

Large Filing Separator Sheet

Case Number: 10-2929-EL-UNC

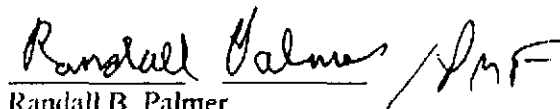
File Date: 5/2/2012

Section: 6

Number of Pages: 203

Description of Document: Exhibits

Signature Page for
Settlement Agreement and
Offer of Settlement
Filed on September 29, 2006 in
FERC Docket Nos. ER05-1410 and EL05-148



Randall B. Palmer
Senior Attorney
Allegheny Energy, Inc.

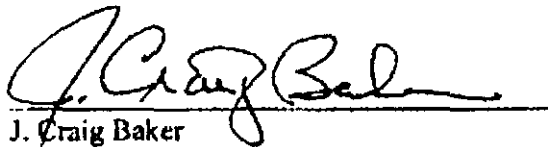
On Behalf Of
Monongahela Power Company,
The Potomac Edison Company, and
West Penn Power Company, all doing
business as Allegheny Power, and
Allegheny Generating Company



Craig Galligan
Senior Attorney
Allegheny Energy, Inc.

On Behalf of
Allegheny Energy Supply Company, LLC and its subsidiaries, including
Buchanan Energy Company of Virginia, LLC and
Buchanan Generation, LLC

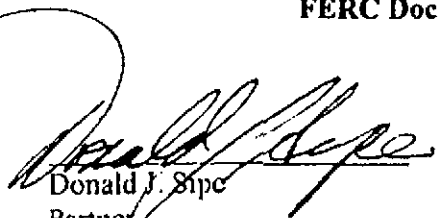
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A handwritten signature in black ink, appearing to read "J. Craig Baker", is written over a horizontal line.

J. Craig Baker
Senior Vice President of Regulatory Services
American Electric Power Service Corporation

On Behalf Of:
Appalachian Power Company
Columbus Southern Power Company
Indiana Michigan Power Company
Kentucky Power Company
Kingsport Power Company
Ohio Power Company
Wheeling Power Company

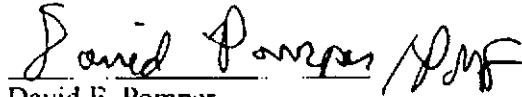
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A handwritten signature in black ink, appearing to read "Donald J. Sipe", is written over a horizontal line. The signature is fluid and cursive, with a large loop at the beginning.

Donald J. Sipe
Partner
Preti Flaherty Beliveau & Pachios, LLP

On Behalf Of
American Forest and Paper Association
NewPage Corporation

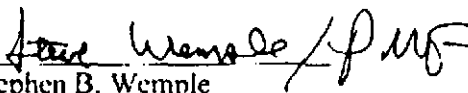
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A handwritten signature in dark ink, appearing to read "David E. Pomper". The signature is fluid and cursive, with a large, stylized "P" at the end.

David E. Pomper
Spiegel & McDiarmid

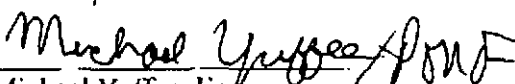
Attorney For and On Behalf Of
Blue Ridge Power Agency and its members:
City of Bedford, City of Bristol, City of Danville,
Town of Front Royal, City of Martinsville, City of Radford,
Town of Richlands, and City of Salem, all of Virginia;
Virginia Polytechnic Institute and State University
(including its Education and General and Auxiliaries accounts);
Central Virginia Electric Cooperative; and
Craig-Botetourt Electric Cooperative.

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Stephen B. Wemple
**Vice President, Regulatory Affairs
Con Edison Competitive Shared Services**

On Behalf Of
Consolidated Edison Energy, Inc.

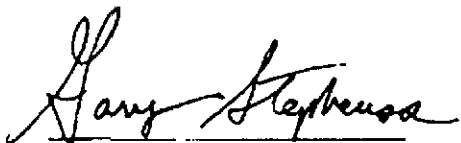
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A handwritten signature in black ink, appearing to read "Michael Yuffee" followed by a stylized flourish.

Michael Yuffee, Esq.
McDermott Will & Emery

On Behalf Of
Baltimore Gas and Electric Company
Big Sandy Peaker Plant, LLC
Calvert Cliffs Nuclear Power Plant, Inc.
Constellation Energy Commodities Group, Inc.
Constellation Generation Group, LLC
Constellation NewEnergy, Inc.
Constellation Power Source Generation, Inc.
Handsome Lake Energy, LLC
University Park Energy, LLC
Wolf Hills Energy, LLC

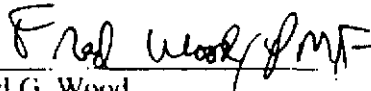
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A handwritten signature in black ink, appearing to read "Gary Stephenson". The signature is written in a cursive style with a large initial "G".

Gary Stephenson
Vice President, Commercial Operations
DPL Inc.

On Behalf Of
Dayton Power & Light Co.
DPL Energy, LLC

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Fred G. Wood
Senior Vice President, Financial Management
Dominion Resources Services, Inc

On Behalf Of
Virginia Electric and Power Company
Dominion Energy Marketing, Inc.
Dominion Retail, Inc.
Armstrong Energy Limited Partnership, L.L.P.
Elwood Energy, LLC
Fairless Energy, LLC
Pleasants Energy, LLC
Dresden Energy, LLC
Kincaid Generation, LLC
State Line Energy, LLC

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CINERGY

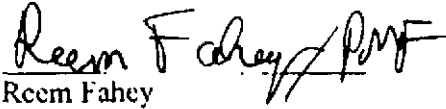
PAGE 01/01

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Kenneth Jennings
Director - Market and RTO Services
Duke Energy Americas

On Behalf Of
Duke Energy North America, LLC

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A handwritten signature in black ink, appearing to read "Reem Fahey PMF". The signature is written in a cursive, flowing style.

Reem Fahey
**Managing Director, Market Policy
Edison Mission Energy**

On Behalf Of
Edison Mission Energy
Edison Mission Marketing & Trading, Inc.
Midwest Generation EME, LLC

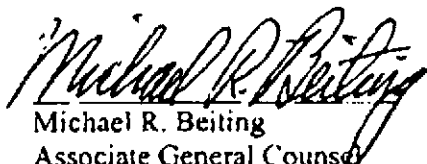
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Elizabeth A. Moler
Executive Vice President Government and Environmental Affairs & Public Policy

On Behalf Of
Exelon Corporation and its subsidiaries
Exelon Generation
Commonwealth Edison Company
PFCO Energy Company

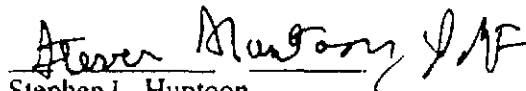
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Michael R. Beiting
Associate General Counsel
FirstEnergy Service Company
76 South Main Street
Akron, OH 44308-1890
Tel: (330) 384-5795
beitingm@firstenergycorp.com

On Behalf Of
FirstEnergy Service Company, and its affiliates, FirstEnergy Solutions Corp., Jersey
Central Power and Light Company, Metropolitan Edison Company, and Pennsylvania
Electric Company,

**Signature Page for
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Stephen L. Huntoon

Senior Attorney

FPL Energy, I.L.C

801 Pennsylvania Avenue, N.W.

Suite 600

Washington, D.C. 20004

202-349-3348

On Behalf Of

FPL Energy Generators

FPL Energy Marcus Hook, L.P.

North Jersey Energy Associates, L.P.

Doswell Limited Partnership

Backbone Mountain Windpower LLC

Mill Run Windpower LLC

Somerset Windpower LLC

Meyersdale Windpower LLC

Waymart Wind Farm, LP

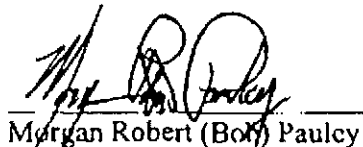
Pennsylvania Windfarms, Inc.

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A handwritten signature in black ink, appearing to be 'Robert Mork', written over a horizontal line.

Robert Mork
Deputy Consumer Counselor for Federal Affairs
Indiana Office of Utility Consumer Counselor
100 N. Senate Ave., N501
Indianapolis, Indiana 46204

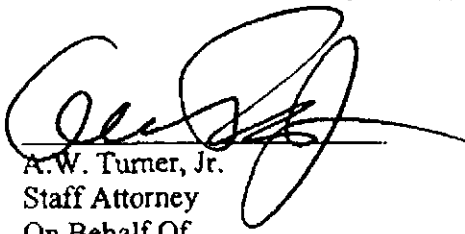
**Signature Page for
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A handwritten signature in black ink, appearing to read "Morgan Robert (Bob) Pauley", is written over a horizontal line.

Morgan Robert (Bob) Pauley
Director of Energy Policy
Indiana Utility Regulatory Commission

On Behalf Of
Indiana Utility Regulatory Commission

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A handwritten signature in black ink, appearing to read "A.W. Turner, Jr.", is written over a horizontal line.

A.W. Turner, Jr.
Staff Attorney
On Behalf Of
Kentucky Public Service Commission

**Signature Page for
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Michael J. Wentworth
Dickstein Shapiro LLP
Attorney for Liberty Electric Power, LLC

On Behalf Of
Liberty Electric Power, LLC

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Michael J. Wentworth
Dickstein Shapiro LLP
Attorney for LS Power Associates, L.P., and
LS Power Development, LLC.

On Behalf Of
LS Power Associates, L.P.
LS Power Development, LLC

**THE MICHIGAN PUBLIC SERVICE
COMMISSION**

MICHAEL A. COX
Attorney General

David A. Voges (P25143)
Steven D. Hughey (P32203)
Assistant Attorneys General
Public Service Division
6545 Mercantile Way, Suite 15
Lansing, MI 48911
Telephone: (517) 241-6680
Fax: (517) 241-6678



David D'Alessandro
Kelly A. Daly
M. Denyse Zosa
Special Assistant Attorneys General
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1150 18th Street, N.W., Suite 800
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Fax: (202) 785-9163

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A handwritten signature in black ink, appearing to read "John L. O'Neal", is written over a horizontal line.

John L. O'Neal

President, Mirant Energy Trading, LLC
Senior Vice President, Mirant Chalk Point, LLC
Senior Vice President, Mirant Mid-Atlantic, LLC
Senior Vice President, Mirant Potomac River, LLC
Senior Vice President, Mirant Sugar Creek, LLC

On Behalf Of
Mirant Energy Trading, L.L.C.
Mirant Chalk Point, LLC
Mirant Mid-Atlantic, LLC
Mirant Potomac River, LLC
Mirant Sugar Creek, LLC

By: /s/ Denise C. Goulet

Sean T. Beeny
Denise C. Goulet
Miller, Balis & O'Neil, P.C.
1140 19th Street, N.W., Suite 700
Washington, D.C. 20036-6602
(202) 296-2960

Thomas K. Austin
Associate General Counsel
North Carolina Electric Membership Corporation
3400 Sumner Boulevard
Raleigh, North Carolina 27616
(919) 872-0800

Attorneys for
North Carolina Electric Membership Corporation

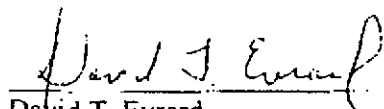
Adrienne Clair / dms-

Glen L. Ortman
Adrienne E. Clair
Stinson Morrison Hecker LLP
1150 18th Street NW, Suite 800
Washington, D.C. 20036

Edward D. Tatum, Jr.
Assistant Vice-President,
Rates and Regulation
Old Dominion Electric Cooperative
4201 Dominion Boulevard
Glen Allen, Virginia 23060

On behalf of Old Dominion
Electric Cooperative

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A handwritten signature in cursive script, appearing to read "David T. Evrard", is written over a horizontal line.

David T. Evrard

Assistant Consumer Advocate

On Behalf Of
Pennsylvania Office of Consumer Advocate

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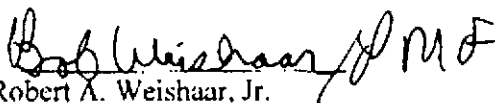
Kirk J. Emge
Vice President, Legal Services
Pepco Holdings, Inc.
701 Ninth Street, NW
Suite 1100
Washington, DC 20068
Phone: 202-872-3252
Fax: 202-872-3281

On Behalf Of
PEPCO Holdings, Inc.
Atlantic City Electric Company
Delmarva Power & Light Company
Potomac Electric Power Company
Connectiv Energy Supply, Inc.
Connectiv Atlantic Generation
Connectiv Delmarva Generation, Inc.
Connectiv Bethlehem, LLC
Pepco Energy Services, Inc.
Potomac Power Resources, LLC
Fauquier Landfill Gas, LLC
Rolling Hills Landfill Gas, LLC

I, David Rosenstein, General Counsel
Gloria Ogenyi, Vice President, Energy Policy
Connectiv Energy
P.O. Box 6066
Newark, DE 19714
Phone: 302 451-5441
302-451-5365
Fax: 302 451-5262

Helen M. Hight
Assistant General Counsel
Pepco Holdings, Inc.
701 Ninth Street, NW
Suite 1100
Washington, DC 20068
Main Phone: 202-872-2890
Direct Phone: 202-872-2318

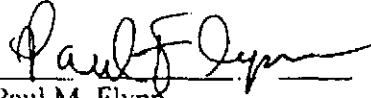
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Robert A. Weishaar, Jr.
McNees Wallace & Nurick LLC

On Behalf Of
PJM Industrial Customer Coalition, which for purposes of this proceeding includes:

Air Liquide Industrial U.S. LP;
BOC Gases;
Carpenter Technology Corporation;
Cinram Manufacturing, Inc.;
E.I. DuPont de Nemours & Co. Inc.;
Ellwood National Steel;
Gerdau Ameristeel Corporation;
Jefferson Health System;
Kimberly-Clark Corporation;
Lehigh Cement Company;
Occidental Petroleum;
PPG Industries, Inc.;
Praxair, Inc.;
Procter & Gamble Paper Products Company;
The Timken Company;
and United States Steel Corporation.

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A handwritten signature in black ink, appearing to read "Paul M. Flynn", written over a horizontal line.

Paul M. Flynn
Wright & Talisman, P.C.

On Behalf Of
PJM Interconnection, L.L.C.

1

**Signature Page for
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Paul Williams

President, Liberty Energy Group, Inc

On Behalf Of
Portland Cement Association
Buzzi Unicem, USA, dba RC Cement Co.
CEMEX S.A. de C.V.
Essroc Cement Corp.
Giant Cement Holding, Inc.
Lafarge North America, Inc.
Lehigh Cement Company
St Lawrence Cement Company

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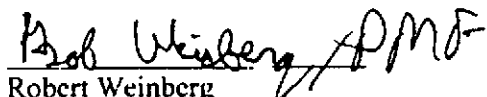


JP
Jerry L. Langdon
Executive Vice President
Reliant Energy, Inc.

On Behalf Of

Reliant Energy Inc. and its subsidiaries Orion Power Midwest, L.P., Reliant Energy Electric Solutions, LLC, Reliant Energy Services, Inc., Reliant Energy Seward, LLC, Reliant Energy Solutions East, LLC, and Reliant Energy Wholesale Generation, LLC

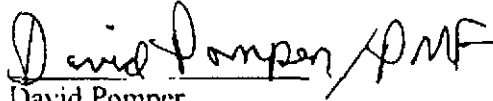
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A handwritten signature in black ink, appearing to read "Bob Weinberg" followed by a stylized flourish or set of initials.

Robert Weinberg
Duncan, Weinberg, Genzer & Pembroke, P.C.

On Behalf Of
Southern Maryland Electric Cooperative, Inc.

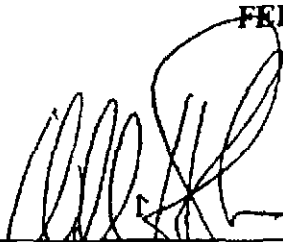
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A handwritten signature in black ink, appearing to read "David Pomper" followed by a stylized flourish or initials.

David Pomper
Spiegel & McDiarmid

Attorney For and On Behalf Of
Virginia Municipal Electric Association No. 1
and its members, the Town of Blackstone,
Town of Culpeper, Town of Elkton, City of Franklin,
Harrisonburg Electric Commission,
City of Manassas, and Town of Wakefield, all of Virginia.

**Signature Page for
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**William E. Hobbs
Senior Vice President
Williams Power Company, Inc.**



**On Behalf Of
Williams Power Company, Inc.
Williams Generation Company-Hazleton**

EXHIBIT

111-C
FES

1200 G St

Washington, D.C. 20005-3802

202-393-1200

FAX 202-393-1240

www.wrightlaw.com

ATTORNEYS AT LAW

WRIGHT & TALISMAN, P.C.

ORIGINAL

September 29, 2006

3044

Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E. Room 1A
Washington, D.C. 20426

FILED
OFFICE OF THE
SECRETARY
2006 SEP 29 3:45
FEDERAL ENERGY
REGULATORY COMMISSION

Re: Settlement Agreement and Explanatory Statement of the Settling Parties Resolving All Issues in PJM Interconnection L.L.C., Docket Nos. ER05-1410-000 and -001, and EL05-148-000 and -001

Dear Ms. Salas:

PJM Interconnection, L.L.C. ("PJM"), pursuant to Rule 602 of the Commission's Rules, submits for filing, on behalf of itself and the parties listed in the enclosed Settlement Agreement (collectively "Settling Parties"), an original and 14 copies of the settlement documents described below.

I. Description of the Filing

The Settlement Agreement filed herein resolves all issues regarding the implementation by PJM of a reliability pricing model ("RPM") to replace PJM's existing capacity obligation rules, without the need for an evidentiary hearing or further proceedings. Therefore, the Settling Parties respectfully request that the Commission approve the Settlement Agreement, including the enclosed revised sheets of the PJM Open Access Transmission Tariff ("PJM Tariff"), PJM Operating Agreement, and the enclosed new Reliability Assurance Agreement for the PJM Region ("RAA"), as set forth in Attachments A through F to the Settlement Agreement.

II. Documents Enclosed

The Settling Parties submit the following settlement materials:

1. Explanatory Statement, including appendices containing supplemental affidavits of Mr. Andrew L. Ott, Mr. Joseph E. Bowring, and Mr. Benjamin F. Hobbs, on behalf of PJM; Mr. Paul Williams, on behalf of the Portland Cement Association; and Mr. Robert Stoddard, on behalf of Mirant.

Honorable Magalie R. Salas, Secretary
September 29, 2006
Page 2

2. Settlement Agreement, including appendices containing revised sheets to the PJM Tariff, Operating Agreement and RAA;
3. Proposed Letter Order; and
4. Certificate of Service.

III. Comment Dates

Pursuant to Rule 602(f)(2), comments on the Settlement Agreement must be filed with the Secretary within 20 days of the filing of the settlement, i.e., on or before October 19, 2006, and reply comments must be filed with the Secretary within 30 days of such filing, i.e. on or before October 30, 2006.

IV. Request for Review and Waiver

The Settlement Agreement provides that the RPM construct shall replace PJM's current capacity construct beginning on June 1, 2007, which is the first day of the next annual Delivery Year under the new capacity rules. To permit this implementation date, PJM must conduct the Base Residual Auction for the 2007-2008 Delivery Year in April 2007; therefore, PJM and the market participants must begin to implement the necessary systems and business practice changes as soon as possible. To that end, the Settling Parties are asking the Commission to approve the Settlement Agreement by December 22, 2006. To the extent necessary, waiver of the Commission's notice requirements is requested.

V. Service and Request for Waiver of Posting Requirements

Pursuant to Rules 602(d) and 2010 (18 C.F.R. §§ 385.602(d) & 2010), PJM has served, either by paper or electronic service, the settlement documents listed in section II above, on all the parties listed on the official service list compiled by the Secretary in this proceeding, all PJM members, and all state commissions in the PJM Region.

With regard to service on the PJM members and the state commissions, PJM requests waiver of the posting requirements, so as to permit electronic service rather than paper service. Waiver of paper service is consistent with the Commission's decision to establish electronic service as the default method of service on service lists maintained by the Commission Secretary for Commission proceedings.¹ While Order No. 653 did not amend the posting requirements, application of its rules to tariff filings would be consistent with the Commission's "efforts to reduce the use of paper in compliance with the Government Paperwork Elimination Act."² Applying amended section 385.2010(f) to

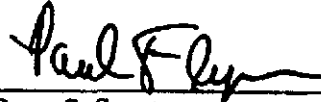
¹ See Electronic Notification of Commission Issuances, Order No. 653, 110 FERC ¶ 61,110 (2005).

² Id. at P 2, citing 44 U.S.C. § 3504.

Honorable Magalie R. Salas, Secretary
September 29, 2006
Page 3

this filing, PJM will post this filing today to the FERC filings section of its internet site, <http://www.pjm.com/documents/ferc.html>, and send an e-mail to all PJM members and all state utility regulatory commissions in the PJM Region³ alerting them that this filing has been made by PJM today and is available by following such link. Within one business day, PJM will send a second e-mail to the same list, containing a link that takes the recipient directly to the filed document.⁴

Respectfully submitted,



Craig Glazer
Vice President – Federal Government Policy
PJM Interconnection, L.L.C.
1200 G Street, N.W.
Suite 600
Washington, D.C. 20005
(202) 393-7756 (phone)
(202) 393-393-7741 (fax)
glazec@pjm.com

Barry S. Spector
Paul M. Flynn
Wright & Talisman, P.C.
1200 G Street, N.W.
Suite 600 Washington, D.C. 20005
(202) 393-1200 (phone)
(202) 393-1240 (fax)
flynn@wrightlaw.com

Jeffrey W. Mayes
Senior Counsel
PJM Interconnection, L.L.C.
955 Jefferson Avenue
Norristown, PA 19403
(610) 666-8878 (phone)
(610) 666-4281 (fax)
mayesj@pjm.com

Attorneys for
PJM Interconnection, L.L.C.

Encl.
cc: Service List

³ PJM already maintains, updates, and regularly uses e-mail lists for all Members and affected commissions.

⁴ PJM anticipates that in unusual circumstances, it may not be possible to post the document to its website on the day of filing, or to distribute an active link to the document within one business day. Consistent with §385.2010(i)(3), if a link to the document does not become available within two business days after filing, PJM will arrange for immediate service by other means.

PJM Interconnection, L.L.C.

Docket Nos. EL05-148 and

ER05-1410

September 29, 2006

Attachment A
PJM RAA Revisions
(Clean Version)

Reliability Assurance Agreement
Among Load-Serving Entities
In the PJM Region

k:\pjm\RPM Documents\RAA for RPM (08-30-05).doc

PJM Interconnection, L.L.C.
Rate Schedule FERC No. 44

RELIABILITY ASSURANCE AGREEMENT

Among

LOAD SERVING ENTITIES

in the

PJM REGION

PJM Interconnection, L.L.C.
Rate Schedule FERC No. 44

Original Sheet No. 1

RELIABILITY ASSURANCE AGREEMENT

RELIABILITY ASSURANCE AGREEMENT, dated as of this 1st day of June, 2007 by and among the entities set forth in Schedule 17 hereto, hereinafter referred to collectively as the "Parties" and individually as a "Party."

WITNESSETH:

WHEREAS, each Party to this Agreement is a Load Serving Entity within the PJM Region;

WHEREAS, each Party is committing to share its Capacity Resources with the other Parties to reduce the overall reserve requirements for the Parties while maintaining reliable service; and

WHEREAS, each Party is committing to provide mutual assistance to the other Parties during Emergencies;

WHEREAS, each Party is committing to coordinate its planning of Capacity Resources to satisfy the Reliability Principles and Standards;

WHEREAS, the Parties previously have entered into similar commitments related to sub-regions of the PJM Region through the East RAA, the West RAA, or the South RAA;

WHEREAS, the Parties desire, on a phased basis, to replace the East RAA, West RAA, and South RAA with a single reliability assurance agreement among all Load-Serving Entities in the PJM Region; and

NOW THEREFORE, for and in consideration of the covenants and mutual agreements set forth herein and intending to be legally bound hereby, the Parties agree as follows:

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ARTICLE 1 -- DEFINITIONS

Unless the context otherwise specifies or requires, capitalized terms used herein shall have the respective meanings assigned herein or in the Schedules hereto for all purposes of this Agreement (such definitions to be equally applicable to both the singular and the plural forms of the terms defined). Unless otherwise specified, all references herein to Articles, Sections or Schedules, are to Articles, Sections or Schedules of this Agreement. As used in this Agreement:

1.1 Agreement shall mean this Reliability Assurance Agreement, together with all Schedules hereto, as amended from time to time.

