple average of such net revenues as described above from the three most recent whole calendar years prior to the year in which the BRA is conducted.

If a Generation Capacity Resource did not receive PJM market revenues during the entire relevant time period because the Generation Capacity Resource was not integrated into PJM

during the full period, then the Projected PJM Market Revenues shall be calculated using only those whole calendar years within the full period in which such Resource received PJM market revenues.

If a Generation Capacity Resource did not receive PJM market revenues during the entire relevant time period because it was not in commercial operation during the entire period, or if data is not available to the Capacity Market Seller for the entire period, despite the good faith efforts of such seller to obtain such data, then the Projected PJM Market Revenues shall be calculated based upon net revenues received over the entire period by comparable units, to be developed by the MMU and the Capacity Market Seller.

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