1.2 Applicable Regional Reliability Council shall have the same meaning as in the PJM Tariff.

1.3 Base Residual Auction shall have the same meaning as in Attachment DD to the PJM Tariff.

1.4 Behind The Meter Generation shall mean a generating unit that delivers energy to load without using the Transmission System or any distribution facilities (unless the entity that owns or leases the distribution facilities consented to such use of the distribution facilities and such consent has been demonstrated to the satisfaction of the Office of the Interconnection; provided, however, that Behind The Meter Generation does not include (i) at any time, any portion of such generating unit's capacity that is designated as a Capacity Resource or (ii) in any hour, any portion of the output of such generating unit that is sold to another entity for consumption at another electrical location or into the PJM Interchange Energy Market.

1.5 Black Start Capability shall mean the ability of a generating unit or station to go from a shutdown condition to an operating condition and start delivering power without assistance from the power system.

1.6 Capacity Emergency Transfer Objective ("CETO") shall mean the amount of electric energy that a given area must be able to import in order to remain within a loss of load expectation of one event in 25 years when the area is experiencing a localized capacity emergency, as determined in accordance with the PJM Manuals. Without limiting the foregoing, CETO shall be calculated based in part on EFOR_D determined in accordance with Paragraph C of Schedule 5.

1.7 Capacity Emergency Transmission Limit ("CETL") shall mean the capability of the transmission system to support deliveries of electric energy to a given area experiencing a localized capacity emergency as determined in accordance with the PJM Manuals.

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1.8 Capacity Resources shall mean megawatts of (i) net capacity from existing or Planned Generation Capacity Resources meeting the requirements of Schedules 9 and 10 that are or will be owned by or contracted to a Party and that are or will be committed to satisfy that Party's obligations under this Agreement for a Delivery Year; (ii) net capacity from existing or Planned Generation Capacity Resources within the PJM Region not owned or contracted for by a Party which are accredited to the PJM Region pursuant to the procedures set forth in Schedules 9 and 10; and (iii) load reduction capability provided by Demand Resources or ILR that are accredited to the PJM Region pursuant to the procedures set forth in Schedule 6.

1.9 Capacity Transfer Right shall have the meaning specified in Attachment DD to the PJM Tariff.

1.10 Control Area shall mean an electric power system or combination of electric power systems bounded by interconnection metering and telemetry to which a common generation control scheme is applied in order to:

(a) match the power output of the generators within the electric power system(s) and energy purchased from entities outside the electric power system(s), with the load within the electric power system(s);

(b) maintain scheduled interchange with other Control Areas, within the limits of Good Utility Practice;

(c) maintain the frequency of the electric power system(s) within reasonable limits in accordance with Good Utility Practice and the criteria of NERC and Applicable Regional Reliability Councils;

(d) maintain power flows on transmission facilities within appropriate limits to preserve reliability; and

(e) provide sufficient generating capacity to maintain operating reserves in accordance with Good Utility Practice.

1.11 Daily Unforced Capacity Obligation shall have the meaning set forth in Schedule 8 or, as to an FRR Entity, in Schedule 8.1.

1.12 Delivery Year shall mean a Planning Period for which a Capacity Resource is committed pursuant to the auction procedures specified in Attachment DD to the Tariff or pursuant to an FRR Capacity Plan.

1.13 Demand Resource shall mean a resource with a demonstrated capability to provide a reduction in demand or otherwise control load in accordance with the requirements of Schedule 6 that offers and that clears load reduction capability in a Base Residual Auction or Incremental Auction or that is committed through an FRR Capacity Plan. As set forth in Schedule 6, a Demand Resource may be an existing demand response resource or a Planned Demand Resource.

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1.14 Demand Resource Provider shall have the meaning specified in Attachment DD to the PJM Tariff.

1.15 DR Factor shall mean that factor approved from time to time by the PJM Board used to determine the unforced capacity value of a Demand Resource or ILR in accordance with Schedule 6.

1.16 East RAA shall mean that certain Reliability Assurance Agreement among Load-Serving Entities in the PJM Region, PJM Rate Schedule FERC No. 27.

1.17 Electric Cooperative shall mean an entity owned in cooperative form by its customers that is engaged in the generation, transmission, and/or distribution of electric energy.

1.18 Electric Distributor shall mean an entity that owns or leases with rights equivalent to ownership electric distribution facilities that are providing electric distribution service to electric load within the PJM Region.

1.19 Emergency shall mean (i) an abnormal system condition requiring manual or automatic action to maintain system frequency, or to prevent loss of firm load, equipment damage, or tripping of system elements that could adversely affect the reliability of an electric system or the safety of persons or property; or (ii) a fuel shortage requiring departure from normal operating procedures in order to minimize the use of such scarce fuel; or (iii) a condition that requires implementation of emergency procedures as defined in the PJM Manuals.

1.20 End-Use Customer shall mean a Member that is a retail end-user of electricity within the PJM Region.

1.21 Facilities Study Agreement shall have the same meaning as in the PJM Tariff

1.22 FERC shall mean the Federal Energy Regulatory Commission or any successor federal agency, commission or department.

1.23 Firm Point-To-Point Transmission Service shall mean Firm Transmission Service provided pursuant to the rates, terms and conditions set forth in Part II of the PJM Tariff.

1.24 Firm Transmission Service shall mean transmission service that is intended to be available at all times to the maximum extent practicable, subject to an Emergency, an unanticipated failure of a facility, or other event beyond the control of the owner or operator of the facility or the Office of the Interconnection.

1.25 Fixed Resource Requirement Alternative or FRR Alternative shall mean an alternative method for a Party to satisfy its obligation to provide Unforced Capacity hereunder, as set forth in Schedule 8.1 to this Agreement.

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1.26 Forecast Pool Requirement shall mean the amount equal to one plus the unforced reserve margin (stated as a decimal number) for the PJM Region required pursuant to this Agreement, as approved by the PJM Board pursuant to Schedule 4.1.

1.27 Forecast RTO ILR Obligation shall have the same meaning as in the PJM Tariff.

1.28 Forecast Zonal ILR Obligation shall have the same meaning as in the PJM Tariff.

1.29 FRR Capacity Plan shall mean a long-term plan for the commitment of Capacity Resources to satisfy the capacity obligations of a Party that has elected the FRR Alternative, as more fully set forth in Schedule 8.1 to this Agreement.

1.30 FRR Entity shall mean, for the duration of such election, a Party that has elected the FRR Alternative hereunder.

1.31 FRR Service Area shall mean (a) the service territory of an IOU as recognized by state law, rule or order; (b) the service area of a Public Power Entity or Electric Cooperative as recognized by franchise or other state law, rule, or order; or (c) a separately identifiable geographic area that is: (i) bounded by wholesale metering, or similar appropriate multi-site aggregate metering, that is visible to, and regularly reported to, the Office of the Interconnection, or that is visible to, and regularly reported to an Electric Distributor and such Electric Distributor agrees to aggregate the load data from such meters for such FRR Service Area and regularly report such aggregated information, by FRR Service Area, to the Office of the Interconnection; and (ii) for which the FRR Entity has or assumes the obligation to provide capacity for all load (including load growth) within such area excluding the load of Single-Customer LSEs that are FRR Entities. In the event that the service obligations of an Electric Cooperative or Public Power Entity are not defined by geographic boundaries but by physical connections to a defined set of customers, the FRR Service Area in such circumstances shall be defined as all customers physically connected to transmission or distribution facilities of such Electric Cooperative or Public Power Entity within an area bounded by appropriate wholesale aggregate metering as described above.

1.32 Full Requirements Service shall mean wholesale service to supply all of the power needs of a Load Serving Entity to serve end-users within the PJM Region that are not satisfied by its own generating facilities.

1.33 Generation Capacity Resource shall mean a generation unit, or the right to capacity from a specified generation unit, that meets the requirements of Schedules 9 and 10 of this Agreement. A Generation Resource may be an existing Generation Resource or a Planned Generation Resource.

1.34 Generation Owner shall mean a Member that owns or leases with rights equivalent to ownership facilities for the generation of electric energy that are located within the

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PJM Region. Purchasing all or a portion of the output of a generation facility shall not be sufficient to qualify a Member as a Generation Owner.

1.35 Generator Forced Outage shall mean an immediate reduction in output or capacity or removal from service, in whole or in part, of a generating unit by reason of an Emergency or threatened Emergency, unanticipated failure, or other cause beyond the control of the owner or operator of the facility, as specified in the relevant portions of the PJM Manuals. A reduction in output or removal from service of a generating unit in response to changes in market conditions shall not constitute a Generator Forced Outage.

1.36 Generator Maintenance Outage shall mean the scheduled removal from service, in whole or in part, of a generating unit in order to perform repairs on specific components of the facility, if removal of the facility qualifies as a maintenance outage pursuant to the PJM Manuals.

1.37 Generator Planned Outage shall mean the scheduled removal from service, in whole or in part, of a generating unit for inspection, maintenance or repair with the approval of the Office of the Interconnection in accordance with the PJM Manuals.

1.38 Good Utility Practice shall mean any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather is intended to include acceptable practices, methods, or acts generally accepted in the region.

1.39 ILR Provider shall have the meaning specified in Attachment DD to the PJM Tariff.

1.40 Incremental Auction shall mean the First Incremental Auction, the Second Incremental Auction, or the Third Incremental Auction, each as defined in Attachment DD to the PJM Tariff.

1.41 Interconnection Agreement shall have the same meaning as in the PJM Tariff.

1.42 Interruptible Load for Reliability, or ILR, shall mean a resource with a demonstrated capability to provide a reduction in demand or otherwise control load in accordance with the requirements of Schedule 6 that is certified by PJM no later than three months prior to a Delivery Year.

1.43 IOU shall mean an investor-owned utility with substantial business interest in owning and/or operating electric facilities in any two or more of the following three asset categories: generation, transmission, distribution.

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1.44 Load Serving Entity or LSE shall mean any entity (or the duly designated agent of such an entity), including a load aggregator or power marketer, (i) serving end-users within the PJM Region, and (ii) that has been granted the authority or has an obligation pursuant to state or local law, regulation or franchise to sell electric energy to end-users located within the PJM Region. Load Serving Entity shall include any end-use customer that qualifies under state rules or a utility retail tariff to manage directly its own supply of electric power and energy and use of transmission and ancillary services.

1.45 Locational Reliability Charge shall mean the charge determined pursuant to Schedule 8.

1.46 Markets and Reliability Committee shall mean the committee established pursuant to the Operating Agreement as a Standing Committee of the Members Committee.

1.47 Member shall mean an entity that satisfies the requirements of Sections 1.24 and 11.6 of the PJM Operating Agreement. In accordance with Article 4 of this Agreement, each Party to this Agreement also is a Member.

1.48 Members Committee shall mean the committee specified in Section 8 of the PJM Operating Agreement composed of the representatives of all the Members.

1.49 NERC shall mean the North American Electric Reliability Council or any successor thereto.

1.50 Network Resources shall have the meaning set forth in the PJM Tariff.

1.51 Network Transmission Service shall mean transmission service provided pursuant to the rates, terms and conditions set forth in Part III of the PJM Tariff or transmission service comparable to such service that is provided to a Load Serving Entity that is also a Transmission Owner (as that term is defined in the PJM Tariff).

1.52 Nominated Demand Resource Value shall have the meaning specified in Attachment DD to the PJM Tariff.

1.53 Nominated ILR Value shall have the meaning specified in Attachment DD to the PJM Tariff.

1.54 Non-Retail Behind the Meter Generation shall mean Behind the Meter Generation that is used by municipal electric systems, electric cooperatives, and electric distribution companies to serve load.

1.55 Obligation Peak Load shall be the summation of the weather normalized coincident summer peaks for the previous summer of the end-users for which the Party was responsible on that billing day, as determined pursuant to Schedule 8 of this Agreement.

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1.56 Office of the Interconnection shall mean the employees and agents of PJM Interconnection, L.L.C., subject to the supervision and oversight of the PJM Board, acting pursuant to the Operating Agreement.

1.57 Operating Agreement of PJM Interconnection, L.L.C. or Operating Agreement shall mean that certain agreement, dated April 1, 1997 and as amended and restated June 2, 1997 and as amended from time to time thereafter, among the members of the PJM Interconnection, L.L.C.

1.58 Operating Reserve shall mean the amount of generating capacity scheduled to be available for a specified period of an operating day to ensure the reliable operation of the PJM Region, as specified in the PJM Manuals.

1.59 Other Supplier shall mean a Member that is (i) a seller, buyer or transmitter of electric capacity or energy in, from or through the PJM Region, and (ii) is not a Generation Owner, Electric Distributor, Transmission Owner or End-Use Customer.

1.60 Partial Requirements Service shall mean wholesale service to supply a specified portion, but not all, of the power needs of a Load Serving Entity to serve end-users within the PJM Region that are not satisfied by its own generating facilities.

1.61 Percentage Internal Resources Required shall mean, for purposes of an FRR Capacity Plan, the percentage of the LDA Reliability Requirement for an LDA that must be satisfied with Capacity Resources located in such LDA.

1.62 Party shall mean an entity bound by the terms of this Agreement.

1.63 PJM shall mean the PJM Board and the Office of the Interconnection.

1.64 PJM Board shall mean the Board of Managers of the PJM Interconnection, L.L.C., acting pursuant to the Operating Agreement.

1.65 PJM Manuals shall mean the instructions, rules, procedures and guidelines established by the Office of the Interconnection for the operation, planning and accounting requirements of the PJM Region.

1.66 PJM Open Access Transmission Tariff or PJM Tariff shall mean the tariff for transmission service within the PJM Region, as in effect from time to time, including any schedules, appendices, or exhibits attached thereto.

1.67 PJM Region shall have the same meaning as provided in the Operating Agreement.

1.68 PJM Region Installed Reserve Margin shall mean the percent installed reserve margin for the PJM Region required pursuant to this Agreement, as approved by the PJM Board pursuant to Schedule 4.1.

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1.69 Planned Demand Resource shall mean a Demand Resource that does not currently have the capability to provide a reduction in demand or to otherwise control load, but that is scheduled to be capable of providing such reduction or control on or before the start of the Delivery Year for which such resource is to be committed, as determined in accordance with the requirements of Schedule 6.

1.70 Planned Generation Capacity Resource shall mean a Generation Capacity Resource participating in the generation interconnection process under part IV, subpart A of the PJM Tariff, for which Interconnection Service is scheduled to commence on or before the first day of the Delivery Year for which such resource is to be committed, for which a Facilities Study Agreement has been executed prior to the Base Residual Auction for such Delivery Year, and for which an Interconnection Service Agreement has been executed prior to any Incremental Auction for such Delivery Year. Notwithstanding the foregoing, for purposes of any Delivery Year for which the Base Residual Auction is conducted in calendar year 2007 and 2008 as part of the Transition in implementing the Reliability Pricing Model, a Planned Generation Capacity Resource shall include a Generation Capacity Resource scheduled to be in service on or before the first day of such Delivery Year, for which a System Impact Study Agreement has been executed prior to the Base Residual Auction for such Delivery Year. A Generation Capacity Resource shall cease to be considered a Planned Generation Capacity Resource as of the date that Interconnection Service commences, in accordance with Part IV of the PJM Tariff, as to such resource.

1.71 Planning Period shall mean the 12 months beginning June 1 and extending through May 31 of the following year, or such other period approved by the Members Committee.

1.72 Public Power Entity shall mean any agency, authority, or instrumentality of a state or of a political subdivision of a state, or any corporation wholly owned by any one or more of the foregoing, that is engaged in the generation, transmission, and/or distribution of electric energy.

1.73 Qualifying Transmission Upgrades shall have the meaning specified in Attachment DD to the PJM Tariff.

1.74 Markets and Reliability Committee shall mean the committee established pursuant to the Operating Agreement as a Standing Committee of the Members Committee.

1.75 Reliability Principles and Standards shall mean the principles and standards established by NERC or an Applicable Regional Reliability Council to define, among other things, an acceptable probability of loss of load due to inadequate generation or transmission capability, as amended from time to time.

1.76 Required Approvals shall mean all of the approvals required for this Agreement to be modified or to be terminated, in whole or in part, including the acceptance for filing by FERC and every other regulatory authority with jurisdiction over all or any part of this Agreement.

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1.77 Self-Supply shall have the meaning provided in Attachment DD to the PJM Tariff.

1.78 Single-Customer LSE shall mean a Party that (a) serves only retail customers that are Affiliates of such Party; (b) owns or controls generation facilities located at one or more of the retail customer location(s) that in the aggregate satisfy at least 50% of such Party's Unforced Capacity obligations; and (c) serves retail customers having (i) an Obligation Peak Load at all locations of no less than 100 MW, where such peak load of each such location is no less than 10 MW; or (ii) an Obligation Peak Load at each location served of no less than 25 MW.

1.79 South RAA shall mean that certain Reliability Assurance Agreement among Load-Serving Entities in the PJM South Region, on file with FERC as PJM Rate Schedule FERC No. 40.

1.80 State Consumer Advocate shall mean a legislatively created office from any State, all or any part of the territory of which is within the PJM Region, and the District of Columbia established, inter alia, for the purpose of representing the interests of energy consumers before the utility regulatory commissions of such states and the District of Columbia and the FERC.

1.81 State Regulatory Structural Change shall mean as to any Party, a state law, rule, or order that, after September 30, 2006, initiates a program that allows retail electric consumers served by such Party to choose from among alternative suppliers on a competitive basis, terminates such a program, expands such a program to include classes of customers or localities served by such Party that were not previously permitted to participate in such a program, or that modifies retail electric market structure or market design rules in a manner that materially increases the likelihood that a substantial proportion of the customers of such Party that are eligible for retail choice under such a program (a) that have not exercised such choice will exercise such choice; or (b) that have exercised such choice will no longer exercise such choice, including for example, without limitation, mandating divestiture of utility-owned generation or structural changes to such Party's default service rules that materially affect whether retail choice is economically viable.

1.82 Threshold Quantity shall mean, as to any FRR Entity for any Delivery Year, the sum of (a) the Unforced Capacity equivalent (determined using the Pool-Wide Average EFOR_D) of the Installed Reserve Margin for such Delivery Year multiplied by the Preliminary Forecast Peak Load for which such FRR Entity is responsible under its FRR Capacity Plan for such Delivery Year, plus (b) the lesser of (i) 3% of the Unforced Capacity amount determined in (a) above or (ii) 450 MW. If the FRR Entity is not responsible for all load within a Zone, the Preliminary Forecast Peak Load for such entity shall be the FRR Entity's Obligation Peak Load last determined prior to the Base Residual Auction for such Delivery Year, times the Base FRR Scaling Factor (as determined in accordance with Schedule 8.1).

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1.83 Transmission Facilities shall mean facilities that: (i) are within the PJM Region; (ii) meet the definition of transmission facilities pursuant to FERC's Uniform System of Accounts or have been classified as transmission facilities in a ruling by FERC addressing such facilities; and (iii) have been demonstrated to the satisfaction of the Office of the Interconnection to be integrated with the PJM Region transmission system and integrated into the planning and operation of the PJM Region to serve all of the power and transmission customers within the PJM Region.

1.84 Transmission Owner shall mean a Member that owns or leases with rights equivalent to ownership Transmission Facilities. Taking transmission service shall not be sufficient to qualify a Member as a Transmission Owner.

1.85 Transmission Owners Agreement shall mean that certain Consolidated Transmission Owners Agreement, dated as of December 15, 2005 and as amended from time to time, among transmission owners within the PJM Region.

1.86 Unforced Capacity shall mean installed capacity rated at summer conditions that is not on average experiencing a forced outage or forced derating, calculated for each Capacity Resource on the 12-month period from October to September without regard to the ownership of or the contractual rights to the capacity of the unit.

1.87 West RAA shall mean the "PJM West Reliability Assurance Agreement among the Load Serving Entities in the PJM West Region," on file with FERC as PJM Rate Schedule FERC No. 32.

1.88 Zonal Capacity Price shall mean the price of Unforced Capacity in a Zone that an LSE that has not elected the FRR Alternative is obligated to pay for a Delivery Year as determined pursuant to Attachment DD to the PJM Tariff.

1.89 Zone shall mean an area within the PJM Region, as set forth in Schedule 15, or as such areas may be (i) combined as a result of mergers or acquisitions or (ii) added as a result of the expansion of the boundaries of the PJM Region. A Zone shall include any Non-Zone Network Load (as defined in the PJM Tariff) located outside the PJM Region that is served from such Zone under Schedule H-A of the PJM Tariff.

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ARTICLE 2 – PURPOSE

This Agreement is intended to ensure that adequate Capacity Resources, including planned and existing Generation Capacity Resources, planned and existing Demand Resources, and ILR will be planned and made available to provide reliable service to loads within the PJM Region, to assist other Parties during Emergencies and to coordinate planning of such resources consistent with the Reliability Principles and Standards. Further, it is the intention and objective of the Parties to implement this Agreement in a manner consistent with the development of a robust competitive marketplace. To accomplish these objectives, this Agreement is among all of the Load Serving Entities within the PJM Region. Unless this Agreement is terminated as provided in Section 3.3, every entity which is or will become a Load Serving Entity within the PJM Region is to become and remain a Party to this Agreement or to an agreement (such as a requirements supply agreement) with a Party pursuant to which that Party has agreed to act as the agent for the Load Serving Entity for purposes of satisfying the obligations under this Agreement related to the load within the PJM Region of that Load Serving Entity. Nothing herein is intended to abridge, alter or otherwise affect the emergency powers the Office of the Interconnection may exercise under the Operating Agreement and PJM Tariff.

ARTICLE 3 – TERM AND TERMINATION OF THE AGREEMENT

3.1 Term. This Agreement shall become effective as of June 1, 2007 and shall govern Unforced Capacity Obligations for the Planning Period beginning as of that date ("Initial Delivery Year"), and for each Planning Period thereafter, unless and until terminated in accordance with the terms hereof.

3.2 Transition Provisions. The East RAA, West RAA, and South RAA shall govern, in accordance with their terms now in effect or as hereafter validly amended, capacity requirements for each Planning Period through the end of the Planning Period ending May 31, 2007. Subject to the termination provisions in each such agreement, the East RAA, West RAA, and South RAA shall terminate effective 11:59:59 p.m. on May 31, 2007.

3.3 Termination.

3.3.1 Rights to Terminate. This Agreement may be terminated by a vote in the Members Committee to terminate the Agreement by an affirmative Sector Vote as specified in the Operating Agreement and upon the receipt of all Required Approvals related to the termination of this Agreement. Any such termination must be approved by the PJM Board and filed with the FERC and shall become effective only upon the FERC's approval.

3.3.2 Obligations upon Termination. Any provision of this Agreement that expressly or by implication comes into or remains in force following the termination of this Agreement shall survive such termination. The surviving provisions shall include, but shall not be limited to: (a) final settlement of the obligations of each Party under Articles 8 and 12 of this Agreement, including the accounting for the period ending with the last day of the month for which the Agreement is effective, (b) the provisions of this Agreement necessary to conduct final billings, collections and accounting with respect to all matters arising hereunder and (c) the indemnification provisions as applicable to periods prior to such termination.

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ARTICLE 4 -- ADDITION OF NEW PARTIES

Each Party agrees that any entity that (i) is or will become a Load Serving Entity, (ii) complies with the process and data requirements set forth in Schedule 1, and (iii) meets the standards for interconnection set forth in Schedule 2 shall become a Party to this Agreement and shall be listed on Schedule 16 of this Agreement upon becoming a party to the Operating Agreement, and execution of a counterpart of this Agreement.

ARTICLE 5 -- WITHDRAWAL OR REMOVAL OF A PARTY

5.1 Withdrawal of a Party.

5.1.1 Notice. Upon written notice to the Office of the Interconnection, any Party may withdraw from this Agreement, effective upon the completion of its obligations hereunder and the documentation by such Party, to the satisfaction of the Office of the Interconnection, that such Party is no longer a Load Serving Entity.

5.1.2 Determination of Obligations. A Party's obligations hereunder shall be completed as of the end of the last month for which such Party's obligations have been set at the time said notice is received, except as provided in Article 13, or unless the *Members Committee determines that the remaining Parties will be able to adjust their obligations and commitments related to the performance of this Agreement consistent with such earlier withdrawal date as may be requested by the withdrawing Party, without undue hardship or cost, while maintaining the reliability of the PJM Region.*

5.1.3 Survival of Obligations upon Withdrawal. (a) The obligations of a Party upon its withdrawal from this Agreement and any obligations of that Party under this Agreement at the time of its withdrawal shall survive the withdrawal of the Party from this Agreement. Upon the withdrawal of a Party from this Agreement, final settlement of the obligations of such Party under Articles 7 and 11 of this Agreement shall include the accounting through the date established pursuant to Sections 5.1.1 and 5.1.2.

(b) Any Party that withdraws from this Agreement shall pay all costs and expenses associated with additions, deletions and modifications to communication, computer, and other affected facilities and procedures, including any filing fees, to effect the withdrawal of the Party from the Agreement.

(c) Prior to withdrawal, a withdrawing Party desiring to remain interconnected with the PJM Region shall enter into a control area to control area interconnection agreement with the Office of the Interconnection and the transmission owner or Electric Distributor within the PJM Region with which its facilities are interconnected.

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5.1.4 Regulatory Review. Any withdrawal from this Agreement shall be filed with FERC and shall become effective only upon FERC's approval.

5.2 Breach by a Party. If a Party (a) fails to pay any amount due under this Agreement within 30 days after the due date or (b) is in breach of any material obligation under this Agreement, the Office of the Interconnection shall cause a notice of such non-payment or breach to be sent to that Party. If the Party fails, within 3 days of the receipt of such notice (except as otherwise described below), to cure such non-payment or breach, or if the breach cannot be cured within such time and if the Party does not diligently commence to cure the breach within such time and to diligently pursue such cure to completion, the Office of the Interconnection and the remaining Parties may, without an election of remedies, exercise all remedies available at law or in equity or other appropriate proceedings. Such proceedings may include (c) the commencement of a proceeding before the appropriate state regulatory commission(s) to request suspension or revocation of the breaching Party's license or authorization to serve retail load within the state(s) and/or (d) bringing any civil action or actions or recovery of damages that may include, but not be limited to, all amounts due and unpaid by the breaching Party, and all costs and expenses reasonably incurred in the exercise of its remedies hereunder (including, but not limited to, reasonable attorneys' fees).

ARTICLE 6 – MANAGEMENT ADMINISTRATION

Except as otherwise provided herein, this Agreement shall be managed and administered by the Parties, Members, and State Consumer Advocates through the Members Committee and the Markets and Reliability Committee as a Standing Committee thereof, except as delegated to the Office of the Interconnection and except that only the PJM Board shall have the authority to approve and authorize the filing of amendments to this Agreement with the FERC.

ARTICLE 7 – RESERVE REQUIREMENTS AND OBLIGATIONS

7.1 Forecast Pool Requirement and Unforced Capacity Obligations. (a) The Forecast Pool Requirement shall be established to ensure a sufficient amount of capacity to meet the forecast load plus reserves adequate to provide for the unavailability of Generation Capacity Resources, load forecasting uncertainty, and planned and maintenance outages. Schedule 4 sets forth guidelines with respect to the Forecast Pool Requirement.

(b) Unless the Party and its customer that is also a Load Serving Entity agree that such customer is to bear direct responsibility for the obligations set forth in this Agreement, (i) any Party that supplies Full Requirements Service to a Load Serving Entity within the PJM Region shall be responsible for all of that Load Serving Entity's capacity obligations under this Agreement for the period of such Full Requirements Service and (ii) any Party that supplies Partial Requirements Service to a Load Serving Entity within the PJM Region shall be responsible for such portion of the capacity obligations of that Load Serving Entity as agreed by the Party and the Load Serving Entity so long as the Load Serving Entity's full capacity obligation under this Agreement is allocated between or among Parties to this Agreement.

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7.2 Responsibility to Pay Locational Reliability Charge. Except to the extent its capacity obligations are satisfied through the FRR Alternative, each Party shall pay, as to the loads it serves in each Zone during a Delivery Year, a Locational Reliability Charge for each such Zone during such Delivery Year. The Locational Reliability Charge shall equal such Party's Daily Unforced Capacity Obligation in a Zone, as determined pursuant to Schedule 8 of this Agreement, times the Final Zonal Capacity Price for such Zone, as determined pursuant to Attachment DD of the PJM Tariff.

7.3 LSE Option to Provide Capacity Resources. A Party obligated to pay a Locational Reliability Charge for a Delivery Year may partially or wholly offset amounts it must pay for such charge by offering Capacity Resources for sale in the Base Residual Auction or Second Incremental Auction, if such auction is held, applicable to such Delivery Year; provided such resources clear such auctions. Resources offered for sale in any such auction must satisfy the requirements specified in this Agreement and the PJM Manuals. Such a Party may choose to nominate a resource in the Base Residual Auction as Self-Supply, may choose to designate a price offer for such resource into any such auction, or may indicate in its offer that it wishes to commit such resource regardless of the clearing price, in which case the Party shall receive the marginal value of system capacity and the price adders for any applicable binding locational constraint in accordance with Attachment DD of the PJM Tariff. Each such Party acknowledges that the clearing price it receives for a resource offered for sale and cleared, or Self-Supplied, in an auction may differ from the Final Zonal Capacity Price determined for the applicable Zone for the applicable Delivery Year, and that the Party shall remain responsible for the Locational Reliability Charge notwithstanding any such difference between the Capacity Resource Clearing Price and the Final Zonal Capacity Price. In addition, such Parties recognize that they may receive an allocation of Capacity Transfer Rights which may offset a portion of the Locational Reliability Charge, and that they may offset a portion of the Locational Reliability Charge by nominating ILR, or by offering and clearing Qualifying Transmission Upgrades in the Base Residual Auction.

7.4 Fixed Resource Requirement Alternative. A Party that is eligible for the Fixed Resource Requirement Alternative may satisfy its obligations hereunder to provide Unforced Capacity by submitting and adhering to an FRR Capacity Plan and meeting all other terms and conditions of such alternative, as set forth in this Agreement.

7.5 Capacity Plans and Deliverability. Each Party electing to provide Capacity Resources to meet its obligations hereunder shall submit to the Office of the Interconnection its plans (or revisions to previously submitted plans), as prescribed by Schedule 7, or, in the case of a Party electing the FRR Alternative, as prescribed by Schedule 8.1, to install or contract for Capacity Resources. As set forth in Schedule 10, each Party must designate its Capacity Resources as Network Resources or Points of Receipt under the PJM Tariff to allow firm delivery of the output of its Capacity Resources to the Party's load within the PJM Region and each Party must obtain any necessary Firm Transmission Service in an amount sufficient to deliver Capacity Resources from outside the PJM Region to the border of the PJM Region to reliably serve the Party's load within the PJM Region.

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76 Nature of Resources. Each Party electing to Self-Supply resources, or electing the FRR Alternative, shall provide or arrange for specific, firm Capacity Resources that are capable of supplying the energy requirements of its own load on a firm basis without interruption for economic conditions and with such other characteristics that are necessary to support the reliable operation of the PJM Region, as set forth in more detail in Schedules 6, 9 and 10.

7.7 Compliance Audit of Parties. (a) For the 36 months following the end of each Planning Period, each Party shall make available the records and supporting information related to the performance of this Agreement from such Planning Period for audit.

(b) The Office of the Interconnection shall evaluate and determine the need for an audit of a Party and shall, upon a decision of the Members Committee to require such an audit, provide the Party or Parties to be audited with notice at least 90 days in advance of the audit.

(c) Any audit of a Party conducted pursuant to this Agreement shall be performed by an independent consultant to be selected by the Office of the Interconnection. Such audit shall include a review of the Party's compliance with the procedures and standards adopted pursuant to this Agreement.

(d) Prior to the completion of its audit, the independent consultant shall review its preliminary findings with the Party being audited and, upon the completion of its audit, the independent consultant shall issue a final audit report detailing the results of the audit, which final report shall be issued to the Party being audited, the Office of the Interconnection and the Markets and Reliability Committee; provided, however, no confidential data of any Party shall be disclosed through such audit reports.

(e) If, based on a final audit report, an adjustment is required to any amounts due to or from the Parties pursuant to Schedules 8, 12, or 13, such adjustment shall be accounted for in determining the amounts due to or from the Parties pursuant to Schedules 8, 12, or 13 for the month in which the adjustment is identified.

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ARTICLE 8 -- DEFICIENCY, DATA SUBMISSION, AND EMERGENCY CHARGES

8.1 Nature of Charges. Upon the advice and recommendations of the Members Committee, the PJM Board shall, subject to any Required Approvals, approve certain charges to be imposed on a Party for its failure to satisfy its obligations under this Agreement, as set forth in Schedule 12.

8.2 Determination of Charge Amounts. No later than April 1 of each year, the Members Committee shall recommend to the PJM Board such charges to be applicable under this Agreement during the following Planning Period and Schedule 12, which, upon approval by the PJM Board, shall be modified accordingly, subject to the receipt of all Required Approvals. The Markets and Reliability Committee may establish projected charges for estimating purposes only.

8.3 Distribution of Charge Receipts. All of the monies received as a result of any charges imposed pursuant to this Agreement shall be disbursed as provided in this Agreement.

ARTICLE 9 -- COORDINATED PLANNING AND OPERATION

9.1 Overall Coordination. Each Party shall cooperate with the other Parties in the coordinated planning and operation of their owned or contracted for Capacity Resources to obtain a degree of reliability consistent with the Reliability Principles and Standards. In furtherance of such cooperation each Party shall:

(a) coordinate its Capacity Resource plans with the other Parties to maintain reliable service to its own electric customers and those of the other Parties;

(b) cooperate with the members and associate members of such Party's Applicable Regional Reliability Council to ensure the reliability of the region;

(c) make available its Capacity Resources to the other Parties through the Office of the Interconnection for coordinated operation and to supply the needs of the PJM Region for Operating Reserves;

(d) provide or arrange for Network Transmission Service or Firm Point-to-Point Transmission Service for service to the projected load of the Party and include all Capacity Resources as Network Resources designated pursuant to the PJM Tariff or Points of Receipt for Firm Point-to-Point Transmission Service;

(e) provide or arrange for sufficient reactive capability and voltage control facilities to meet Good Utility Practice and to be consistent with the Reliability Principles and Standards;

(f) implement emergency procedures and take such other coordination actions as may be necessary in accordance with the directions of the Office of the Interconnection in times of Emergencies; and

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(g) maintain or arrange for Black Start Capability for a portion of its Capacity Resources at least equal to that established from time-to-time by the Office of the Interconnection.

9.2 Generator Planned Outage Scheduling. Each Party shall develop, or cause to be developed, its schedules of planned outages of its Capacity Resources. Such schedules of planned outages shall be submitted to the Office of the Interconnection for coordination with the schedules of planned outages of other Parties and anticipated transmission planned outages.

9.3 Data Submissions. Each Party shall submit to the Office of the Interconnection the data and other information necessary for the performance of this Agreement, including its plans for the addition, modification and removal of Capacity Resources, its load forecasts, and such other data set forth in Schedule 11.

9.4 Charges for Failures to Comply. (a) An emergency procedure charge, as set forth in Attachment DD to the PJM Tariff, shall be imposed on any Party that fails to comply with the directions of the Office of the Interconnection pursuant to Section 9.1(f)

(b) A data submission charge, as set forth in Schedule 12, shall be imposed on any Party that fails to submit the data, plans or other information required by this Agreement in a timely or accurate manner as provided in Schedule 11.

9.5 Metering. Each Party shall comply with the metering standards for the PJM Region, as set forth in the PJM Manuals.

ARTICLE 10 – SHARED COSTS

10.1 Recording and Audit of Costs. (a) Any costs related to the performance of this Agreement, including the costs of the Office of the Interconnection and such other costs that the Members Committee determines are to be shared by the Parties, shall be documented and recorded in a manner acceptable to the Parties.

(b) The Members Committee may require an audit of such costs; provided, however, the cost records shall be available for audit by any Member or State Consumer Advocate, at the sole expense of such Member or State Consumer Advocate, for 36 months following the end of the Planning Period in which the costs were incurred.

10.2 Cost Responsibility. The costs determined under Section 10.1(a) shall be allocated to and recovered from the Parties to this Agreement and other entities pursuant to Schedule 9-5 of the PJM Tariff.

ARTICLE 11 – BILLING AND PAYMENT

11.1 Periodic Billing. Each Party shall receive a statement periodically setting forth (i) any amounts due from or to that Party as a result of any charges imposed pursuant to this Agreement and (ii) that Party's share of any costs allocated to that Party pursuant to Article 10.

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To the extent practical, such statements are to be coordinated with any billings or statements required pursuant to the Operating Agreement or PJM Tariff.

11.2 Payment. The payment terms and conditions shall be as set forth in the billing statement and shall, to the extent practicable, be the same as those then in effect under the PJM Tariff.

11.3 Failure to Pay. If any Party fails to pay its share of the costs allocated pursuant to Article 10, those unpaid costs shall be allocated to and paid by the other Parties hereto in proportion to the sum of the Daily Unforced Capacity Obligations of each such Party for the billing month. The Office of the Interconnection shall enforce collection of a Party's share of the costs.

ARTICLE 12 – INDEMNIFICATION AND LIMITATION OF LIABILITIES

12.1 Indemnification. (a) Each Party agrees to indemnify and hold harmless each of the other Parties, its officers, directors, employees or agents (other than PJM Interconnection, L.L.C., its board or the Office of the Interconnection) for all actions, claims, demands, costs, damages and liabilities asserted by third parties against the Party seeking indemnification and arising out of or relating to acts or omissions in connection with this Agreement of the Party from which indemnification is sought, except (i) to the extent that such liabilities result from the willful misconduct of the Party seeking indemnification and (ii) that each Party shall be responsible for all claims of its own employees, agents and servants growing out of any workmen's compensation law. Nothing herein shall limit a Party's indemnity obligations under Article 16 of the Operating Agreement.

(b) The amount of any indemnity payment under this Section 12.1 shall be reduced (including, without limitation, retroactively) by any insurance proceeds or other amounts actually recovered by the Party seeking indemnification in respect of the indemnified actions, claims, demands, costs, damages or liabilities. If any Party shall have received an indemnity payment in respect of an indemnified action, claim, demand, cost, damage, or liability and shall subsequently actually receive insurance proceeds or other amounts in respect of such action, claim, demand, cost, damage, or liability, then such Party shall pay to the Party that made such indemnity payment the lesser of the amount of such insurance proceeds or other amounts actually received and retained or the net amount of the indemnity payments actually received previously.

12.2 Limitations on Liability. No Party will be liable to another Party for any claim for indirect, incidental, special or consequential damage or loss of the other Party including, but not limited to, loss of profits or revenues, cost of capital or financing, loss of goodwill and cost of replacement power arising from such Party's carrying out, or failure to carry out, any obligations contemplated by this Agreement; provided, however, nothing herein shall be deemed to reduce or limit the obligation of any Party with respect to the claims of persons or entities not a party to this Agreement.

12.3 Insurance. Each Party shall obtain and maintain in force such insurance as is required of Load Serving Entities by the states in which it is doing business within the PJM Region.

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ARTICLE 13 – SUCCESSORS AND ASSIGNS

13.1 Binding Rights and Obligations. The rights and obligations created by this Agreement and all Schedules and supplements thereto shall inure to and bind the successors and assigns of the Parties; provided, however, no Party may assign its rights or obligations under this Agreement without the written consent of the Members Committee unless the assignee concurrently becomes the Load Serving Entity with regard to the end-users previously served by the assignor.

13.2 Consequences of Assignment. Upon the assignment of all of its rights and obligations hereunder to a successor consistent with the provisions of Section 13.1, the assignor shall be deemed to have withdrawn from this Agreement.

ARTICLE 14 – NOTICE

Except as otherwise expressly provided herein, any notice required hereunder shall be in writing and shall be sent: overnight courier, hand delivery, telecopy or other reliable electronic means to the representative on the Members Committee of such Party at the address for such Party previously provided by such Party to the other Parties. Any notice shall be deemed to have been given (i) upon delivery if given by overnight courier, hand delivery or certified mail or (ii) upon confirmation if given by facsimile or other reliable electronic means.

ARTICLE 15 – REPRESENTATIONS AND WARRANTIES

15.1 Initial Representations and Warranties. Each Party represents and warrants to the other Parties that, as of the date it becomes a Party:

(a) the Party is duly organized, validly existing and in good standing under the laws of the jurisdiction where organized;

(b) the execution and delivery by the Party of this Agreement and the performance of its obligations hereunder have been duly and validly authorized by all requisite action on the part of the Party and do not conflict with any applicable law or with any other agreement binding upon the Party. The Agreement has been duly executed and delivered by the Party, and this Agreement constitutes the legal, valid and binding obligation of the Party enforceable against it in accordance with its terms except insofar as the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws affecting the enforcement of creditor's rights generally and by general principles of equity regardless of whether such principles are considered in a proceeding at law or in equity; and

(c) there are no actions at law, suits in equity, proceedings or claims pending or, to the knowledge of the Party, threatened against the Party before or by any federal, state, foreign or local court, tribunal or governmental agency or authority that might materially delay, prevent or hinder the performance by the Party of its obligations hereunder.

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15.2 Continuing Representations and Warranties. Each Party represents and warrants to the other Parties that throughout the term of this Agreement:

- (a) the Party is a Load Serving Entity;
- (b) the Party satisfies the requirements of Schedule 2;
- (c) the Party is in compliance with the Reliability Principles and Standards;
- (d) the Party is a signatory, or its principals are signatories, to the agreements set forth in Schedule 3;
- (e) the Party is in good standing in the jurisdiction where incorporated; and
- (f) the Party will endeavor in good faith to obtain any corporate or regulatory authority necessary to allow the Party to fulfill its obligations hereunder.

ARTICLE 16 -- OTHER MATTERS

16.1 Relationship of the Parties. This Agreement shall not be interpreted or construed to create any association, joint venture, or partnership between or among the Parties or to impose any partnership obligation or partnership liability upon any Party.

16.2 Governing Law. This Agreement shall be interpreted, construed and governed by the laws of the State of Delaware.

16.3 Severability. Each provision of this Agreement shall be considered severable and if for any reason any provision is determined by a court or regulatory authority of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions of this Agreement shall continue in full force and effect and shall in no way be affected, impaired or invalidated, and such invalid, void or unenforceable provision shall be replaced with valid and enforceable provision or provisions which otherwise give effect to the original intent of the invalid, void or unenforceable provision.

16.4 Amendment. This Agreement may be amended only by action of the PJM Board. Notwithstanding the foregoing, an Applicant eligible to become a Party in accordance with the procedures set forth in Article 4 shall become a Party by executing a counterpart of this Agreement without the need for execution of such counterpart by any other Party. The PJM Office of the Interconnection shall file with FERC any amendment to this Agreement approved by the PJM Board.

16.5 Headings. The article and section headings used in this Agreement are for convenience only and shall not affect the construction or interpretation of any of the provisions of this Agreement.

16.6 Confidentiality. (a) No Party shall have a right hereunder to receive or review any documents, data or other information of another Party, including documents, data or other

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information provided to the Office of the Interconnection, to the extent such documents, data or information have been designated as confidential pursuant to the procedures adopted by the Office of the Interconnection or to the extent that they have been designated as confidential by another Party; provided, however, a Party may receive and review any composite documents, data and other information that may be developed based on such confidential documents, data or information if the composite document does not disclose any individual Party's confidential data or information.

(b) Notwithstanding anything in this Section to the contrary, if a Party is required by applicable laws, or in the course of administrative or judicial proceedings, to disclose information that is otherwise required to be maintained in confidence pursuant to this Section, that Party may make disclosure of such information; provided, however, that as soon as the Party learns of the disclosure requirement and prior to making disclosure, that Party shall notify the affected Party or Parties of the requirement and the terms thereof and the affected Party or Parties may direct, at their sole discretion and cost, any challenge to or defense against the disclosure requirement and the Party shall cooperate with such affected Parties to the maximum extent practicable to minimize the disclosure of the information consistent with applicable law. Each Party shall cooperate with the affected Parties to obtain proprietary or confidential treatment of such information by the person to whom such information is disclosed prior to any such disclosure.

(c) Any contract with a contractor retained to provide technical support or to otherwise assist with the administration of this Agreement shall impose on that contractor a contractual duty of confidentiality that is consistent with this Section.

16.7 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together will constitute one instrument, binding upon all parties hereto, notwithstanding that all of such parties may not have executed the same counterpart.

16.8 No Implied Waivers. The failure of a Party to insist upon or enforce strict performance of any of the provisions of this Agreement shall not be construed as a waiver or relinquishment to any extent of such Party's right to assert or rely upon any such provisions, rights and remedies in that or any other instance; rather, the same shall be and remain in full force and effect.

16.9 No Third Party Beneficiaries. This Agreement is intended to be solely for the benefit of the Parties and their respective successors and permitted assigns and is not intended to and shall not confer any rights or benefits on any third party not a signatory hereto.

16.10 Dispute Resolution. Except as otherwise specifically provided in the Operating Agreement, disputes arising under this Agreement shall be subject to the dispute resolution provisions of the Operating Agreement.

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IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representatives.

[Signatures]

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SCHEDULE 1

PROCEDURES TO BECOME A PARTY

A. Notice

Any entity that is or will become a Load Serving Entity within the PJM Region and thus a Party to the Reliability Assurance Agreement shall submit a notice to the Office of the Interconnection together with (i) its representation that it has satisfied or will (prior to the date the Reliability Assurance Agreement is to become effective as to that entity) satisfy the requirements to become a Party, (ii) all data required to coordinate planning and operations within the PJM Region as applicable, in a format defined in the PJM Manuals, and (iii) a deposit in an amount to be specified that will be applied toward the costs of the required analysis.

The required notice, representations, data and deposit must be submitted in sufficient time to conduct an analysis of the data submitted and to adjust the obligations of the Parties for the month in which the entity desires to become a Party:

- If the then existing boundaries of the PJM Region would be expanded by an entity becoming a Party, that entity shall submit the required notice, representation, data and deposit no later than when the entity applies for transmission service under the PJM Tariff.
- If an entity will serve load within the then existing boundaries of the PJM Region, that entity shall submit the required notice, representations, data and deposit as soon as possible prior to the month (i) in which it is to begin serving loads within the PJM Region or (ii) in which any agency relationship through which the entity's obligations under this Agreement had been satisfied is terminated; provided, however, that such submission shall not be required sooner than any request for transmission service or any change in the designation of Network Resources or points of receipt and loads under the PJM Tariff associated with providing service to those loads.

B. Analysis of Data

The notice, representations and data submitted to the Office of the Interconnection are to be analyzed in accordance with procedures consistent with this Agreement and the encouragement of reliable operation of the PJM Region.

C. Response

Upon completion of the analysis, the Office of the Interconnection will inform the entity of (a) the estimated costs and expenses associated with modifications to communication, computer and other facilities and procedures, including any filing fees, needed to include the entity as a Party, (b) the entity's share of any costs pursuant to Article 10, and (c) the earliest

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date upon which the entity could become a Party. In addition, a counterpart of the Agreement shall be forwarded for execution.

D. Agreement by New Party

After receipt of the response from the Office of the Interconnection, the entity shall identify its representative to the Members Committee and Markets and Reliability Committee and execute the counterpart of the Agreement, indicating the desired effective date; provided, however, such effective date shall be the first day of a month, may be no earlier than the date indicated in the response from the Office of the Interconnection and shall be no later than (i) the date on which the entity begins serving loads within the PJM Region or (ii) the termination date of any agency relationship through which its obligations under this Agreement had been satisfied. The executed counterpart of the Agreement, together with payment of its share of any costs then due, shall be returned as directed by the Office of the Interconnection.

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SCHEDULE 2

STANDARDS FOR INTEGRATING AN ENTITY INTO THE PJM REGION

- A. The following standards will be applied by the Office of the Interconnection to determine the eligibility of an entity to become a part of the PJM Region. For an entity to be integrated into the PJM Region it must possess generation and transmission attributes that would enable the entity to share its reserves with other entities in the PJM Region. Appropriate transmission and reliability studies are to be performed to determine the adequate transmission capability necessary to integrate the entity into the PJM Region consistent with *Good Utility Practice*.
- B. In addition, the entity shall meet the following requirements to be included in the PJM Region:
1. All load, generation and transmission operating as part of the PJM Region's interconnected system must be included within the metered boundaries of the PJM Region.
 2. The entity will accept and comply with the PJM Region's standards with respect to system design, equipment ratings, operating practices and maintenance practices as set forth in the PJM Manuals so that sufficient electrical equipment, control capability, information and communication are available to the Office of the Interconnection for planning and operation of the PJM Region.
 3. The load, generation and transmission facilities of each entity shall be included in the telemetry to the Office of the Interconnection from a 24-hour control center. Each system operator in these control centers must be trained and delegated sufficient authority to take any action necessary to assure that the system for which the operator is responsible is operated in a stable and reliable manner.
 4. Each entity must have compatible operational communication mechanisms, maintained at its expense, to interact with the Office of the Interconnection and for internal requirements.
 5. Each entity must assure the continued compatibility of its local system energy management system monitoring and telecommunications systems to satisfy the technical requirements of interacting with the Office of the Interconnection as it directs the operation of the PJM Region.

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SCHEDULE 3

OTHER AGREEMENTS TO BE EXECUTED BY THE PARTIES

- Any agreement for Network Transmission Service or Firm Point-To-Point Service that is required under the PJM Tariff for service consistent with the requirements of Section 9.1(d); and
- The Operating Agreement.

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SCHEDULE 4

GUIDELINES FOR DETERMINING THE FORECAST POOL REQUIREMENT

A. Objective Of The Forecast Pool Requirement

The Forecast Pool Requirement shall be determined for the specified Planning Periods to establish the level of Capacity Resources that will provide an acceptable level of reliability consistent with the Reliability Principles and Standards.

B. Forecast Pool Requirement and PJM Region Installed Reserve Margin To Be Determined Annually

No later than three months in advance of each Base Residual Auction for a Delivery Year, based on the projections described in section C of this Schedule, and after consideration of the recommendation of the Members Committee, the PJM Board shall establish the Forecast Pool Requirement, including the PJM Region Installed Reserve Margin for all Parties, including FRR Entities, for such Delivery Year. Unless otherwise agreed by the PJM Board, the Forecast Pool Requirement and PJM Region Installed Reserve Margin for such Planning Period shall be considered firm and not subject to re-determination thereafter.

C. Methodology

Each year, the Forecast Pool Requirement for at least each of the next five Planning Periods shall be projected by applying suitable probability methods to the data and forecasts provided by the Parties and obtained from Electric Distributors, as described in Schedule 11, the Operating Agreement and in the PJM Manuals. The projection of the Forecast Pool Requirement shall consider the following data and forecasts as necessary:

1. Seasonal peak load forecasts for each Planning Period as calculated by PJM in accordance with the PJM Manuals reflecting (a) load forecasts with a 50 percent probability of being too high or too low and (b) summer peak diversities determined by the Office of the Interconnection from recent experience.
2. Forecasts of aggregate seasonal load shape of the Parties which are consistent with forecast averages of 52 weekly peak loads prepared by the Parties and obtained from Electric Distributors for their respective systems.
3. Variability of loads within each week, due to weather and other recurring and random factors, as determined by the Office of the Interconnection.
4. Generating unit capability and types for every existing and proposed unit.
5. Generator Forced Outage rates for existing mature generating units, as determined by the Office of the Interconnection, based on data submitted by the Parties for their respective systems, from recent experience, and for immature and proposed

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units based upon forecast rates related to unit types, capabilities and other pertinent characteristics.

6. Generator Maintenance Outage factors and planned outage schedules as determined by the Office of the Interconnection based on forecasts and historical data submitted by the Parties for their respective systems.
7. Miscellaneous adjustments to capacity due to all causes, as determined by the Office of the Interconnection, based on forecasts submitted by the Parties for their respective systems.
8. The emergency capacity assistance available as a function of interconnections of the PJM Region with other Control Areas, as limited by the capacity benefit margin considered in the determination of available transfer capability and the probable availability of generation in excess of load requirements in such areas.

D. Capacity Benefit Margin

The capacity benefit margin initially shall be 3,500 megawatts. Periodically, in consultation with the Members Committee, the Office of the Interconnection shall review and modify, if necessary, the capacity benefit margin to balance external emergency capacity assistance and internal installed capacity reserves so as to minimize the total cost of the capacity reserves of the Parties, consistent with the Reliability Principles and Standards. The Office of the Interconnection will reflect such modification prospectively in its development of the Forecast Pool Requirement for future Planning Periods.

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SCHEDULE 4.1

DETERMINATION OF THE FORECAST POOL REQUIREMENT

A. Based on the guidelines set forth in Schedule 4, the Forecast Pool Requirement shall be determined as set forth in this Schedule 4.1 on an unforced capacity basis.

$$FPR = (1 + IRM/100) * (1 - \text{Pool-wide average } EFOR_D/100)$$

where

average $EFOR_D$ = the average equivalent demand forced outage rate for the PJM Region, stated in percent and determined in accordance with Section B hereof

IRM - the PJM Region Installed Reserve Margin approved by the PJM Board for that Planning Period, stated in percent

B. The PJM Region equivalent demand forced outage rate ("average $EFOR_D$ ") shall be determined as the capacity weighted $EFOR_D$ for all units expected to serve loads within the PJM Region during the Delivery Year, as determined pursuant to Schedule 5.

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SCHEDULE 5 FORCED OUTAGE RATE CALCULATION

A. The equivalent demand forced outage rate ("EFOR_D") shall be calculated as follows:

$$\text{EFOR}_D(\%) = \{(I_f * \text{FOH} - f_p * \text{EFPOH}) / (\text{SH} + I_f * \text{FOH})\} * 100$$

where

f_f = full outage factor
 f_p = partial outage factor
 FOH = full forced outage hours
 EFPOH = equivalent forced partial outage hours
 SH = service hours

B. Calculation of EFOR_D for individual Generation Capacity Resources.

For each Delivery Year, EFOR_D shall be calculated at least one month prior to the start of the Third Incremental Auction for: (i) each Generation Capacity Resource for which a sell offer will be submitted in such Third Incremental Auction; and (ii) each Generation Capacity Resource previously committed to serve load in such Delivery Year pursuant to an FRR Capacity Plan or prior auctions for such Delivery Year. Such calculation shall be based upon such resource's service history in the twelve (12) consecutive months ending September 30 last preceding such auction. Historical data shall be based on official reports of the Parties under rules and practices set forth in the PJM Manuals. Such rate shall also include (i) an adjustment, if any, for capacity unavailable due to energy limitations determined in accordance with definitions and criteria set forth in the PJM Manuals and (ii) any other adjustments approved by the Members Committee to adjust the parameters of a designated unit. For purposes of the calculations under this Paragraph B, outages deemed to be outside plant management control in accordance with NERC guidelines shall not be considered.

1. The EFOR_D of a unit in service twelve or more full calendar months prior to the calculation month shall be the average rate experienced by such unit during the twelve-month period specified above. Historical data shall be based on official reports of the Parties under rules and practices set forth in the PJM Manuals.

2. The EFOR_D of a unit in service at least one full calendar month but less than the twelve-month period specified above shall be the average of the EFOR_D experienced by the unit weighted by full months of service, and the class average rate for units with that capability and of that type weighted by a factor of [(twelve) minus (the number of months the unit was in service)]. Historical data shall be based on official reports of the Parties under rules and practices set forth in the PJM Manuals.

C. Calculation of average EFOR_D for the PJM Region

The forecast average EFOR_D for the PJM Region in a Delivery Year shall be the average of the forced outage rates, weighted for unit capability and expected time in service,

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attributable to all of the Generation Capacity Resources within the PJM Region, that are planned to be in service during the Delivery Year, including Generation Capacity Resources purchased from specified units and excluding Generation Capacity Resources sold outside the PJM Region from specified units. Such rate shall also include (i) an adjustment, if any, for capacity unavailable due to energy limitations determined in accordance with definitions and criteria set forth in the PJM Manuals and (ii) any other adjustments developed by the Office of Interconnection and maintained in the PJM Manuals to adjust the parameters of a designated unit when such parameters are or will be used to determine a future PJM Region reserve requirement and such adjustment is required to more accurately predict the future performance of such unit in light of extraordinary circumstances. For the purposes of this Schedule, the average EFOR_D shall be the average of the capacity-weighted EFOR_Ds of all units committed to serve load in the PJM Region; and for purposes of the EFOR_D calculations under this Paragraph C, outages deemed to be outside plant management control in accordance with NERC guidelines shall be considered. All rates shall be in percent.

1. The EFOR_D of a unit not yet in service or which has been in service less than one full calendar year at the time of forecast shall be the class average rate for units with that capability and of that type, as estimated and used in the calculation of the Forecast Pool Requirement.
2. The EFOR_D of a unit in service five or more full calendar years at the time of forecast shall be the average rate experienced by such unit during the five most recent calendar years. Historical data shall be based on official reports of the Parties under rules and practices developed by the Office of Interconnection and maintained in the PJM Manuals.
3. The EFOR_D of a unit in service at least one full calendar year but less than five full calendar years at the time of the forecast shall be determined as follows:

Full Calendar
Years of Service

- | | |
|---|--|
| 1 | One-fifth the rate experienced during the calendar year, plus four-fifths the class average rate. |
| 2 | Two-fifths the average rate experienced during the two calendar years, plus three-fifths the class average rate. |
| 3 | Three-fifths the average rate experienced during the three calendar years, plus two-fifths the class average rate. |
| 4 | Four-fifths the average rate experienced during the four calendar years, plus one-fifth the class average rate. |

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SCHEDULE 6

PROCEDURES FOR DEMAND RESOURCES AND ILR

- A. Parties can partially or wholly offset the amounts payable for the Locational Reliability Charge with Demand Resources or ILR that are operated under the direction of the Office of the Interconnection. FRR Entities may reduce their capacity obligations with Demand Resources that are operated under the direction of the Office of the Interconnection and detailed in such entity's FRR Capacity Plan. Demand Resources qualifying under the criteria set forth below may be offered for sale or designated as Self-Supply in the Base Residual Auction, included in an FRR Capacity Plan, or offered for sale in any Incremental Auction, for any Delivery Year for which such resource qualifies. In addition, resources qualifying under the criteria set forth below may be certified as ILR on behalf of a Party that has not elected the FRR Alternative for a Delivery Year no later than three months prior to the first day of such Delivery Year. Qualified Demand Resources and ILR may be provided by a Demand Resource Provider or ILR Provider, notwithstanding that such provider is not a Party to this Agreement.
1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and paragraph G of this schedule as applicable, the Office of the Interconnection of the Demand Resource or ILR that it is placing under the direction of the Office of the Interconnection.
 2. A Party must agree to reserve, for interruption at the direction of the Office of the Interconnection, at least 10 interruptions per Planning Period.
 3. The Demand Resource or ILR must be available during the summer period of June through September in the corresponding Delivery Year to be certified, offered for sale or Self-Supplied in an auction, or included as Demand Response in an FRR Capacity Plan for the corresponding Delivery Year.
 4. A period of no more than 2 hours prior notification must apply to interruptible customers.
 5. The initiation of load interruption, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.
 6. The initiation of load reduction upon the request of the Office of the Interconnection is considered an emergency action and must be implementable prior to a voltage reduction.
 7. A Party must agree to reserve interruptions of at least 6-hour duration. As a minimum, such 6-hour duration for interruptions should be available on weekdays during the 8-hour daily peak window for the appropriate season. There will be no credit given to Parties who choose to provide interruption less than 6 hours and/or exclusive of the above time period.

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8. An entity offering for sale, designating for self-supply, or including in any FRR Capacity Plan any Planned Demand Resource must demonstrate, in accordance with standards and procedures set forth in the PJM Manuals, that such resource shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such resource is committed.
- B. The Unforced Capacity value of a Demand Resource and ILR will be determined as:
- the product of the Nominated Value of the Demand Resource, or the Nominated Value of the ILR, times the DR Factor, times the Forecast Pool Requirement. The DR Factor is a factor established by the PJM Board with the advice of the Members Committee to reflect the increase in the peak load carrying capability in the PJM Region due to Demand Resources and ILR for the PJM Region divided by the total Nominated Value of Demand Resources and ILR in the PJM Region. The DR Factor will be determined using an analytical program that uses a probabilistic approach to determine reliability. The determination of the DR Factor will consider the reliability of Demand Resources and ILR, the number of interruptions, and the total amount of load reduction. The detailed procedures used for calculating the DR Factor shall be set forth in the PJM Manuals.
- C. Demand Resources offered and cleared in a Base Residual or Incremental Auction shall receive the corresponding Capacity Resource Clearing Price as determined in such auction, in accordance with Attachment DD of the PJM Tariff.
- D. Certified ILR resources shall receive the Adjusted Zonal Capacity Price, less the amount paid in CTR credits per MW of load in the Zone in which such resource is offered, in accordance with Attachment DD of the PJM Tariff.
- E. The Party, Electric Distributor, Demand Resource Provider, or ILR Provider that establishes a contractual relationship (by contract or tariff rate) with a customer for load reductions is entitled to receive the compensation specified in sections C and D for a committed Demand Resource or certified ILR, notwithstanding that such provider is not the customer's energy supplier.
- F. Any Party hereto shall demonstrate that its Demand Resources or ILR performed during periods when load management procedures were invoked by the Office of the Interconnection. The Office of the Interconnection shall adopt and maintain rules and procedures for verifying the performance of such resources. In addition, committed Demand Resources and certified ILR that do not comply with the directions of the Office of the Interconnection to reduce load during an emergency shall be subject to the penalty charge set forth in Attachment DD to the PJM Tariff.

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- G. Parties may elect to place Demand Resources associated with Behind The Meter Generation under the direction of the Office of the Interconnection for a Delivery Year by submitting a Sell Offer for such resource (as Self Supply, or with an offer price) in the Base Residual Auction for such Delivery Year. This election shall remain in effect for the entirety of such Delivery Year. In the event such an election is made, such Behind The Meter Generation will not be netted from load for the purposes of calculating the Daily Unforced Capacity Obligations under this Agreement.

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SCHEDULE 7

PLANS TO MEET OBLIGATIONS

- A. Each Party that elects to meet its estimated obligations for a Delivery Year by Self-Supply of Capacity Resources shall submit to the Office of the Interconnection, no later than one month prior to the start of the Base Residual Auction for such Delivery Year, its plans for such Capacity Resources, including (1) installation of Generation Capacity Resources (2) purchases, and (3) installation of Demand Resources or ILR.
- B. The Capacity Resource plans of each Party shall indicate the nature and current status of each resource, including the status of a Planned Generation Capacity Resource or Planned Demand Resource, the potential for deactivation or retirement of a Generation Capacity Resource or Demand Resource, and the status of commitments for each sale or purchase of capacity included in its plans. The Office of the Interconnection will review the adequacy of the submittals hereunder both as to timing and content.
- C. A Party that Self-Supplies Capacity Resources to satisfy its obligations for a Delivery Year must submit a Sell Offer as to such resource in the Base Residual Auction for such Delivery Year, in accordance with Attachment DD to the PJM Tariff.
- D. If, at any time after the close of the Third Incremental Auction for a Delivery Year, including at any time during such Delivery Year, a Capacity Resource that a Party has committed as a Self-Supplied Capacity Resource becomes physically incapable of delivering capacity or reducing load, the Party may submit a replacement Capacity Resource to the Office of the Interconnection. Such replacement Capacity Resource (1) may not be previously committed for such Delivery Year, (2) shall be capable of providing the same quantity of megawatts of capacity or load reduction as the originally committed Capacity Resource, and (3) shall be located in the same Locational Deliverability Area, if applicable, as the originally committed resource. In accordance with Attachment DD to the PJM Tariff, the Office of the Interconnection shall determine the acceptability of the replacement Capacity Resource.

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SCHEDULE 8

DETERMINATION OF UNFORCED CAPACITY OBLIGATIONS

- A. For each billing month during a Delivery Year, the Daily Unforced Capacity Obligation of a Party that has not elected the FRR Alternative for such Delivery Year shall be determined on a daily basis for each Zone as follows:

$$\text{Daily Unforced Capacity Obligation} = \text{OPL} \times \text{Final Zonal RPM Scaling Factor} \times \text{FPR}$$

Where:

OPL Obligation Peak Load, defined as the daily summation of the weather-adjusted coincident summer peak, last preceding the Delivery Year, of the end-users in such Zone (net of operating Behind The Meter Generation, but not to be less than zero) for which such Party was responsible on that billing day, as determined in accordance with the procedures set forth in the PJM Manuals

Final Zonal RPM Scaling Factor = the factor determined as set forth in sections B and C of this Schedule

FPR = the Forecast Pool Requirement

Netting of Behind the Meter Generation for a Party with regard to Non-Retail Behind the Meter Generation shall be subject to the following limitation:

For the 2006/2007 Planning Period, 100 percent of the operating Non-Retail Behind the Meter Generation shall be netted, provided that the total amount of Non-Retail Behind the Meter Generation in the PJM Region does not exceed 1500 megawatts ("Non-Retail Threshold"). For each Planning Period/Delivery Year thereafter, the Non-Retail threshold shall be proportionately increased based on load growth in the PJM Region but shall not be greater than 3000 megawatts. Load growth shall be determined by the Office of the Interconnection based on the most recent forecasted weather-adjusted coincident summer peak for the PJM Region divided by the weather-adjusted coincident peak for the previous summer for the same area. After the load growth factor is applied, the Non-Retail Threshold will be rounded up or down to the nearest whole megawatt and the rounded number shall be the Non-Retail Threshold for the current Planning Period and the base amount for calculating the Non-Retail Threshold for the succeeding planning period. If the Non-Retail Threshold is exceeded, the amount of operating Non-Retail Behind the Meter Generation that a Party may net shall be adjusted according to the following formula:

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Party Netting Credit = (NRT/ PJM NRBTMG) * Party Operating NRBTMG

Where: NRBTMG is Non-Retail Behind the Meter Generation

NRT is the Non-Retail Threshold

PJM NRBTMG is the total amount of Non-Retail Behind the Meter Generation in the PJM Region

The total amount of Non-Retail Behind the Meter Generation that is eligible for netting in the PJM Region is 3000 megawatts. Once this 3000 megawatt limit is reached, any additional Non-Retail Behind the Meter Generation which operates in the PJM Region will be ineligible for netting under this section.

In addition, the Party NRBTMG Netting Credit shall be adjusted pursuant to Schedule ____ of this Agreement, if applicable.

A Party shall be required to report to PJM such information as is required to facilitate the determination of its NRBTMG Netting Credit in accordance with the procedures set forth in the PJM Manuals.

- B. Following the Base Residual Auction for a Delivery Year, the Office of the Interconnection shall determine the Base Zonal RPM Scaling Factor and the Base Zonal Unforced Capacity Obligation for each Zone for such Delivery Year as follows:

Base Zonal Unforced Capacity Obligation = (ZWNSP * Base Zonal RPM Scaling Factor * FPR) + Forecast Zonal ILR Obligation

and

Base Zonal RPM Scaling Factor = $ZPLDY / ZWNSP \times [RUCO / (RPLDY \times FPR)]$

Where:

ZPLDY = Preliminary Zonal Peak Load Forecast for such Delivery Year

ZWNSP = Zonal Weather-Normalized Summer Peak for the summer season concluding four years prior to the commencement of such Delivery Year

RUCO = the RTO Unforced Capacity Obligation satisfied in the Base Residual Auction for such Delivery Year.

RPLDY = RTO Preliminary Peak Load Forecast for such Delivery Year.

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For purposes of such determination, PJM shall determine the Preliminary RTO Peak Load Forecast, and the Preliminary Zonal Peak Load Forecasts for each Zone, in accordance with the PJM Manuals for each Delivery Year no later than one month prior to the Base Residual Auction for such Delivery Year. PJM shall determine the Final RTO and Zonal Peak Load Forecasts in accordance with the PJM Manuals for each Delivery Year no later than one month prior to the Second Incremental Auction for such Delivery Year; provided, however, that if the Second Incremental Auction is not conducted, the Preliminary RTO and Zonal Peak Load Forecasts for the Delivery Year shall be the Final RTO and Zonal Peak Load Forecasts, respectively, for such year. PJM shall determine the most recent Weather Normalized Summer Peak for each Zone no later than seven months prior to the start of the Delivery Year, and shall calculate the RTO Weather Normalized Summer Peak as the sum of the Weather Normalized Summer Peaks for all Zones.

- C. The Final RTO Unforced Capacity Obligation for a Delivery Year shall be equal to the sum of (i) the unforced capacity obligations satisfied through the Base Residual Auction and the Second Incremental Auction, if held, and (ii) the Forecast RTO ILR Obligation for such Delivery Year. The Final Zonal Unforced Capacity Obligation shall be equal to the sum of (i) the Base Zonal Unforced Capacity Obligation, and (ii) the unforced capacity obligation satisfied in the Second Incremental Auction times (the increase in the Final Zonal Peak Load Forecast from the Preliminary Zonal Peak Load Forecast divided by the increase in the RTO Final Peak Load Forecast from the RTO Preliminary Peak Load Forecast). If a Second Incremental Auction is not conducted, the Final Zonal Unforced Capacity Obligation shall be equal to the Base Zonal Unforced Capacity Obligation. The Final Zonal RPM Scaling Factor shall be equal to the Final Zonal Unforced Capacity Obligation divided by (FPR times the Zonal Weather Normalized Summer Peak for the summer concluding prior to the commencement of such Delivery Year).
- D.
 - 1. No later than five months prior to the start of each Delivery Year, the Electric Distributor for a Zone shall allocate the most recent Weather Normalized Summer Peak for such Zone to determine the Obligation Peak Load for each end-use customer within such Zone.
 - 2. During the Delivery Year, no later than 36 hours prior to the start of each operating day, the Electric Distributor shall provide to PJM for each Party to this Agreement serving load in such Electric Distributor's Zone the Obligation Peak Load for all end-use customers served by such Party in such Zone. The daily Unforced Capacity Obligation of a Party for such Operating Day shall not be subject to change thereafter.
 - 3. For purposes of such allocations, the daily sum of the Obligation Peak Loads of all Parties serving load in a Zone must equal the Zonal Obligation Peak Load for such Zone.

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SCHEDULE 8.1

FIXED RESOURCE REQUIREMENT ALTERNATIVE

A. The Fixed Resource Requirement ("FRR") Alternative provides an alternative means, under the terms and conditions of this Schedule, for an eligible Load-Serving Entity to satisfy its obligation hereunder to commit Unforced Capacity to ensure reliable service to loads in the PJM Region.

B. Eligibility

1. Except as provided in subsection B.3 below, a Party is eligible to select the FRR Alternative if it (a) is an IOU, Electric Cooperative, or Public Power Entity; and (b) demonstrates the capability to satisfy the Unforced Capacity obligation for all load in an FRR Service Area, including all expected load growth in such area, for the term of such Party's participation in the FRR Alternative.

2. A Party eligible under B.1 above may select the FRR Alternative only as to all of its load in the PJM Region; provided however, that a Party may select the FRR Alternative for only part of its load in the PJM Region if (a) the Party elects the FRR Alternative for all load (including all expected load growth) in one or more FRR Service Areas; (b) the Party complies with the rules and procedures of the Office of the Interconnection and all relevant Electric Distributors related to the metering and reporting of load data and settlement of accounts for separate FRR Service Areas; and (c) the Party separately allocates its Capacity Resources to and among FRR Service Areas in accordance with rules specified in the PJM Manuals.

3. Single Customer LSEs as identified in accordance with subsection B.3.a below shall be eligible to elect the FRR Alternative upon the terms and conditions of this Schedule and the following additional terms and conditions. The aggregate Obligation Peak Load of all Single Customer LSEs electing the FRR Alternative in the PJM Region shall not exceed 1000 MW.

- a) Single-Customer LSEs eligible for the FRR Alternative shall be limited to those that (i) signed that certain Settlement Agreement dated September 29, 2006 in FERC Docket Nos. ER05-1410 and EL05-148 (or is an entity that was a named member of an association or coalition that was a signatory to such settlement and did not file or join in any comments opposing such settlement); and (ii) elected the FRR Alternative on or before April 1, 2008. The Office of the Interconnection, as necessary, shall establish and post in the PJM Manuals open-season procedures to apportion the maximum allowed service under the FRR Alternative among interested Single-Customer LSEs.
- b) The Single-Customer LSE must install and maintain wholesale metering at each location that is monitored by, and regularly reported to, the Office of the Interconnection.
- c) Each Single-Customer LSE warrants that (i) it has and shall maintain and enforce the contract right during the term of its election of the FRR Alternative to prohibit

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its retail customer(s) from terminating service from the Single-Customer LSE and obtaining such service from a different LSE; and (ii) it has and shall maintain for such term Financial Security or a Corporate Guaranty, both as defined in Attachment Q to the PJM Tariff, in an amount sufficient to cover any charge assessed under subsection B.3.c. A Single-Customer LSE will not violate its requirement under this subsection in the event that the retail customer terminates its service from the Single-Customer LSE and obtains service from an LSE that is an FRR Entity, provided that the Single-Customer LSE assigns Capacity Resources to the LSE providing such service in an amount equal to the Daily Unforced Capacity Obligation related to such retail customer.

- d) Each Single-Customer LSE shall obtain from its retail customer(s) and provide to the Office of the Interconnection and the entity designated under state law, order, or rule as such customer's default service provider or provider of last resort and the Electric Distributor a written statement agreeing that in the event such customer terminates its service from the Single-Customer LSE and obtains such service from a Party that is not an FRR Entity, then such customer's load shall be treated as ILR for the remaining duration of the period for which such Single-Customer LSE had elected the FRR Alternative, that for such purpose the Electric Distributor is authorized to obtain certification of such load as ILR, and that the customer agrees to provide the Electric Distributor with all information required for such certification. Nothing in this provision shall preclude such customer from using its owned or controlled generation to facilitate the interruption of its load as ILR.
- e) A Single-Customer LSE shall be assessed an Unauthorized Load Transfer Charge in the event such LSEs retail customer terminates its service from such LSE and obtains service from a Party that has not elected the FRR Alternative, or in the event such load transfer occurs to a Party that has elected the FRR Alternative, but the Single-Customer LSE does not transfer sufficient Capacity Resources as required by subsection B.3.c. Such charge shall equal two times the Cost of New Entry times the Daily Unforced Capacity Obligation related to such customer for the remaining duration of the period for which such Single-Customer LSE elected the FRR Alternative.
- f) Each Single Customer LSE shall provide to the Office of the Interconnection an FRR Capacity Plan in accordance with this schedule. Such FRR Capacity Plan, in addition to complying with all other applicable requirements of this Schedule, shall identify and commit for at least five delivery years Capacity Resources sufficient to satisfy such LSEs Daily Unforced Capacity Obligations hereunder consisting of generation assets or physical supply contracts that qualify as a 'forward contract' or a 'commodity contract' under the U.S. Bankruptcy Code. Each Single-Customer LSE warrants that all generation assets and forward supply contracts included in its FRR Capacity Plan shall be assigned to any successor-in-interest of its retail customer(s)'s assets and operations

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C. Election, and Termination of Election, of FRR Alternative

1. No less than two months before the conduct of the Base Residual Auction for the first Delivery Year for which such election is to be effective, any Party seeking to elect the FRR Alternative shall notify the Office of the Interconnection in writing of such election. Such election shall be for a minimum term of five consecutive Delivery Years. No later than one month before such Base Residual Auction, such Party shall submit its FRR Capacity Plan demonstrating its commitment of Capacity Resources for the term of such election sufficient to meet such Party's Daily Unforced Capacity Obligation (and all other applicable obligations under this Schedule) for the load identified in such plan.

2. An FRR Entity may terminate its election of the FRR Alternative effective with the commencement of any Delivery Year following the minimum five Delivery Year commitment by providing written notice of such termination to the Office of the Interconnection no later than two months prior to the Base Residual Auction for such Delivery Year. An FRR Entity that has terminated its election of the FRR Alternative shall not be eligible to re-elect the FRR Alternative for a period of five consecutive Delivery Years following the effective date of such termination.

3. Notwithstanding subsections C.1 and C.2 of this Schedule, in the event of a State Regulatory Structural Change, a Party may elect, or terminate its election of, the FRR Alternative effective as to any Delivery Year by providing written notice of such election or termination to the Office of the Interconnection in good faith as soon as the Party becomes aware of such State Regulatory Structural Change but in any event no later than two months prior to the Base Residual Auction for such Delivery Year.

4. To facilitate the elections and notices required by this Schedule, the Office of the Interconnection shall post, in addition to the information required by Section 5.11(a) of Attachment DD to the PJM Tariff, the percentage of Capacity Resources required to be located in each Locational Deliverability Area by no later than one month prior to the deadline for a Party to provide such elections and notices.

D. FRR Capacity Plans

1. Each FRR Entity shall submit its initial FRR Capacity Plan as required by subsection C.1 of this Schedule, and shall annually extend and update such plan by no later than one month prior to the Base Residual Auction for each succeeding Delivery Year in such plan. Each FRR Capacity Plan shall indicate the nature and current status of each resource, including the status of each Planned Generation Capacity Resource or Planned Demand Resource, the planned deactivation or retirement of any Generation Capacity Resource or Demand Resource, and the status of commitments for each sale or purchase of capacity included in such plan.

2. The FRR Capacity Plan of each FRR Entity that commits that it will not sell surplus Capacity Resources as a Capacity Market Seller in any auction conducted under Attachment DD of the PJM Tariff, or to any direct or indirect purchaser that uses such resource as the basis of any Sell Offer in such auction, shall designate Capacity Resources in a megawatt quantity no less than the Forecast Pool Requirement for each applicable Delivery Year times the FRR Entity's allocated share of the Preliminary Zonal Peak Load Forecast for such Delivery

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Year, as determined in accordance with procedures set forth in the PJM Manuals. If the FRR Entity is not responsible for all load within a Zone, the Preliminary Forecast Peak Load for such entity shall be the FRR Entity's Obligation Peak Load last determined prior to the Base Residual Auction for such Delivery Year, times the Base FRR Scaling Factor. The FRR Capacity Plan of each FRR Entity that does not commit that it will not sell surplus Capacity Resources as set forth above shall designate Capacity Resources at least equal to the Threshold Quantity. To the extent the FRR Entity's allocated share of the Final Zonal Peak Load Forecast exceeds the FRR Entity's allocated share of the Preliminary Zonal Peak Load Forecast, such FRR Entity's FRR Capacity Plan shall be updated to designate additional Capacity Resources in an amount no less than the Forecast Pool Requirement times such increase; provided, however, any excess megawatts of Capacity Resources included in such FRR Entity's previously designated Threshold Quantity, if any, may be used to satisfy the capacity obligation for such increased load.

3. As to any FRR Entity, the Base Zonal FRR Scaling Factor for each Zone in which it serves load for a Delivery Year shall equal $ZPLDY/ZWNSP$, where:

$ZPLDY$ – Preliminary Zonal Peak Load Forecast for such Zone for such Delivery Year; and

$ZWNSP$ = Zonal Weather-Normalized Summer Peak Load for such Zone for the summer concluding four years prior to the commencement of such Delivery Year.

4. Capacity Resources identified and committed in an FRR Capacity Plan shall meet all requirements under this Agreement and the PJM Operating Agreement applicable to Capacity Resources, including, as applicable, requirements and milestones for Planned Generation Capacity Resources and Planned Demand Resources. A Capacity Resource submitted in an FRR Capacity Plan must be on a unit-specific basis, and may not include "slice of system" or similar agreements that are not unit specific. An FRR Capacity Plan may include bilateral transactions that commit capacity for less than a full Delivery Year only if the resources included in such plan in the aggregate satisfy all obligations for all Delivery Years. All demand response, load management or similar programs on which such FRR Entity intends to rely for a Delivery Year must be included in the FRR Capacity Plan submitted three years in advance of such Delivery Year and must satisfy all requirements applicable to Demand Resources, including, without limitation, those set forth in Schedule 6 to this Agreement; provided, however, that previously uncommitted Unforced Capacity from such programs may be used to satisfy any increased capacity obligation for such FRR Entity resulting from a Final Zonal Peak Load Forecast applicable to such FRR Entity.

5. For each LDA for which the Office of the Interconnection has established a separate Variable Resource Requirement Curve for any Delivery Year addressed by such FRR Capacity Plan, the plan must include a minimum percentage of Capacity Resources for such Delivery Year located within such LDA. Such minimum percentage ("Percentage Internal Resources Required") will be calculated as the LDA Reliability Requirement less the CETL for the Delivery Year, as determined by the RTEP process as set forth in the PJM Manuals. Such requirement shall be expressed as a percentage of the Unforced Capacity Obligation based on the Preliminary Zonal Peak Load Forecast multiplied by the Forecast Pool Requirement.

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6. An FRR Entity may reduce such minimum percentage as to any LDA to the extent the FRR Entity commits to a transmission upgrade that increases the capacity emergency transfer limit for such LDA. Any such transmission upgrade shall adhere to all requirements for a Qualified Transmission Upgrade as set forth in Attachment DD to the PJM Tariff. The increase in CETL used in the FRR Capacity Plan shall be that approved by PJM prior to inclusion of any such upgrade in an FRR Capacity Plan. The FRR Entity shall designate specific additional Capacity Resources located in the LDA from which the CETL was increased, to the extent of such increase.

7. The Office of the Interconnection will review the adequacy of all submittals hereunder both as to timing and content. A Party that seeks to elect the FRR Alternative that submits an FRR Capacity Plan which, upon review by the Office of the Interconnection, is determined not to satisfy such Party's capacity obligations hereunder, shall not be permitted to elect the FRR Alternative. If a previously approved FRR Entity submits an FRR Capacity Plan that, upon review by the Office of the Interconnection, is determined not to satisfy such Party's capacity obligations hereunder, the Office of the Interconnection shall notify the FRR Entity, in writing, of the insufficiency within five (5) business days of the submittal of the FRR Capacity Plan. If the FRR Entity does not cure such insufficiency within five (5) business days after receiving such notice of insufficiency, then such FRR Entity shall be assessed an FRR Commitment Insufficiency Charge, in an amount equal to two times the Cost of New Entry for the relevant location, in \$/MW-day, times the shortfall of Capacity Resources below the FRR Entity's capacity obligation (including any Threshold Quantity requirement) in such FRR Capacity Plan, for the remaining term of such plan.

8. In a state regulatory jurisdiction that has implemented retail choice, the FRR Entity must include in its FRR Capacity Plan all load, including expected load growth, in the FRR Service Area, notwithstanding the loss of any such load to or among alternative retail LSEs. In the case of load reflected in the FRR Capacity Plan that switches to an alternative retail LSE, where the state regulatory jurisdiction requires switching customers or the LSE to compensate the FRR Entity for its FRR capacity obligations, such state compensation mechanism will prevail. In the absence of a state compensation mechanism, the applicable alternative retail LSE shall compensate the FRR Entity at the capacity price in the unconstrained portions of the PJM Region, as determined in accordance with Attachment DD to the PJM Tariff, provided that the FRR Entity may, at any time, make a filing with FERC under Sections 205 of the Federal Power Act proposing to change the basis for compensation to a method based on the FRR Entity's cost or such other basis shown to be just and reasonable, and a retail LSE may at any time exercise its rights under Section 206 of the FPA.

9. Notwithstanding the foregoing, in lieu of providing the compensation described above, such alternative retail LSE may, for any Delivery Year subsequent to those addressed in the FRR Entity's then-current FRR Capacity Plan, provide to the FRR Entity Capacity Resources sufficient to meet the capacity obligation described in paragraph D.2 for the switched load. Such Capacity Resources shall meet all requirements applicable to Capacity Resources pursuant to this Agreement and the PJM Operating Agreement, all requirements applicable to resources committed to an FRR Capacity Plan under this Agreement, and shall be committed to service to the switched load under the FRR Capacity Plan of such FRR Entity. The alternative retail LSE shall provide the FRR Entity all information needed to fulfill these requirements and permit the

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resource to be included in the FRR Capacity Plan. The alternative retail LSE, rather than the FRR Entity, shall be responsible for any performance charges or compliance penalties related to the performance of the resources committed by such LSE to the switched load. For any Delivery Year, or portion thereof, the foregoing obligations apply to the alternative retail LSE serving the load during such time period. PJM shall manage the transfer accounting associated with such compensation and shall administer the collection and payment of amounts pursuant to the compensation mechanism.

Such load shall remain under the FRR Capacity Plan until the effective date of any termination of the FRR Alternative and, for such period, shall not be subject to Locational Reliability Charges under Section 7.2 of this Agreement.

E. Conditions on Purchases and Sales of Capacity Resources by FRR Entities

1. An FRR Entity may not include in its FRR Capacity Plan for any Delivery Year any Capacity Resource that has cleared in any auction under Attachment DD of the PJM Tariff for such Delivery Year. Nothing herein shall preclude an FRR Entity from including in its FRR Capacity Plan any Capacity Resource that has not cleared such an auction for such Delivery Year. Furthermore, nothing herein shall preclude an FRR Entity from including in its FRR Capacity Plan a Capacity Resource obtained from a different FRR Entity, provided, however, that each FRR Entity shall be individually responsible for meeting its capacity obligations hereunder, and provided further that the same megawatts of Unforced Capacity shall not be committed to more than one FRR Capacity Plan for any given Delivery Year.

2. An FRR Entity that designates Capacity Resources in its FRR Capacity Plan for a Delivery Year based on the Threshold Quantity may offer to sell Capacity Resources in excess of that needed for the Threshold Quantity in any auction conducted under Attachment DD of the PJM Tariff for such Delivery Year, but may not offer to sell Capacity Resources in the auctions for any such Delivery Year in excess of an amount equal to the lesser of (a) 25% times the Unforced Capacity equivalent of the Installed Reserve Margin for such Delivery Year multiplied by the Preliminary Forecast Peak Load for which such FRR Entity is responsible under its FRR Capacity Plan for such Delivery Year, or (b) 1300 MW.

3. An FRR Entity that designates Capacity Resources in its FRR Capacity Plan for a Delivery Year based on the Threshold Quantity may not offer to sell such resources in any Reliability Pricing Model auction, but, but may use such resources to meet any increased capacity obligation resulting from unanticipated growth of the loads in its FRR Capacity Plan, or may sell such resources to serve loads located outside the PJM Region, or to another FRR Entity, subject to subsection E.1 above.

4. A Party that has selected the FRR Alternative for only part of its load in the PJM Region pursuant to Section B.2 of this Schedule that designates Capacity Resources as Self-Supply in a Reliability Pricing Model Auction to meet such Party's expected Daily Unforced Capacity Obligation under Schedule 8 shall not be required, solely as a result of such designation, to identify Capacity Resources in its FRR Capacity Plan based on the Threshold Quantity; provided, however, that such Party may not so designate Capacity Resources in an amount in excess of the lesser of (a) 25% times such Party's total expected Unforced Capacity obligation (under both Schedule 8 and Schedule 8.1), or (b) 200 MW. A Party that wishes to

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avoid the foregoing limitation must identify Capacity Resources in its FRR Capacity Plan based on the Threshold Quantity.

F. FRR Daily Unforced Capacity Obligations and Deficiency Charges

1. For each billing month during a Delivery Year, the Daily Unforced Capacity Obligation of an FRR Entity shall be determined on a daily basis for each Zone as follows:

Daily Unforced Capacity Obligation = OPL * Final Zonal FRR Scaling Factor * FPR

where:

OPL = Obligation Peak Load, defined as the daily summation of the weather-adjusted coincident summer peak, last preceding the Delivery Year, of the end-users in such Zone (net of operating Behind The Meter Generation, but not to be less than zero) for which such Party was responsible on that billing day, as determined in accordance with the procedures set forth in the PJM Manuals

Final Zonal FRR Scaling Factor = FZPLDY/FZWNSP;

FZPLDY = Final Zonal Peak Load Forecast for such Delivery Year; and

FZWNSP = Zonal Weather-Normalized Peak Load for the summer concluding prior to the commencement of such Delivery Year.

2. An FRR Entity shall be assessed an FRR Capacity Deficiency Charge in each Zone addressed in such entity's FRR Capacity Plan for each day during a Delivery Year that it fails to satisfy its Daily Unforced Capacity Obligation in each Zone. Such FRR Capacity Deficiency Charge shall be in an amount equal to the deficiency below such FRR Entity's Daily Unforced Capacity Obligation for such Zone times twice the Cost of New Entry applicable to such Zone.

3. If an FRR Entity acquires load that is not included in the Preliminary Zonal Peak Load Forecast such acquired load shall be treated in the same manner as provided in Sections H.1 and H.2 of this Schedule.

4. The shortages in meeting the minimum requirement within the constrained zones and the shortage in meeting the total obligation are first calculated. The shortage in the unconstrained area is calculated as the total shortage less shortages in constrained zones and excesses in constrained zones (the shortage is zero if this is a negative number). The Capacity Deficiency Charge is charged to the shortage in each zone and in the unconstrained area separately. This procedure is used to allow the use of capacity excesses from constrained zones to reduce shortage in the unconstrained area and to disallow the use of capacity excess from unconstrained area to reduce shortage in constrained zones.

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G. Capacity Resource Performance

Any Capacity Resource committed by an FRR Entity in an FRR Capacity Plan for a Delivery Year shall be subject during such Delivery Year to the charges set forth in sections 7, 8, 9, 10, 11, and 13 of Attachment DD to the PJM Tariff; provided, however, the Daily Deficiency Rate under sections 7, 8, 9, and 13 thereof, and the charge rates under section 10 thereof, shall be the net Cost of New Entry. An FRR Entity shall have the same opportunities to cure deficiencies and avoid or reduce associated charges during the Delivery Year that a Market Seller has under Sections 7 and 10 of Attachment DD to the PJM Tariff. An FRR Entity may cure deficiencies and avoid or reduce associated charges prior to the Delivery Year by procuring replacement Unforced Capacity outside of any RPM auction and committing such capacity in its FRR Capacity Plan.

II. Annexation of service territory by Public Power Entity

1. In the event a Public Power Entity that is an FRR Entity annexes service territory to include new customers on sites where no load had previously existed, then the incremental load on such a site shall be treated as unanticipated load growth, and such FRR Entity shall be required to commit sufficient resources to cover such obligation in the relevant Delivery Year.

2. In the event a Public Power Entity that is an FRR Entity annexes service territory to include load from a Party that has not elected the FRR Alternative, then:

- a. For any Delivery Year for which a Base Residual Auction already has been conducted, such acquiring FRR Entity shall meet its obligations for the incremental load by paying PJM for incremental obligations (including any additional demand curve obligation) at the Capacity Resource Clearing Price for the relevant location. Any such revenues shall be used to pay Capacity Resources that cleared in the BRA for that LDA.
- b. For any Delivery Year for which a Base Residual Auction has not been conducted, such acquiring FRR Entity shall include such incremental load in its FRR Capacity Plan.

3. Annexation whereby a Party that has not elected the FRR Alternative acquires load from an FRR entity:

- a. For any Delivery Year for which a Base Residual Auction already has been conducted, PJM would consider shifted load as unanticipated load growth for purposes of determining whether to hold a Second Incremental Auction. If a Second Incremental Auction is held, FRR entity would have a must offer requirement for sufficient capacity to meet the load obligation of such shifted load. If no Second Incremental Auction is conducted, the FRR Entity may sell the associated quantity of capacity into an RPM Auction or bilaterally.

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- b. For any Delivery Year for which a Base Residual Auction has not been conducted, the FRR Entity that lost such load would no longer include such load in its FRR Capacity Plan, and PJM would include such shifted load in future BRAs.

I. Savings Clause for State-Wide FRR Program

Nothing herein shall obligate or preclude a state, acting either by law or through a regulatory body acting within its authority, from designating the Load Serving Entity or Load Serving Entities that shall be responsible for the capacity obligation for all load in one or more FRR Service Areas within such state according to the terms and conditions of that certain Settlement Agreement dated September 29, 2006 in FERC Docket Nos. ER05-1410 and E105-148, the PJM Tariff and this Agreement. Each LSE subject to such state action shall become a Party to this Agreement and shall be deemed to have elected the FRR Alternative.

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SCHEDULE 9

**PROCEDURES FOR
ESTABLISHING THE CAPABILITY OF GENERATION CAPACITY RESOURCES**

- A. Such rules and procedures as may be required to determine and demonstrate the capability of Generation Capacity Resources for the purposes of meeting a Load Serving Entity's obligations under the Agreement shall be developed by the Office of Interconnection and maintained in the PJM Manuals.
- B. The rules and procedures for determining and demonstrating the capability of generating units to serve load in the PJM Region shall be consistent with achieving uniformity for planning, operating, accounting and reporting purposes.
- C. The rules and procedures shall recognize the difference in types of generating units and the relative ability of units to maintain output at stated capability over a specified period of time. Factors affecting such ability include, but are not limited to, fuel availability, stream flow for hydro units, reservoir storage for hydro and pumped storage units, mechanical limitations, and system operating policies.

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SCHEDULE 10

PROCEDURES FOR ESTABLISHING DELIVERABILITY OF GENERATION CAPACITY RESOURCES

Generation Capacity Resources must be deliverable, consistent with a loss of load expectation as specified by the Reliability Principles and Standards, to the total system load, including portion(s) of the system in the PJM Region that may have a capacity deficiency at any time. Deliverability shall be demonstrated by either obtaining or providing for Network Transmission Service or Firm Point-To-Point Transmission Service within the PJM Region such that each Generation Capacity Resource is either a Network Resource or a Point of Receipt, respectively. In addition, for Generation Capacity Resources located outside the metered boundaries of the PJM Region that are used to meet an Unforced Capacity Obligation, the capacity and energy of such Generation Capacity Resources must be delivered to the metered boundaries of the PJM Region through firm transmission service.

Certification of deliverability means that the physical capability of the transmission network has been tested by the Office of the Interconnection and found to provide that service consistent with the assessment of available transfer capability as set forth in the PJM Tariff and, for Generation Resources owned or contracted for by a Load Serving Entity, that the Load Serving Entity has obtained or provided for Network Transmission Service or Firm Point-to-Point Transmission Service to have capacity delivered on a firm basis under specified terms and conditions.

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SCHEDULE 10.1

LOCATIONAL DELIVERABILITY AREAS AND REQUIREMENTS

The capacity obligations imposed under this Agreement recognize the locational value of Capacity Resources. To ensure that such locational value is properly recognized and quantified, the Office of the Interconnection shall follow the procedures in this Schedule.

A. Following the Transition Period, as such term is defined in Attachment DD to the Tariff, the Locational Deliverability Areas for the purposes of determining locational capacity obligations hereunder, but not necessarily for the purposes of the Regional Transmission Expansion Planning Protocol, shall consist of the following Zones (as defined in Schedule 15), combinations of such Zones, and portions of such Zones:

- Dominion
- Penelec
- ComEd
- AEP
- Dayton
- Duquesne
- APS
- AE
- BGE
- DPL
- PECO
- PEPCO
- PSEG
- JCPL
- MetEd
- PPL
- Mid-Atlantic Area Council (MAAC) Region (consisting of all the zones listed below for Eastern MAAC, Western MAAC, and Southwestern MAAC)
- ComEd, AEP, Dayton, APS, and Duquesne
- Eastern MAAC (PSE&G, JCP&L, PECO, AE, DPL & RE)
- Southwestern MAAC (PEPCO & BG&E)
- Western MAAC (Penelec, MetEd, PPL)
- PSEG northern region (north of Linden substation); and
- DPL southern region (south of Chesapeake and Delaware Canal)

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B. For purposes of evaluating the need for any changes to the foregoing list, Locational Deliverability Areas shall be those areas identified by the load deliverability analyses conducted pursuant to the Regional Transmission Expansion Planning Protocol and the PJM Manuals that have a limited ability to import capacity due to physical limitations of the transmission system, voltage limitations or stability limitations. Such limits on import capability shall not reflect the effect of Qualifying Transmission Upgrades offered in the Base Residual Auction. The Locational Deliverability Areas identified in Paragraph A above (as it may be amended from time to time) for a Delivery Year shall be modeled in the Base Residual Auction and any Incremental Auction conducted for such Delivery Year. If the Office of the Interconnection includes a new Locational Deliverability Area in the Regional Transmission Expansion Planning Protocol, it shall make a filing with FERC to amend this Schedule to add a new Locational Deliverability Area (including a new aggregate LDA), if such new Locational Deliverability Area is projected to have a capacity emergency transfer limit less than 1.05 times the capacity emergency transfer objective of such area, or if warranted by other reliability concerns consistent with the Reliability Principles and Standards. In addition, any Party may propose, and the Office of the Interconnection shall evaluate, consistent with the same CETO/CETO comparison or other reliability concerns, possible new Locational Deliverability Areas (including aggregate LDAs) for inclusion under the Regional Transmission Expansion Planning Protocol and for purposes of determining locational capacity obligations hereunder.

C. For each Locational Deliverability Area for which a separate VRR Curve was established for a Delivery Year, the Office of the Interconnection shall determine, pursuant to procedures set forth in the PJM Manuals, the Percentage of Internal Resources Required, that must be committed during such Delivery Year from Capacity Resources physically located in such Locational Deliverability Area.

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SCHEDULE 11

DATA SUBMITTALS

To perform the studies required to determine the Forecast Pool Requirement and Daily Unforced Capacity Obligations under this Agreement and to determine compliance with the obligations imposed by this Agreement, each Party and other owner of a Capacity Resource shall submit data to the Office of the Interconnection in conformance with the following minimum requirements:

1. All data submitted shall satisfy the requirements, as they may change from time to time, of any procedures adopted by the Members Committee.
2. Data shall be submitted in an electronic format, or as otherwise specified by the Markets and Reliability Committee and approved by the PJM Board.
3. Actual outage data for each month for Generator Forced Outages, Generator Maintenance Outages and Generator Planned Outages shall be submitted so that it is received by such date specified in the PJM Manuals.
4. On or before the date specified in the PJM Manuals, planned and maintenance outage data for all Generation Resources and load forecasts (including seasonal and average weekly peaks) shall be submitted.
5. On or before the date specified in the PJM Manuals, adjustments to forecasts shall be submitted.
6. On or before the date or schedule for updates specified in the PJM Manuals, revisions to capacity and load forecasts (including the plans for satisfying the Daily Unforced Capacity Obligation of the Party) shall be submitted.
7. Capacity plans or revisions to previously submitted capacity plans, required under Schedule 6.
8. As desired by a Party, revisions to monthly peak load forecasts may be submitted.

The Parties acknowledge that additional information required to determine the Forecast Pool Requirement is to be obtained by the Office of the Interconnection from Electric Distributors in accordance with the provisions of the Operating Agreement.

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SCHEDULE 12

DATA SUBMISSION CHARGES

A. Data Submission Charge

For each working day of delay in the submittal of information required to be submitted under this Agreement, a data submission charge of \$500 shall be imposed.

B. Distribution Of Data Submission Charge Receipts

1. Each Party that has satisfied its obligations for data submittals pursuant to Schedule 11 during a Delivery Year, without incurring a data submission charge related to that obligation, shall share in any data submission charges paid by any other Party that has failed to satisfy said obligation during such Planning Period. Such shares shall be in proportion to the sum of the Unforced Capacity Obligations of each such Party entitled to share in the data submission charges for the most recent month.
2. In the event all of the Parties have incurred a data submission charge during a Delivery Year, those data submission charges shall be distributed as approved by the PJM Board.

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SCHEDULE 13

EMERGENCY PROCEDURE CHARGES

Following an Emergency, the compliance of each Party with the instructions of the Office of the Interconnection shall be evaluated as directed by the Markets and Reliability Committee. If, based on such evaluation, it is determined that a Party refused to comply with, or otherwise failed to employ its best efforts to comply with, the instructions of the Office of the Interconnection to implement PJM emergency procedures, that Party shall pay an emergency procedure charge, as set forth in Attachment DD to the PJM Tariff. The revenue associated with Emergency Procedure Charges shall be allocated in accordance with Attachment DD to the PJM Tariff.

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SCHEDULE 14

DELEGATION TO THE OFFICE OF THE INTERCONNECTION

The following responsibilities shall be delegated by the Parties to the Office of the Interconnection:

1. New Parties. With regard to the addition, withdrawal or removal of a Party:
 - (a) Receive and evaluate the information submitted by entities that plan to serve loads within the PJM Region, including entities whose participation in the Agreement will expand the boundaries of the PJM Region. Such evaluation shall be conducted in accordance with the requirements of the Agreement.
 - (b) Evaluate the effects of the withdrawal or removal of a Party from this Agreement.
2. Implementation of Reliability Assurance Agreement. With regard to the implementation of the provisions of this Agreement:
 - (a) Receive all required data and forecasts from the Parties and other owners of Capacity Resources;
 - (b) Perform all calculations and analyses necessary to determine the Forecast Pool Requirement and the obligations imposed under the Reliability Assurance Agreement, including periodic reviews of the capacity benefit margin for consistency with the Reliability Principles and Standards;
 - (c) Monitor the compliance of each Party with its obligations under the Agreement;
 - (d) Keep cost records, and bill and collect any costs or charges due from the Parties and distribute those charges in accordance with the terms of the Agreement;
 - (e) Assist with the development of rules and procedures for determining and demonstrating the capability of Capacity Resources;
 - (f) Establish the capability and deliverability of Generation Capacity Resources consistent with the requirements of the Reliability Assurance Agreement;
 - (g) Establish standards and procedures for Planned Demand Resources;
 - (h) Collect and maintain generator availability data;

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- (i) Perform any other forecasts, studies or analyses required to administer the Agreement;
- (j) Coordinate maintenance schedules for generation resources operated as part of the PJM Region;
- (k) Determine and declare that an Emergency exists or ceases to exist in all or any part of the PJM Region or announce that an Emergency exists or ceases to exist in a Control Area interconnected with the PJM Region;
- (l) Enter into agreements for (i) the transfer of energy in Emergencies in the PJM Region or in a Control Area interconnected with the PJM Region and (ii) mutual support in such Emergencies with other Control Areas interconnected with the PJM Region; and
- (m) Coordinate the curtailment or shedding of load, or other measures appropriate to alleviate an Emergency, to preserve reliability in accordance with FERC, NERC or Applicable Regional Reliability Council principles, guidelines, standards and requirements, and to ensure the operation of the PJM Region in accordance with Good Utility Practice.

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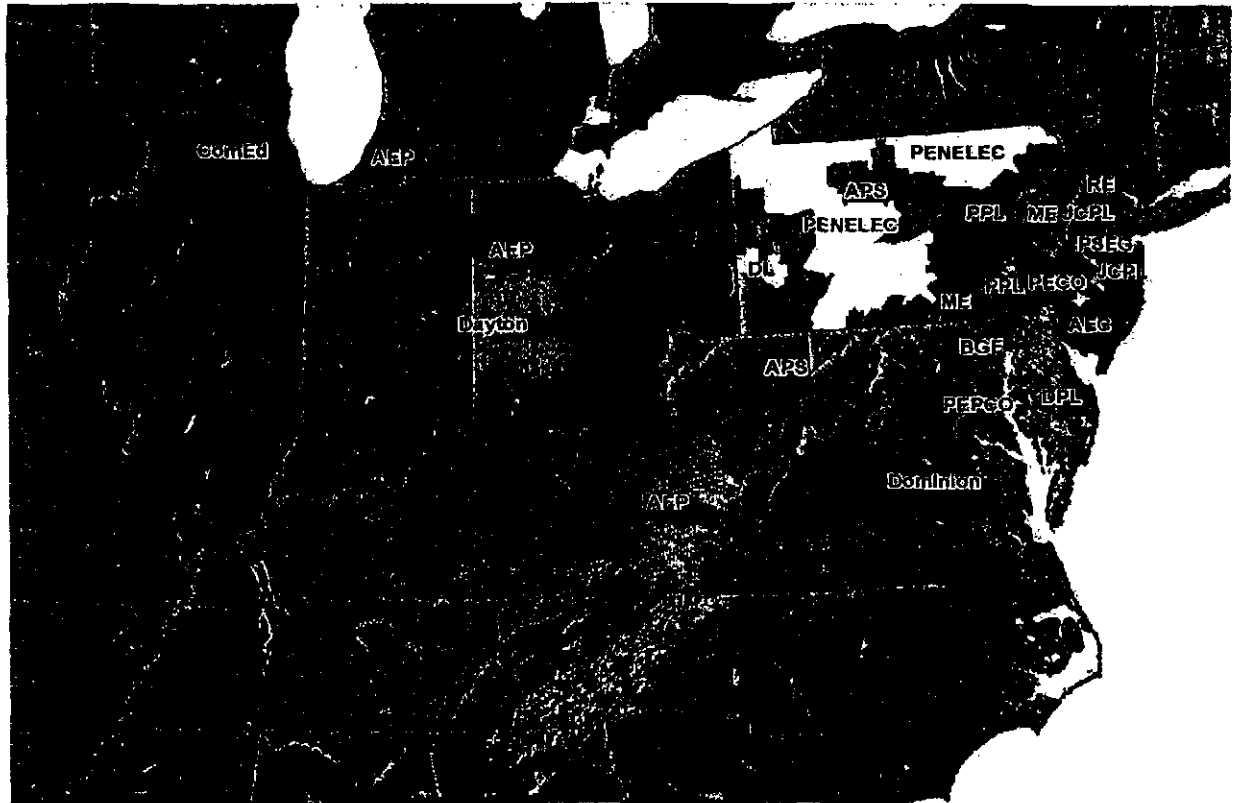
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SCHEDULE 15

ZONES WITHIN THE PJM REGION



FULL NAME	SHORT NAME
Pennsylvania Electric Company	Penelec
Allegheny Power	APS
PPL Group	PPL
Metropolitan Edison Company	MetEd
Jersey Central Power and Light Company	JCPL
Public Service Electric and Gas Company	PSEG
Atlantic City Electric Company	AEC
PECO Energy Company	PECO
Baltimore Gas and Electric Company	BGE
Delmarva Power and Light Company	DPL
Potomac Electric Power Company	PEPCO
Rockland Electric Company	RE
Commonwealth Edison Company	ComEd
AEP East Zone	AEP
The Dayton Power and Light Company	Dayton
Virginia Electric and Power Company	Dominion
Duquesne Light Company	DL

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SCHEDULE 16

Non-Retail Behind the Meter Generation Maximum Generation Emergency Obligations

1. A Non-Retail Behind The Meter Generation resource that has output that is netted from the Accounted-For Obligation of a Party pursuant to Schedule 7 of this Agreement shall be required to operate at its full output during the first ten times between November 1 and October 31 that Maximum Generation Emergency (as defined in section 1.3.13 of Schedule 1 of the Operating Agreement) conditions occur in the zone in which the Non-Retail Behind The Meter Generation resource is located.

2. The Party for which Non-Retail Behind The Meter Generation output is netted from its Accounted-For Obligation shall be required to report to PJM scheduled outages of the resource prior to the occurrence of such outage in accordance with the time requirements and procedures set forth in the PJM Manuals. Such Party also shall report to PJM the output of the Non-Retail Behind The Meter Generation resource during each Maximum Generation Emergency condition in which the resource is required to operate in accordance with the procedures set forth in PJM Manuals.

3. Except for failures to operate due to scheduled outages during the months of October through May, for each instance a Non-Retail Behind The Meter Generation resource fails to operate, in whole or in part, as required in paragraph 1 above, the amount of operating Non-Retail Behind The Meter Generation from such resource that is eligible for netting will be reduced pursuant to the following formula:

$$\text{Adjusted ENRBTMG} = \text{ENRBTMG} - \Sigma(10\% \text{ of the Not Run NRBTMG})$$

Where:

ENRBTMG equals the operating Non-Retail Behind The Meter Generation eligible for netting as determined pursuant to Schedule 7 of this Agreement.

Not Run NRBTMG is the amount in megawatts that the Non-Retail Behind The Meter Generation resource failed to produce during an occurrence of Maximum Generation Emergency conditions in which the resource was required to operate.

$\Sigma(10\% \text{ of the Not Run NRBTMG})$ is the summation of 10% megawatt reductions associated with the events of non-performance.

The Adjusted ENRBTMG shall not be less than zero and shall be applicable for the succeeding Planning Period.

4. If a Non-Retail Behind The Meter Generation resource that is required to operate during a Maximum Generation Emergency condition is an Energy Resource and injects energy into the Transmission System during the Maximum Generation Emergency condition, the Network Customer that owns the resource shall be compensated for such injected energy in accordance with the PJM market rules.

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SCHEDULE 17

PARTIES TO THE RELIABILITY ASSURANCE AGREEMENT

This Schedule sets forth the Parties to the Agreement:

Harrison REA Inc.
City of New Martinsville
City of Philippi
Letterkenny Industrial Development Authority-PA
Old Dominion Electric Cooperative
Town of Front Royal
Hagerstown
Borough of Chambersburg
Town of Williamsport
Thurmont
Allegheny Electric Cooperative, Inc.
Allegheny Power
AES New Energy, Inc.
BP Energy Co.
Commonwealth Edison Company
Commonwealth Edison Company of Indiana
Dayton Power & Light Company (The)
American Municipal Power-Ohio, Inc.
American Electric Power Service Corporation on behalf of its affiliates:
 Appalachian Power Company
 Columbus Southern Power Company
 Indiana Michigan Power Company
 Kentucky Power Company
 Kingsport Power Company
 Ohio Power Company
 Wheeling Power Company
Allegheny Energy Supply Company, L.L.C.
Blue Ridge Power Agency, Inc.
Central Virginia Electric Cooperative
City of Dowagiac
Hoosier Energy REC, Inc.
Indiana Municipal Power Agency
Ormet Primary Aluminum Corporation
City of Sturgis
Wabash Valley Power Association, Inc.
Duquesne Light Company
Virginia Electric and Power Company

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ACN Energy, Inc.
AES Power Direct, L.L.C.
Agway Energy Services-PA Inc.
Allegheny Energy Supply Company, L.L.C.
AllEnergy Marketing Company, L.L.C.
Amerada Hess Corporation
American Cooperative Services, Inc.
American Energy Solutions, Inc.
Atlantic City Electric Company
Baltimore Gas and Electric Company
BGE Home Products & Services, Inc.
BP Energy Company
Central Hudson Enterprise Corporation
CMS Marketing Services and Trading Company
Columbia Energy Power Marketing Corporation
Commodore Gas and Electric, Inc.
Commonwealth Energy Corporation dba electricAMERICA
Con Edison Energy, Inc.
Connectiv Energy Supply, Inc.
Constellation Energy Source, Inc.
Consolidated Edison Solutions, Inc.
Delmarva Power & Light Company
Dominion Retail, Inc.
DTE Edison America, Inc.
DTE Energy Market, Inc.
DTE Energy Trading, Inc.
Duke Energy Trading and Marketing, L.L.C.
DukeSolutions, Inc.
Easton Power Distribution Company
ECONergy Energy Company, Inc.
ECONergy PA, Inc.
Edison Mission Marketing & Trading, Inc.
Energy America, L.L.C.
Energy East Solutions, Inc.
Enron Energy Services, Inc.
Enron Power Marketing, Inc.
Exelon Energy Company
FirstEnergy Corporation
FirstEnergy Trading and Power Marketing Incorporated
FirstEnergy Services Corp.
GPU Advanced Resources
GreenMountain.com Company
HIS Power & Water, L.L.C.
It's Electric & Gas, L.L.C.
Jersey Central Power & Light Company

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Keyspan Energy Services, Inc.
Metropolitan Edison Company
MIECO, Inc.
NewEnergy, Inc.
Niagara Mohawk Energy Marketing, Inc.
NJR Natural Energy Company
NRG New Jersey Energy Sales, L.L.C.
NYSEG Solutions, Inc.
Old Dominion Electric Cooperative
PECO Energy Company
Penn Power Energy, Inc.
Pennsylvania Electric Company
Pepco Energy Services, Inc.
Potomac Electric Power Company
PPL Electric Utilities Corporation
PPL EnergyPlus, L.L.C.
PSEG Energy Resources & Trade, L.L.C.
PSEG Energy Technologies, Inc.
Public Service Electric and Gas Company
Reliant Energy Retail, Inc.
Rhoads Energy Corporation
Select Energy, Inc.
Sempra Energy Solutions
Sempra Energy Trading Corp.
Shell Energy Services Company, L.L.C.
Southern Company Retail Energy Marketing L.P.
South Jersey Energy Company
South Jersey Energy Solutions, L.L.C.
Smart Energy.com, Inc.
Statoil Energy Services, Inc.
Strategic Energy Ltd.
The Mack Services Group
The New Power Company
Total Gas & Electric, Inc.
Total Gas & Electricity (PA), Inc.
TXU Energy Trading Company d/b/a TXU Energy Services
UGI Energy Services, Inc.
UGI Utilities, Inc. - Electric Division
Utilimax.com, Inc.
Utility.com
Washington Gas Energy Services, Inc.
Williams Energy Market & Trading Company
Woodruff Energy
Worley & Obetz, Inc. d/b/a Advanced Energy

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PJM Interconnection, L.L.C.
Docket Nos. EL05-148 and
ER05-1410
September 29, 2006

Attachment B
PJM RAA Revisions
(Redline Version)

**Reliability Assurance Agreement
Among Load-Serving Entities
In the PJM Region**

k:\pjm\RPM Documents- RAA for RPM (08-30-05).doc

PJM Interconnection, L.L.C.
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RELIABILITY ASSURANCE AGREEMENT

Among

LOAD SERVING ENTITIES

in the

PJM REGION

[Note: redlining in RAA shows revisions against the RAA in PJM's August 31, 2005 Filing
in Docket Nos. ER05-1410 and EL05-148]

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Original Sheet No. 1

RELIABILITY ASSURANCE AGREEMENT

RELIABILITY ASSURANCE AGREEMENT, dated as of this 1st day of June, 2007 by and among the entities set forth in Schedule 176 hereto, hereinafter referred to collectively as the "Parties" and individually as a "Party."

WITNESSETH:

WHEREAS, each Party to this Agreement is a Load Serving Entity within the PJM Region;

WHEREAS, each Party is committing to share its Capacity Resources with the other Parties to reduce the overall reserve requirements for the Parties while maintaining reliable service; and

WHEREAS, each Party is committing to provide mutual assistance to the other Parties during Emergencies;

WHEREAS, each Party is committing to coordinate its planning of Capacity Resources to satisfy the Reliability Principles and Standards;

WHEREAS, the Parties previously have entered into similar commitments related to sub-regions of the PJM Region through the East RAA, the West RAA, or the South RAA;

WHEREAS, the Parties desire, on a phased basis, to replace the East RAA, West RAA, and South RAA with a single reliability assurance agreement among all Load-Serving Entities in the PJM Region; and

NOW THEREFORE, for and in consideration of the covenants and mutual agreements set forth herein and intending to be legally bound hereby, the Parties agree as follows:

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ARTICLE 1 -- DEFINITIONS

Unless the context otherwise specifies or requires, capitalized terms used herein shall have the respective meanings assigned herein or in the Schedules hereto for all purposes of this Agreement (such definitions to be equally applicable to both the singular and the plural forms of the terms defined). Unless otherwise specified, all references herein to Articles, Sections or Schedules, are to Articles, Sections or Schedules of this Agreement. As used in this Agreement:

1.1 Agreement shall mean this Reliability Assurance Agreement, together with all Schedules hereto, as amended from time to time.

1.2 Applicable Regional Reliability Council shall have the same meaning as in the PJM Tariff.

1.3 Base Residual Auction shall have the same meaning as in Attachment Y DD to the PJM Tariff.

1.4 Behind The Meter Generation shall mean ~~one or more~~ generating units that delivers energy to load without using the Transmission System or any distribution facilities (unless the entity that owns or leases the distribution facilities consented to such use of the distribution facilities and such consent has been demonstrated to the satisfaction of the Office of the Interconnection) ~~are located with load at a single electrical location such that no transmission or distribution facilities owned or operated by any Transmission Owner or Electrical Distributor are used to deliver energy from such generating units to such load;~~ provided, however, that Behind The Meter Generation does not include (i) at any time, any portion of such generating unit{s}'s capacity that is designated as a Capacity Resource or (ii) in any hour, any portion of the output of the ~~such generating unit{s}~~ that is sold to another entity for consumption at another electrical location or into the PJM Interchange Energy Market.

1.5 Black Start Capability shall mean the ability of a generating unit or station to go from a shutdown condition to an operating condition and start delivering power without assistance from the power system.

1.6 Capacity Emergency Transfer Objective ("CETO") shall mean the amount of electric energy that a given area must be able to import in order to remain within a loss of load expectation of one event in 25 years when the area is experiencing a localized capacity emergency, as determined in accordance with the PJM Manuals. Without limiting the foregoing, CETO shall be calculated based in part on EFOR_D determined in accordance with Paragraph C of Schedule 5.

1.7 Capacity Emergency Transmission Limit ("CETL") shall mean the capability of the transmission system to support deliveries of electric energy to a given area experiencing a localized capacity emergency as determined in accordance with the PJM Manuals.

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1.86 Capacity Resources shall mean megawatts of (i) net capacity from existing or Planned Generation Capacity Resources meeting the requirements of Schedules 9 and 10 that are or will be owned by or contracted to a Party and that are or will be committed to satisfy that Party's obligations under this Agreement for a Delivery Year; (ii) net capacity from existing or Planned Generation Capacity Resources within the PJM Region not owned or contracted for by a Party which are accredited to the PJM Region pursuant to the procedures set forth in Schedules 9 and 10; and (iii) load reduction capability provided by Demand Resources or ILR that are accredited to the PJM Region pursuant to the procedures set forth in Schedule 6.

1.97 Capacity Transfer Right shall have the meaning specified in Attachment Y DD to the PJM Tariff.

1.108 Control Area shall mean an electric power system or combination of electric power systems bounded by interconnection metering and telemetry to which a common generation control scheme is applied in order to:

(a) match the power output of the generators within the electric power system(s) and energy purchased from entities outside the electric power system(s), with the load within the electric power system(s);

(b) maintain scheduled interchange with other Control Areas, within the limits of Good Utility Practice;

(c) maintain the frequency of the electric power system(s) within reasonable limits in accordance with Good Utility Practice and the criteria of NERC and Applicable Regional Reliability Councils;

(d) maintain power flows on transmission facilities within appropriate limits to preserve reliability; and

(e) provide sufficient generating capacity to maintain operating reserves in accordance with Good Utility Practice.

1.119 Daily Unforced Capacity Obligation shall have the meaning set forth in Schedule 8 or, as to an FRR Entity, in Schedule 8.1.

1.1210 Delivery Year shall mean a Planning Period for which a Capacity Resource is committed pursuant to the auction procedures specified in Attachment Y-~~DD~~ to the Tariff or pursuant to an FRR Capacity Plan.

1.1344 Demand Resource shall mean a resource with a demonstrated capability to provide a reduction in demand or otherwise control load in accordance with the requirements of Schedule 6 that offers and that clears load reduction capability in a Base Residual Auction or Incremental Auction or that is committed through an FRR Capacity Plan. As set forth in Schedule 6, a Demand Resource may be an existing demand response resource or a Planned Demand Resource.

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1.142 Demand Resource Provider shall have the meaning specified in Attachment Y DD to the PJM Tariff.

1.153 DR Factor shall mean that factor approved from time to time by the PJM Board used to determine the unforced capacity value of a Demand Resource or ILR in accordance with Schedule 6.

1.164 East RAA shall mean that certain Reliability Assurance Agreement among Load-Serving Entities in the PJM Region, PJM Rate Schedule FERC No. 27.

1.17 Electric Cooperative shall mean an entity owned in cooperative form by its customers that is engaged in the generation, transmission, and/or distribution of electric energy.

1.185 Electric Distributor shall mean an entity that owns or leases with rights equivalent to ownership electric distribution facilities that are providing electric distribution service to electric load within the PJM Region.

1.196 Emergency shall mean (i) an abnormal system condition requiring manual or automatic action to maintain system frequency, or to prevent loss of firm load, equipment damage, or tripping of system elements that could adversely affect the reliability of an electric system or the safety of persons or property; or (ii) a fuel shortage requiring departure from normal operating procedures in order to minimize the use of such scarce fuel; or (iii) a condition that requires implementation of emergency procedures as defined in the PJM Manuals.

1.2017 End-Use Customer shall mean a Member that is a retail end-user of electricity within the PJM Region.

1.2118 Facilities Study Agreement shall have the same meaning as in the PJM Tariff

1.2219 FERC shall mean the Federal Energy Regulatory Commission or any successor federal agency, commission or department.

1.230 Firm Point-To-Point Transmission Service shall mean Firm Transmission Service provided pursuant to the rates, terms and conditions set forth in Part II of the PJM Tariff.

1.241 Firm Transmission Service shall mean transmission service that is intended to be available at all times to the maximum extent practicable, subject to an Emergency, an unanticipated failure of a facility, or other event beyond the control of the owner or operator of the facility or the Office of the Interconnection.

1.25 Fixed Resource Requirement Alternative or FRR Alternative shall mean an alternative method for a Party to satisfy its obligation to provide Unforced Capacity hereunder, as set forth in Schedule 8.1 to this Agreement.

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1.262 Forecast Pool Requirement shall mean the amount, ~~stated in percent~~, equal to one hundred plus the ~~percent-unforced~~ reserve margin (stated as a decimal number) for the PJM Region required pursuant to this Agreement, as approved by the PJM Board pursuant to Schedule 4.1.

1.27 Forecast RTO ILR Obligation shall have the same meaning as in the PJM Tariff.

1.28 Forecast Zonal ILR Obligation shall have the same meaning as in the PJM Tariff.

1.29 FRR Capacity Plan shall mean a long-term plan for the commitment of Capacity Resources to satisfy the capacity obligations of a Party that has elected the FRR Alternative, as more fully set forth in Schedule 8.1 to this Agreement.

1.30 FRR Entity shall mean, for the duration of such election, a Party that has elected the FRR Alternative hereunder.

1.31 FRR Service Area shall mean (a) the service territory of an IOU as recognized by state law, rule or order; (b) the service area of a Public Power Entity or Electric Cooperative as recognized by franchise or other state law, rule, or order; or (c) a separately identifiable geographic area that is: (i) bounded by wholesale metering, or similar appropriate multi-site aggregate metering, that is visible to, and regularly reported to, the Office of the Interconnection, or that is visible to, and regularly reported to an Electric Distributor and such Electric Distributor agrees to aggregate the load data from such meters for such FRR Service Area and regularly report such aggregated information, by FRR Service Area, to the Office of the Interconnection; and (ii) for which the FRR Entity has or assumes the obligation to provide capacity for all load (including load growth) within such area excluding the load of Single-Customer LSEs that are FRR Entities. In the event that the service obligations of an Electric Cooperative or Public Power Entity are not defined by geographic boundaries but by physical connections to a defined set of customers, the FRR Service Area in such circumstances shall be defined as all customers physically connected to transmission or distribution facilities of such Electric Cooperative or Public Power Entity within an area bounded by appropriate wholesale aggregate metering as described above.

1.323 Full Requirements Service shall mean wholesale service to supply all of the power needs of a Load Serving Entity to serve end-users within the PJM Region that are not satisfied by its own generating facilities.

1.334 Generation Capacity Resource shall mean a generation unit, or the right to capacity from a specified generation unit, that meets the requirements of Schedules 9 and 10 of this Agreement. A Generation Resource may be an existing Generation Resource or a Planned Generation Resource.

1.3425 Generation Owner shall mean a Member that owns or leases with rights equivalent to ownership facilities for the generation of electric energy that are located within the

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PJM Region. Purchasing all or a portion of the output of a generation facility shall not be sufficient to qualify a Member as a Generation Owner.

1.3526 Generator Forced Outage shall mean an immediate reduction in output or capacity or removal from service, in whole or in part, of a generating unit by reason of an Emergency or threatened Emergency, unanticipated failure, or other cause beyond the control of the owner or operator of the facility, as specified in the relevant portions of the PJM Manuals. A reduction in output or removal from service of a generating unit in response to changes in market conditions shall not constitute a Generator Forced Outage.

1.3627 Generator Maintenance Outage shall mean the scheduled removal from service, in whole or in part, of a generating unit in order to perform repairs on specific components of the facility, if removal of the facility qualifies as a maintenance outage pursuant to the PJM Manuals.

1.3728 Generator Planned Outage shall mean the scheduled removal from service, in whole or in part, of a generating unit for inspection, maintenance or repair with the approval of the Office of the Interconnection in accordance with the PJM Manuals.

1.3829 Good Utility Practice shall mean any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather is intended to include acceptable practices, methods, or acts generally accepted in the region.

1.390 ILR Provider shall have the meaning specified in Attachment Y DD to the PJM Tariff.

1.4034 Incremental Auction shall mean the First Incremental Auction, the Second Incremental Auction, or the Third Incremental Auction, each as defined in Attachment Y-DD to the PJM Tariff.

1.4132 Interconnection Agreement shall have the same meaning as in the PJM Tariff.

1.4233 Interruptible Load for Reliability, or ILR, shall mean a resource with a demonstrated capability to provide a reduction in demand or otherwise control load in accordance with the requirements of Schedule 6 that is certified by PJM no later than three months prior to a Delivery Year.

1.4334 IOU shall mean an investor-owned utility with substantial business interest in owning and/or operating electric facilities in any two or more of the following three asset categories: generation, transmission, distribution.

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~~1.34 Load Following Resource shall mean a Generation Resource that has demonstrated flexible start capability or dispatchable capability pursuant to Schedule 9.1 of this Agreement.~~

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1.4435 Load Serving Entity or LSE shall mean any entity (or the duly designated agent of such an entity), including a load aggregator or power marketer, (i) serving end-users within the PJM Region, and (ii) that has been granted the authority or has an obligation pursuant to state or local law, regulation or franchise to sell electric energy to end-users located within the PJM Region. Load Serving Entity shall include any end-use customer that qualifies under state rules or a utility retail tariff to manage directly its own supply of electric power and energy and use of transmission and ancillary services.

1.4536 Locational Reliability Charge shall mean the charge determined pursuant to Schedule 8.

1.4664 Markets and Reliability Committee shall mean the committee established pursuant to the Operating Agreement as a Standing Committee of the Members Committee.

1.4737 Member shall mean an entity that satisfies the requirements of Sections 1.24 and 11.6 of the PJM Operating Agreement. In accordance with Article 4 of this Agreement, each Party to this Agreement also is a Member.

1.4838 Members Committee shall mean the committee specified in Section 8 of the PJM Operating Agreement composed of the representatives of all the Members.

1.4939 NERC shall mean the North American Electric Reliability Council or any successor thereto.

1.5040 Network Resources shall have the meaning set forth in the PJM Tariff.

1.5141 Network Transmission Service shall mean transmission service provided pursuant to the rates, terms and conditions set forth in Part III of the PJM Tariff or transmission service comparable to such service that is provided to a Load Serving Entity that is also a Transmission Owner (as that term is defined in the PJM Tariff).

1.5243 Nominated Demand Resource Value shall have the meaning specified in Attachment ~~DD~~ to the PJM Tariff.

1.5343 Nominated ILR Value shall have the meaning specified in Attachment ~~Y-DD~~ to the PJM Tariff.

1.54 Non-Retail Behind the Meter Generation shall mean Behind the Meter Generation that is used by municipal electric systems, electric cooperatives, and electric distribution companies to serve load.

1.5544 Obligation Peak Load shall be the summation of the weather normalized coincident summer peaks for the previous summer of the end-users for which the Party was responsible on that billing day, as determined pursuant to Schedule 8 of this Agreement.

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1.5645 Office of the Interconnection shall mean the employees and agents of PJM Interconnection, L.L.C., subject to the supervision and oversight of the PJM Board, acting pursuant to the Operating Agreement.

1.5746 Operating Agreement of PJM Interconnection, L.L.C. or Operating Agreement shall mean that certain agreement, dated April 1, 1997 and as amended and restated June 2, 1997 and as amended from time to time thereafter, among the members of the PJM Interconnection, L.L.C.

1.5847 Operating Reserve shall mean the amount of generating capacity scheduled to be available for a specified period of an operating day to ensure the reliable operation of the PJM Region, as specified in the PJM Manuals.

1.5948 Other Supplier shall mean a Member that is (i) a seller, buyer or transmitter of electric capacity or energy in, from or through the PJM Region, and (ii) is not a Generation Owner, Electric Distributor, Transmission Owner or End-Use Customer.

1.6049 Partial Requirements Service shall mean wholesale service to supply a specified portion, but not all, of the power needs of a Load Serving Entity to serve end-users within the PJM Region that are not satisfied by its own generating facilities.

1.61 Percentage Internal Resources Required shall mean, for purposes of an FRR Capacity Plan, the percentage of the LDA Reliability Requirement for an LDA that must be satisfied with Capacity Resources located in such LDA.

1.6250 Party shall mean an entity bound by the terms of this Agreement.

1.6351 PJM shall mean the PJM Board and the Office of the Interconnection.

1.6452 PJM Board shall mean the Board of Managers of the PJM Interconnection, L.L.C., acting pursuant to the Operating Agreement.

1.6553 PJM Manuals shall mean the instructions, rules, procedures and guidelines established by the Office of the Interconnection for the operation, planning and accounting requirements of the PJM Region.

1.6654 PJM Open Access Transmission Tariff or PJM Tariff shall mean the tariff for transmission service within the PJM Region, as in effect from time to time, including any schedules, appendices, or exhibits attached thereto.

1.6755 PJM Region shall have the same meaning as provided in the Operating Agreement.

1.6856 PJM Region Installed Reserve Margin shall mean the percent installed reserve margin for the PJM Region required pursuant to this Agreement, as approved by the PJM Board pursuant to Schedule 4.1.

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1.6957 Planned Demand Resource shall mean a Demand Resource that does not currently have the capability to provide a reduction in demand or to otherwise control load, but that is scheduled to be capable of providing such reduction or control on or before the start of the Delivery Year for which such resource is to be committed, as determined in accordance with the requirements of Schedule 6.

1.7058 Planned Generation Capacity Resource shall mean a Generation Capacity Resource participating in the generation interconnection process under part IV, subpart A of the PJM Tariff, for which Interconnection Service is scheduled to commence on or before the first day of the Delivery Year for which such resource is to be committed, for which a Facilities Study Agreement has been executed prior to ~~its participation in the~~ Base Residual Auction for such Delivery Year, and for which an Interconnection Service Agreement has been executed prior to ~~its participation in any~~ Incremental Auction for such Delivery Year. Notwithstanding the foregoing, for purposes of any Delivery Year for which the Base Residual Auction is conducted in calendar year 2007 and 2008 as part of the Transition in implementing the Reliability Pricing Model, a Planned Generation Capacity Resource shall include a Generation Capacity Resource scheduled to be in service on or before the first day of such Delivery Year, for which a System Impact Study Agreement has been executed prior to ~~its participation in the~~ Base Residual Auction for such Delivery Year. A Generation Capacity Resource shall cease to be considered a Planned Generation Capacity Resource as of the date that Interconnection Service commences, in accordance with Part IV of the PJM Tariff, as to such resource.

1.7159 Planning Period shall mean the 12 months beginning June 1 and extending through May 31 of the following year, or such other period approved by the Members Committee.

1.72 Public Power Entity shall mean any agency, authority, or instrumentality of a state or of a political subdivision of a state, or any corporation wholly owned by any one or more of the foregoing, that is engaged in the generation, transmission, and/or distribution of electric energy.

1.7360 Qualifying Transmission Upgrades shall have the meaning specified in Attachment Y-DD to the PJM Tariff.

1.7464 Markets and Reliability Committee shall mean the committee established pursuant to the Operating Agreement as a Standing Committee of the Members Committee.

1.7563 Reliability Principles and Standards shall mean the principles and standards established by NERC or an Applicable Regional Reliability Council to define, among other things, an acceptable probability of loss of load due to inadequate generation or transmission capability, as amended from time to time.

1.7663 Required Approvals shall mean all of the approvals required for this Agreement to be modified or to be terminated, in whole or in part, including the acceptance for filing by FERC and every other regulatory authority with jurisdiction over all or any part of this Agreement.

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~~1.64 Season shall have the meaning provided in Attachment Y to the PJM Tariff~~

1.7765 Self-Supply shall have the meaning provided in Attachment Y DD to the PJM Tariff.

1.78 Single-Customer LSE shall mean a Party that (a) serves only retail customers that are Affiliates of such Party; (b) owns or controls generation facilities located at one or more of the retail customer location(s) that in the aggregate satisfy at least 50% of such Party's Unforced Capacity obligations; and (c) serves retail customers having (i) an Obligation Peak Load at all locations of no less than 100 MW, where such peak load of each such location is no less than 10 MW; or (ii) an Obligation Peak Load at each location served of no less than 25 MW.

1.7966 South RAA shall mean that certain Reliability Assurance Agreement among Load-Serving Entities in the PJM South Region, on file with FERC as PJM Rate Schedule FERC No. 40.

1.8067 State Consumer Advocate shall mean a legislatively created office from any State, all or any part of the territory of which is within the PJM Region, and the District of Columbia established, inter alia, for the purpose of representing the interests of energy consumers before the utility regulatory commissions of such states and the District of Columbia and the FERC.

1.81 State Regulatory Structural Change shall mean as to any Party, a state law, rule, or order that, after September 30, 2006, initiates a program that allows retail electric consumers served by such Party to choose from among alternative suppliers on a competitive basis, terminates such a program, expands such a program to include classes of customers or localities served by such Party that were not previously permitted to participate in such a program, or that modifies retail electric market structure or market design rules in a manner that materially increases the likelihood that a substantial proportion of the customers of such Party that are eligible for retail choice under such a program (a) that have not exercised such choice will exercise such choice; or (b) that have exercised such choice will no longer exercise such choice, including for example, without limitation, mandating divestiture of utility-owned generation or structural changes to such Party's default service rules that materially affect whether retail choice is economically viable.

~~1.68 Thirty Minute Start Resource shall mean a generation resource that has demonstrated thirty minute start capability in accordance with Schedule 9.1 of this Agreement.~~

1.82 Threshold Quantity shall mean, as to any FRR Entity for any Delivery Year, the sum of (a) the Unforced Capacity equivalent (determined using the Pool-Wide Average EFOR_D) of the Installed Reserve Margin for such Delivery Year multiplied by the Preliminary Forecast Peak Load for which such FRR Entity is responsible under its FRR Capacity Plan for such Delivery Year, plus (b) the lesser of (i) 3% of the Unforced Capacity amount determined in (a) above or (ii) 450 MW. If the FRR Entity is not responsible for all load within a Zone, the Preliminary Forecast Peak Load for such entity shall be the FRR Entity's Obligation Peak Load last determined prior to the Base Residual Auction for such Delivery Year, times the Base FRR Scaling Factor (as determined in accordance with Schedule 8.1).

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1.8369 Transmission Facilities shall mean facilities that: (i) are within the PJM Region; (ii) meet the definition of transmission facilities pursuant to FERC's Uniform System of Accounts or have been classified as transmission facilities in a ruling by FERC addressing such facilities; and (iii) have been demonstrated to the satisfaction of the Office of the Interconnection to be integrated with the PJM Region transmission system and integrated into the planning and operation of the PJM Region to serve all of the power and transmission customers within the PJM Region.

1.8470 Transmission Owner shall mean a Member that owns or leases with rights equivalent to ownership Transmission Facilities. Taking transmission service shall not be sufficient to qualify a Member as a Transmission Owner.

1.8571 Transmission Owners Agreement shall mean that certain Consolidated Transmission Owners Agreement, dated as of ~~June 2, 1997~~ December 15, 2005 and as amended from time to time, among transmission owners within the PJM ~~Control Area~~ Region.

1.8672 Unforced Capacity shall mean installed capacity rated at summer conditions that is not on average experiencing a forced outage or forced derating, calculated for each Capacity Resource on the 12-month period from October to September without regard to the ownership of or the contractual rights to the capacity of the unit.

1.8773 West RAA shall mean the "PJM West Reliability Assurance Agreement among the Load Serving Entities in the PJM West Region," on file with FERC as PJM Rate Schedule FERC No. 32.

~~**1.74 West Transmission Owner** shall mean a Member that has executed that certain "West Transmission Owners Agreement among PJM Interconnection, L.L.C. and Certain Owners of Electric Transmission Facilities," (PJM Interconnection L.L.C. Rate Schedule FERC No. 33).~~

1.8875 Zonal Capacity Price shall mean the price of Unforced Capacity in a Zone that an LSE that has not elected the FRR Alternative is obligated to pay for a Delivery Year as determined pursuant to Attachment Y-DD to the PJM Tariff.

1.8976 Zone shall mean an area within the PJM Region, as set forth in Schedule 15, or as such areas may be (i) combined as a result of mergers or acquisitions or (ii) added as a result of the expansion of the boundaries of the PJM Region. A Zone shall include any Non-Zone Network Load (as defined in the PJM Tariff) located outside the PJM Region that is served from such Zone under Schedule H-A of the PJM Tariff.

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ARTICLE 2 – PURPOSE

This Agreement is intended to ensure that adequate Capacity Resources, including planned and existing Generation Capacity Resources, planned and existing Demand Resources, and ILR will be planned and made available to provide reliable service to loads within the PJM Region, to assist other Parties during Emergencies and to coordinate planning of such resources consistent with the Reliability Principles and Standards. Further, it is the intention and objective of the Parties to implement this Agreement in a manner consistent with the development of a robust competitive marketplace. To accomplish these objectives, this Agreement is among all of the Load Serving Entities within the PJM Region. Unless this Agreement is terminated as provided in Section 3.3, every entity which is or will become a Load Serving Entity within the PJM Region is to become and remain a Party to this Agreement or to an agreement (such as a requirements supply agreement) with a Party pursuant to which that Party has agreed to act as the agent for the Load Serving Entity for purposes of satisfying the obligations under this Agreement related to the load within the PJM Region of that Load Serving Entity. Nothing herein is intended to abridge, alter or otherwise affect the emergency powers the Office of the Interconnection may exercise under the Operating Agreement and PJM Tariff.

ARTICLE 3 -- TERM AND TERMINATION OF THE AGREEMENT

3.1 Term. This Agreement shall become effective as of June 1, 2007~~6~~ and shall govern Unforced Capacity Obligations for the Planning Period beginning as of that date ("Initial Delivery Year"), and for each Planning Period thereafter, unless and until terminated in accordance with the terms hereof.

3.2 Transition Provisions. The East RAA, West RAA, and South RAA shall govern, in accordance with their terms now in effect or as hereafter validly amended, capacity requirements for each Planning Period through the end of the Planning Period ending May 31, 2007~~6~~. Subject to the termination provisions in each such agreement, the East RAA, West RAA, and South RAA shall terminate effective 11:59:59 p.m. on May 31, 2007~~6~~.

3.3 Termination.

3.3.1 Rights to Terminate. This Agreement may be terminated by a vote in the Members Committee to terminate the Agreement by an affirmative Sector Vote as specified in the Operating Agreement and upon the receipt of all Required Approvals related to the termination of this Agreement. Any such termination must be approved by the PJM Board and filed with the FERC and shall become effective only upon the FERC's approval.

3.3.2 Obligations upon Termination. Any provision of this Agreement that expressly or by implication comes into or remains in force following the termination of this Agreement shall survive such termination. The surviving provisions shall include, but shall not be limited to: (a) final settlement of the obligations of each Party under Articles 8 and 12 of this Agreement, including the accounting for the period ending with the last day of the month for which the Agreement is effective, (b) the provisions of this Agreement necessary to conduct final billings, collections and accounting with respect to all matters arising hereunder and (c) the indemnification provisions as applicable to periods prior to such termination.

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ARTICLE 4 -- ADDITION OF NEW PARTIES

Each Party agrees that any entity that (i) is or will become a Load Serving Entity, (ii) complies with the process and data requirements set forth in Schedule 1, and (iii) meets the standards for interconnection set forth in Schedule 2 shall become a Party to this Agreement and shall be listed on Schedule 16 of this Agreement upon becoming a party to the Operating Agreement, and execution of a counterpart of this Agreement.

ARTICLE 5 -- WITHDRAWAL OR REMOVAL OF A PARTY

5.1 Withdrawal of a Party.

5.1.1 Notice. Upon written notice to the Office of the Interconnection, any Party may withdraw from this Agreement, effective upon the completion of its obligations hereunder and the documentation by such Party, to the satisfaction of the Office of the Interconnection, that such Party is no longer a Load Serving Entity.

5.1.2 Determination of Obligations. A Party's obligations hereunder shall be completed as of the end of the last month for which such Party's obligations have been set at the time said notice is received, except as provided in Article 13, or unless the Members Committee determines that the remaining Parties will be able to adjust their obligations and commitments related to the performance of this Agreement consistent with such earlier withdrawal date as may be requested by the withdrawing Party, without undue hardship or cost, while maintaining the reliability of the PJM Region.

5.1.3 Survival of Obligations upon Withdrawal. (a) The obligations of a Party upon its withdrawal from this Agreement and any obligations of that Party under this Agreement at the time of its withdrawal shall survive the withdrawal of the Party from this Agreement. Upon the withdrawal of a Party from this Agreement, final settlement of the obligations of such Party under Articles 7 and 11 of this Agreement shall include the accounting through the date established pursuant to Sections 5.1.1 and 5.1.2.

(b) Any Party that withdraws from this Agreement shall pay all costs and expenses associated with additions, deletions and modifications to communication, computer, and other affected facilities and procedures, including any filing fees, to effect the withdrawal of the Party from the Agreement.

(c) Prior to withdrawal, a withdrawing Party desiring to remain interconnected with the PJM Region shall enter into a control area to control area interconnection agreement with the Office of the Interconnection and the transmission owner or Electric Distributor within the PJM Region with which its facilities are interconnected.

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5.1.4 Regulatory Review. Any withdrawal from this Agreement shall be filed with FERC and shall become effective only upon FERC's approval.

5.2 Breach by a Party. If a Party (a) fails to pay any amount due under this Agreement within 30 days after the due date or (b) is in breach of any material obligation under this Agreement, the Office of the Interconnection shall cause a notice of such non-payment or breach to be sent to that Party. If the Party fails, within 3 days of the receipt of such notice (except as otherwise described below), to cure such non-payment or breach, or if the breach cannot be cured within such time and if the Party does not diligently commence to cure the breach within such time and to diligently pursue such cure to completion, the Office of the Interconnection and the remaining Parties may, without an election of remedies, exercise all remedies available at law or in equity or other appropriate proceedings. Such proceedings may include (c) the commencement of a proceeding before the appropriate state regulatory commission(s) to request suspension or revocation of the breaching Party's license or authorization to serve retail load within the state(s) and/or (d) bringing any civil action or actions or recovery of damages that may include, but not be limited to, all amounts due and unpaid by the breaching Party, and all costs and expenses reasonably incurred in the exercise of its remedies hereunder (including, but not limited to, reasonable attorneys' fees).

ARTICLE 6 -- MANAGEMENT ADMINISTRATION

Except as otherwise provided herein, this Agreement shall be managed and administered by the Parties, Members, and State Consumer Advocates through the Members Committee and the Markets and Reliability Committee as a Standing Committee thereof, except as delegated to the Office of the Interconnection and except that only the PJM Board shall have the authority to approve and authorize the filing of amendments to this Agreement with the FERC.

ARTICLE 7 -- RESERVE REQUIREMENTS AND OBLIGATIONS

7.1 Forecast Pool Requirement and Unforced Capacity Obligations. (a) The Forecast Pool Requirement shall be established to ensure a sufficient amount of capacity to meet the forecast load plus reserves adequate to provide for the unavailability of Generation Capacity Resources, load forecasting uncertainty, and planned and maintenance outages. Schedule 4 sets forth guidelines with respect to the Forecast Pool Requirement.

(b) Unless the Party and its customer that is also a Load Serving Entity agree that such customer is to bear direct responsibility for the obligations set forth in this Agreement, (i) any Party that supplies Full Requirements Service to a Load Serving Entity within the PJM Region shall be responsible for all of that Load Serving Entity's capacity obligations under this Agreement for the period of such Full Requirements Service and (ii) any Party that supplies Partial Requirements Service to a Load Serving Entity within the PJM Region shall be responsible for such portion of the capacity obligations of that Load Serving Entity as agreed by the Party and the Load Serving Entity so long as the Load Serving Entity's full capacity obligation under this Agreement is allocated between or among Parties to this Agreement.

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7.2 Responsibility to Pay Locational Reliability Charge. Except to the extent its capacity obligations are satisfied through the FRR Alternative, Each Party shall pay, as to the loads it serves in each Zone during a Season of a Delivery Year, a Locational Reliability Charge for each such Zone during such Season Delivery Year. The Locational Reliability Charge shall equal such Party's Daily Unforced Capacity Obligation in a Zone, as determined pursuant to Schedule 8 of this Agreement, times the Final Zonal Capacity Price for such Season for such Zone, as determined pursuant to Attachment DDY of the PJM Tariff.

7.3 LSE Option to Provide Capacity Resources. A Party obligated to pay a Locational Reliability Charge for a Delivery Year may partially or wholly offset amounts it must pay for the ~~such Locational Reliability Charge for a Delivery Year~~ by offering Capacity Resources for sale in the Base Residual Auction or Second Incremental Auction, if such auction is held, applicable to such Delivery Year; provided such resources clear such auctions. Resources offered for sale in any such auction must satisfy the requirements specified in this Agreement and the PJM Manuals. Such Aa Party may choose to nominate a resource in the Base Residual Auction as Self-Supply, may choose to designate a price offer for such resource into any such auction, or may indicate in its offer that it wishes to commit such resource regardless of the clearing price, in which case the Party shall receive the marginal value of system capacity and the price adders for any applicable binding locational or operational constraint in accordance with Attachment Y DD of the PJM Tariff. Each such Party acknowledges that the clearing price it receives for a resource offered for sale and cleared, or Self-Supplied, in an auction may differ from the Final Zonal Capacity Price determined for the applicable Zone for the applicable Delivery Year, and that the Party shall remain responsible for the Locational Reliability Charge notwithstanding any such difference between the Capacity Resource Clearing Price and the Final Zonal Capacity Price. In addition, such Parties recognize that they may receive an allocation of Capacity Transfer Rights which may offset a portion of the Locational Reliability Charge, and that they may offset a portion of the Locational Reliability Charge by nominating ILR, or by offering and clearing Qualifying Transmission Upgrades in the Base Residual Auction.

7.4 Fixed Resource Requirement Alternative. A Party that is eligible for the Fixed Resource Requirement Alternative may satisfy its obligations hereunder to provide Unforced Capacity by submitting and adhering to an FRR Capacity Plan and meeting all other terms and conditions of such alternative, as set forth in this Agreement.

7.45 Capacity Plans and Deliverability. Each Party electing to provide Capacity Resources to meet its obligations hereunder shall submit to the Office of the Interconnection its plans (or revisions to previously submitted plans), as prescribed by Schedule 7, or, in the case of a Party electing the FRR Alternative, as prescribed by Schedule 8.1, to install or contract for Capacity Resources. As set forth in Schedule 10, each Party must designate its Capacity Resources as Network Resources or Points of Receipt under the PJM Tariff to allow firm delivery of the output of its Capacity Resources to the Party's load within the PJM Region and each Party must obtain any necessary Firm Transmission Service in an amount sufficient to deliver Capacity Resources from outside the PJM Region to the border of the PJM Region to reliably serve the Party's load within the PJM Region.

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7.56 Nature of Resources. Each Party electing to Self-Supply resources, or electing the FRR Alternative, shall provide or arrange for specific, firm Capacity Resources that are capable of supplying the energy requirements of its own load on a firm basis without interruption for economic conditions and with such other characteristics that are necessary to support the reliable operation of the PJM Region, as set forth in more detail in Schedules 6, 9 and 10.

7.67 Compliance Audit of Parties. (a) For the 36 months following the end of each Planning Period, each Party shall make available the records and supporting information related to the performance of this Agreement from such Planning Period for audit.

(b) The Office of the Interconnection shall evaluate and determine the need for an audit of a Party and shall, upon a decision of the Members Committee to require such an audit, provide the Party or Parties to be audited with notice at least 90 days in advance of the audit.

(c) Any audit of a Party conducted pursuant to this Agreement shall be performed by an independent consultant to be selected by the Office of the Interconnection. Such audit shall include a review of the Party's compliance with the procedures and standards adopted pursuant to this Agreement.

(d) Prior to the completion of its audit, the independent consultant shall review its preliminary findings with the Party being audited and, upon the completion of its audit, the independent consultant shall issue a final audit report detailing the results of the audit, which final report shall be issued to the Party being audited, the Office of the Interconnection and the Markets and Reliability Committee; provided, however, no confidential data of any Party shall be disclosed through such audit reports.

(e) If, based on a final audit report, an adjustment is required to any amounts due to or from the Parties pursuant to Schedules 8, 12, or 13, such adjustment shall be accounted for in determining the amounts due to or from the Parties pursuant to Schedules 8, 12, or 13 for the month in which the adjustment is identified.

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ARTICLE 8 -- DEFICIENCY, DATA SUBMISSION, AND EMERGENCY CHARGES

8.1 Nature of Charges. Upon the advice and recommendations of the Members Committee, the PJM Board shall, subject to any Required Approvals, approve certain charges to be imposed on a Party for its failure to satisfy its obligations under this Agreement, as set forth in Schedule 12.

8.2 Determination of Charge Amounts. No later than April 1 of each year, the Members Committee shall recommend to the PJM Board such charges to be applicable under this Agreement during the following Planning Period and Schedule 12, which, upon approval by the PJM Board, shall be modified accordingly, subject to the receipt of all Required Approvals. The Markets and Reliability Committee may establish projected charges for estimating purposes only.

8.3 Distribution of Charge Receipts. All of the monies received as a result of any charges imposed pursuant to this Agreement shall be disbursed as provided in this Agreement.

ARTICLE 9 -- COORDINATED PLANNING AND OPERATION

9.1 Overall Coordination. Each Party shall cooperate with the other Parties in the coordinated planning and operation of their owned or contracted for Capacity Resources to obtain a degree of reliability consistent with the Reliability Principles and Standards. In furtherance of such cooperation each Party shall:

(a) coordinate its Capacity Resource plans with the other Parties to maintain reliable service to its own electric customers and those of the other Parties;

(b) cooperate with the members and associate members of such Party's Applicable Regional Reliability Council to ensure the reliability of the region;

(c) make available its Capacity Resources to the other Parties through the Office of the Interconnection for coordinated operation and to supply the needs of the PJM Region for Operating Reserves;

(d) provide or arrange for Network Transmission Service or Firm Point-to-Point Transmission Service for service to the projected load of the Party and include all Capacity Resources as Network Resources designated pursuant to the PJM Tariff or Points of Receipt for Firm Point-to-Point Transmission Service;

(e) provide or arrange for sufficient reactive capability and voltage control facilities to meet Good Utility Practice and to be consistent with the Reliability Principles and Standards;

(f) implement emergency procedures and take such other coordination actions as may be necessary in accordance with the directions of the Office of the Interconnection in times of Emergencies; and

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(g) maintain or arrange for Black Start Capability for a portion of its Capacity Resources at least equal to that established from time-to-time by the Office of the Interconnection.

9.2 Generator Planned Outage Scheduling. Each Party shall develop, or cause to be developed, its schedules of planned outages of its Capacity Resources. Such schedules of planned outages shall be submitted to the Office of the Interconnection for coordination with the schedules of planned outages of other Parties and anticipated transmission planned outages.

9.3 Data Submissions. Each Party shall submit to the Office of the Interconnection the data and other information necessary for the performance of this Agreement, including its plans for the addition, modification and removal of Capacity Resources, its load forecasts, and such other data set forth in Schedule 11.

9.4 Charges for Failures to Comply. (a) An emergency procedure charge, as set forth in Attachment Y DD to the PJM Tariff, shall be imposed on any Party that fails to comply with the directions of the Office of the Interconnection pursuant to Section 9.1(f)

(b) A data submission charge, as set forth in Schedule 12, shall be imposed on any Party that fails to submit the data, plans or other information required by this Agreement in a timely or accurate manner as provided in Schedule 11.

9.5 Metering. Each Party shall comply with the metering standards for the PJM Region, as set forth in the PJM Manuals.

ARTICLE 10 -- SHARED COSTS

10.1 Recording and Audit of Costs. (a) Any costs related to the performance of this Agreement, including the costs of the Office of the Interconnection and such other costs that the Members Committee determines are to be shared by the Parties, shall be documented and recorded in a manner acceptable to the Parties.

(b) The Members Committee may require an audit of such costs; provided, however, the cost records shall be available for audit by any Member or State Consumer Advocate, at the sole expense of such Member or State Consumer Advocate, for 36 months following the end of the Planning Period in which the costs were incurred.

10.2 Cost Responsibility. The costs determined under Section 10.1(a) shall be allocated to and recovered from the Parties to this Agreement and other entities pursuant to Schedule 9-5 of the PJM Tariff.

ARTICLE 11 -- BILLING AND PAYMENT

11.1 Periodic Billing. Each Party shall receive a statement periodically setting forth (i) any amounts due from or to that Party as a result of any charges imposed pursuant to this Agreement and (ii) that Party's share of any costs allocated to that Party pursuant to Article 10.

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To the extent practical, such statements are to be coordinated with any billings or statements required pursuant to the Operating Agreement or PJM Tariff.

11.2 Payment. The payment terms and conditions shall be as set forth in the billing statement and shall, to the extent practicable, be the same as those then in effect under the PJM Tariff.

11.3 Failure to Pay. If any Party fails to pay its share of the costs allocated pursuant to Article 10, those unpaid costs shall be allocated to and paid by the other Parties hereto in proportion to the sum of the Daily Unforced Capacity Obligations of each such Party for the billing month. The Office of the Interconnection shall enforce collection of a Party's share of the costs.

ARTICLE 12 – INDEMNIFICATION AND LIMITATION OF LIABILITIES

12.1 Indemnification. (a) Each Party agrees to indemnify and hold harmless each of the other Parties, its officers, directors, employees or agents (other than PJM Interconnection, L.L.C., its board or the Office of the Interconnection) for all actions, claims, demands, costs, damages and liabilities asserted by third parties against the Party seeking indemnification and arising out of or relating to acts or omissions in connection with this Agreement of the Party from which indemnification is sought, except (i) to the extent that such liabilities result from the willful misconduct of the Party seeking indemnification and (ii) that each Party shall be responsible for all claims of its own employees, agents and servants growing out of any workmen's compensation law. Nothing herein shall limit a Party's indemnity obligations under Article 16 of the Operating Agreement.

(b) The amount of any indemnity payment under this Section 12.1 shall be reduced (including, without limitation, retroactively) by any insurance proceeds or other amounts actually recovered by the Party seeking indemnification in respect of the indemnified actions, claims, demands, costs, damages or liabilities. If any Party shall have received an indemnity payment in respect of an indemnified action, claim, demand, cost, damage, or liability and shall subsequently actually receive insurance proceeds or other amounts in respect of such action, claim, demand, cost, damage, or liability, then such Party shall pay to the Party that made such indemnity payment the lesser of the amount of such insurance proceeds or other amounts actually received and retained or the net amount of the indemnity payments actually received previously.

12.2 Limitations on Liability. No Party will be liable to another Party for any claim for indirect, incidental, special or consequential damage or loss of the other Party including, but not limited to, loss of profits or revenues, cost of capital or financing, loss of goodwill and cost of replacement power arising from such Party's carrying out, or failure to carry out, any obligations contemplated by this Agreement; provided, however, nothing herein shall be deemed to reduce or limit the obligation of any Party with respect to the claims of persons or entities not a party to this Agreement.

12.3 Insurance. Each Party shall obtain and maintain in force such insurance as is required of Load Serving Entities by the states in which it is doing business within the PJM Region.

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ARTICLE 13 -- SUCCESSORS AND ASSIGNS

13.1 Binding Rights and Obligations. The rights and obligations created by this Agreement and all Schedules and supplements thereto shall inure to and bind the successors and assigns of the Parties; provided, however, no Party may assign its rights or obligations under this Agreement without the written consent of the Members Committee unless the assignee concurrently becomes the Load Serving Entity with regard to the end-users previously served by the assignor.

13.2 Consequences of Assignment. Upon the assignment of all of its rights and obligations hereunder to a successor consistent with the provisions of Section 13.1, the assignor shall be deemed to have withdrawn from this Agreement.

ARTICLE 14 -- NOTICE

Except as otherwise expressly provided herein, any notice required hereunder shall be in writing and shall be sent: overnight courier, hand delivery, telecopy or other reliable electronic means to the representative on the Members Committee of such Party at the address for such Party previously provided by such Party to the other Parties. Any notice shall be deemed to have been given (i) upon delivery if given by overnight courier, hand delivery or certified mail or (ii) upon confirmation if given by facsimile or other reliable electronic means.

ARTICLE 15 -- REPRESENTATIONS AND WARRANTIES

15.1 Initial Representations and Warranties. Each Party represents and warrants to the other Parties that, as of the date it becomes a Party:

(a) the Party is duly organized, validly existing and in good standing under the laws of the jurisdiction where organized;

(b) the execution and delivery by the Party of this Agreement and the performance of its obligations hereunder have been duly and validly authorized by all requisite action on the part of the Party and do not conflict with any applicable law or with any other agreement binding upon the Party. The Agreement has been duly executed and delivered by the Party, and this Agreement constitutes the legal, valid and binding obligation of the Party enforceable against it in accordance with its terms except insofar as the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws affecting the enforcement of creditor's rights generally and by general principles of equity regardless of whether such principles are considered in a proceeding at law or in equity; and

(c) there are no actions at law, suits in equity, proceedings or claims pending or, to the knowledge of the Party, threatened against the Party before or by any federal, state, foreign or local court, tribunal or governmental agency or authority that might materially delay, prevent or hinder the performance by the Party of its obligations hereunder.

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15.2 Continuing Representations and Warranties. Each Party represents and warrants to the other Parties that throughout the term of this Agreement:

- (a) the Party is a Load Serving Entity;
- (b) the Party satisfies the requirements of Schedule 2;
- (c) the Party is in compliance with the Reliability Principles and Standards;
- (d) the Party is a signatory, or its principals are signatories, to the agreements set forth in Schedule 3;
- (e) the Party is in good standing in the jurisdiction where incorporated; and
- (f) the Party will endeavor in good faith to obtain any corporate or regulatory authority necessary to allow the Party to fulfill its obligations hereunder.

ARTICLE 16 – OTHER MATTERS

16.1 Relationship of the Parties. This Agreement shall not be interpreted or construed to create any association, joint venture, or partnership between or among the Parties or to impose any partnership obligation or partnership liability upon any Party.

16.2 Governing Law. This Agreement shall be interpreted, construed and governed by the laws of the State of Delaware.

16.3 Severability. Each provision of this Agreement shall be considered severable and if for any reason any provision is determined by a court or regulatory authority of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions of this Agreement shall continue in full force and effect and shall in no way be affected, impaired or invalidated, and such invalid, void or unenforceable provision shall be replaced with valid and enforceable provision or provisions which otherwise give effect to the original intent of the invalid, void or unenforceable provision.

16.4 Amendment. This Agreement may be amended only by action of the PJM Board. Notwithstanding the foregoing, an Applicant eligible to become a Party in accordance with the procedures set forth in Article 4 shall become a Party by executing a counterpart of this Agreement without the need for execution of such counterpart by any other Party. The PJM Office of the Interconnection shall file with FERC any amendment to this Agreement approved by the PJM Board.

16.5 Headings. The article and section headings used in this Agreement are for convenience only and shall not affect the construction or interpretation of any of the provisions of this Agreement.

16.6 Confidentiality. (a) No Party shall have a right hereunder to receive or review any documents, data or other information of another Party, including documents, data or other

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information provided to the Office of the Interconnection, to the extent such documents, data or information have been designated as confidential pursuant to the procedures adopted by the Office of the Interconnection or to the extent that they have been designated as confidential by another Party; provided, however, a Party may receive and review any composite documents, data and other information that may be developed based on such confidential documents, data or information if the composite document does not disclose any individual Party's confidential data or information.

(b) Notwithstanding anything in this Section to the contrary, if a Party is required by applicable laws, or in the course of administrative or judicial proceedings, to disclose information that is otherwise required to be maintained in confidence pursuant to this Section, that Party may make disclosure of such information; provided, however, that as soon as the Party learns of the disclosure requirement and prior to making disclosure, that Party shall notify the affected Party or Parties of the requirement and the terms thereof and the affected Party or Parties may direct, at their sole discretion and cost, any challenge to or defense against the disclosure requirement and the Party shall cooperate with such affected Parties to the maximum extent practicable to minimize the disclosure of the information consistent with applicable law. Each Party shall cooperate with the affected Parties to obtain proprietary or confidential treatment of such information by the person to whom such information is disclosed prior to any such disclosure.

(c) Any contract with a contractor retained to provide technical support or to otherwise assist with the administration of this Agreement shall impose on that contractor a contractual duty of confidentiality that is consistent with this Section.

16.7 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together will constitute one instrument, binding upon all parties hereto, notwithstanding that all of such parties may not have executed the same counterpart.

16.8 No Implied Waivers. The failure of a Party to insist upon or enforce strict performance of any of the provisions of this Agreement shall not be construed as a waiver or relinquishment to any extent of such Party's right to assert or rely upon any such provisions, rights and remedies in that or any other instance; rather, the same shall be and remain in full force and effect.

16.9 No Third Party Beneficiaries. This Agreement is intended to be solely for the benefit of the Parties and their respective successors and permitted assigns and is not intended to and shall not confer any rights or benefits on any third party not a signatory hereto.

16.10 Dispute Resolution. Except as otherwise specifically provided in the Operating Agreement, disputes arising under this Agreement shall be subject to the dispute resolution provisions of the Operating Agreement.

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IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representatives.

[Signatures]

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SCHEDULE 1

PROCEDURES TO BECOME A PARTY

A. Notice

Any entity that is or will become a Load Serving Entity within the PJM Region and thus a Party to the Reliability Assurance Agreement shall submit a notice to the Office of the Interconnection together with (i) its representation that it has satisfied or will (prior to the date the Reliability Assurance Agreement is to become effective as to that entity) satisfy the requirements to become a Party, (ii) all data required to coordinate planning and operations within the PJM Region as applicable, in a format defined in the PJM Manuals, and (iii) a deposit in an amount to be specified that will be applied toward the costs of the required analysis.

The required notice, representations, data and deposit must be submitted in sufficient time to conduct an analysis of the data submitted and to adjust the obligations of the Parties for the month in which the entity desires to become a Party:

- If the then existing boundaries of the PJM Region would be expanded by an entity becoming a Party, that entity shall submit the required notice, representation, data and deposit *no later than when the entity applies for transmission service under the PJM Tariff.*
- If an entity will serve load within the then existing boundaries of the PJM Region, that entity shall submit the required notice, representations, data and deposit as soon as possible prior to the month (i) in which it is to begin serving loads within the PJM Region or (ii) in which any agency relationship through which the entity's obligations under this Agreement had been satisfied is terminated; provided, however, that such submission shall not be required sooner than any request for transmission service or any change in the designation of Network Resources or points of receipt and loads under the PJM Tariff associated with providing service to those loads.

B. Analysis of Data

The notice, representations and data submitted to the Office of the Interconnection are to be analyzed in accordance with procedures consistent with this Agreement and the encouragement of reliable operation of the PJM Region.

C. Response

Upon completion of the analysis, the Office of the Interconnection will inform the entity of (a) the estimated costs and expenses associated with modifications to communication, computer and other facilities and procedures, including any filing fees, needed to include the entity as a Party, (b) the entity's share of any costs pursuant to Article 10, and (c) the earliest

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date upon which the entity could become a Party. In addition, a counterpart of the Agreement shall be forwarded for execution.

D. Agreement by New Party

After receipt of the response from the Office of the Interconnection, the entity shall identify its representative to the Members Committee and Markets and Reliability Committee and execute the counterpart of the Agreement, indicating the desired effective date; provided, however, such effective date shall be the first day of a month, may be no earlier than the date indicated in the response from the Office of the Interconnection and shall be no later than (i) the date on which the entity begins serving loads within the PJM Region or (ii) the termination date of any agency relationship through which its obligations under this Agreement had been satisfied. The executed counterpart of the Agreement, together with payment of its share of any costs then due, shall be returned as directed by the Office of the Interconnection.

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SCHEDULE 2

STANDARDS FOR INTEGRATING AN ENTITY INTO THE PJM REGION

- A. The following standards will be applied by the Office of the Interconnection to determine the eligibility of an entity to become a part of the PJM Region. For an entity to be integrated into the PJM Region it must possess generation and transmission attributes that would enable the entity to share its reserves with other entities in the PJM Region. Appropriate transmission and reliability studies are to be performed to determine the adequate transmission capability necessary to integrate the entity into the PJM Region consistent with Good Utility Practice.
- B. In addition, the entity shall meet the following requirements to be included in the PJM Region:
1. All load, generation and transmission operating as part of the PJM Region's interconnected system must be included within the metered boundaries of the PJM Region.
 2. The entity will accept and comply with the PJM Region's standards with respect to system design, equipment ratings, operating practices and maintenance practices as set forth in the PJM Manuals so that sufficient electrical equipment, control capability, information and communication are available to the Office of the Interconnection for planning and operation of the PJM Region.
 3. The load, generation and transmission facilities of each entity shall be included in the telemetry to the Office of the Interconnection from a 24-hour control center. Each system operator in these control centers must be trained and delegated sufficient authority to take any action necessary to assure that the system for which the operator is responsible is operated in a stable and reliable manner.
 4. Each entity must have compatible operational communication mechanisms, maintained at its expense, to interact with the Office of the Interconnection and for internal requirements.
 5. Each entity must assure the continued compatibility of its local system energy management system monitoring and telecommunications systems to satisfy the technical requirements of interacting with the Office of the Interconnection as it directs the operation of the PJM Region.

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SCHEDULE 3

OTHER AGREEMENTS TO BE EXECUTED BY THE PARTIES

- Any agreement for Network Transmission Service or Firm Point-To-Point Service that is required under the PJM Tariff for service consistent with the requirements of Section 9.1(d); and
- The Operating Agreement.

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SCHEDULE 4

GUIDELINES FOR DETERMINING THE FORECAST POOL REQUIREMENT

A. Objective Of The Forecast Pool Requirement

The Forecast Pool Requirement shall be determined for the specified Planning Periods to establish the level of Capacity Resources that will provide an acceptable level of reliability consistent with the Reliability Principles and Standards.

B. Forecast Pool Requirement and PJM Region Installed Reserve Margin To Be Determined Annually

No later than one three months in advance of each Base Residual Auction for a Delivery Year, based on the projections described in section C of this Schedule, and after consideration of the recommendation of the Members Committee, the PJM Board shall establish the Forecast Pool Requirement, including the PJM Region Installed Reserve Margin for ~~the all~~ Parties, including FRR Entities, for such Delivery Year. Unless otherwise agreed by the PJM Board, the Forecast Pool Requirement and PJM Region Installed Reserve Margin for such Planning Period shall be considered firm and not subject to re-determination thereafter.

C. Methodology

Each year, the Forecast Pool Requirement for at least each of the next five Planning Periods shall be projected by applying suitable probability methods to the data and forecasts provided by the Parties and obtained from Electric Distributors, as described in Schedule 11, the Operating Agreement and in the PJM Manuals. The projection of the Forecast Pool Requirement shall consider the following data and forecasts as necessary:

1. Seasonal peak load forecasts for each Planning Period as calculated by PJM in accordance with the PJM Manuals reflecting (a) load forecasts with a 50 percent probability of being too high or too low and (b) summer peak diversities determined by the Office of the Interconnection from recent experience.
2. Forecasts of aggregate seasonal load shape of the Parties which are consistent with forecast averages of 52 weekly peak loads prepared by the Parties and obtained from Electric Distributors for their respective systems.
3. Variability of loads within each week, due to weather and other recurring and random factors, as determined by the Office of the Interconnection.
4. Generating unit capability and types for every existing and proposed unit.
5. Generator Forced Outage rates for existing mature generating units, as determined by the Office of the Interconnection, based on data submitted by the Parties for their respective systems, *from recent experience, and for immature and proposed*

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units based upon forecast rates related to unit types, capabilities and other pertinent characteristics.

6. Generator Maintenance Outage factors and planned outage schedules as determined by the Office of the Interconnection based on forecasts and historical data submitted by the Parties for their respective systems.
7. Miscellaneous adjustments to capacity due to all causes, as determined by the Office of the Interconnection, based on forecasts submitted by the Parties for their respective systems.
8. The emergency capacity assistance available as a function of interconnections of the PJM Region with other Control Areas, as limited by the capacity benefit margin considered in the determination of available transfer capability and the probable availability of generation in excess of load requirements in such areas.

D. Capacity Benefit Margin

The capacity benefit margin initially shall be 3,500 megawatts. Periodically, in consultation with the Members Committee, the Office of the Interconnection shall review and modify, if necessary, the capacity benefit margin to balance external emergency capacity assistance and internal installed capacity reserves so as to minimize the total cost of the capacity reserves of the Parties, consistent with the Reliability Principles and Standards. The Office of the Interconnection will reflect such modification prospectively in its development of the Forecast Pool Requirement for future Planning Periods.

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SCHEDULE 4.1

DETERMINATION OF THE FORECAST POOL REQUIREMENT

A. Based on the guidelines set forth in Schedule 4, the Forecast Pool Requirement, in percent, shall be determined as set forth in this Schedule 4.1 on an unforced capacity basis.

$$FPR = (100 + IRM/100) * (1 - \text{Pool-wide average } EFOR_D/100)$$

where

average $EFOR_D$ – the average equivalent demand forced outage rate for the PJM Region, stated in percent and determined in accordance with Section B hereof

IRM = the PJM Region Installed Reserve Margin approved by the PJM Board for that Planning Period, stated in percent

B. The PJM Region equivalent demand forced outage rate ("average $EFOR_D$ ") shall be determined as the capacity weighted $EFOR_D$ for all units expected to serve loads within the PJM Region during the Delivery Year, as determined pursuant to Schedule 5.

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SCHEDULE 5
FORCED OUTAGE RATE CALCULATION

A. The equivalent demand forced outage rate ("EFOR_D") shall be calculated as follows:

$$\text{EFOR}_D (\%) = \{(f_r * \text{FOH} + f_p * \text{EFPOH}) / (\text{SH} + f_r * \text{FOH})\} * 100$$

where

f_r = full outage factor
 f_p = partial outage factor
FOH = full forced outage hours
EFPOH = equivalent forced partial outage hours
SH = service hours

B. Calculation of EFOR_D for individual Generation Capacity Resources.

For each Delivery Year, EFOR_D shall be calculated at least one month prior to the start of the Third Incremental Auction for: (i) each Generation Capacity Resource for which a sell offer will be submitted in such Third Incremental Auction; and (ii) each Generation Capacity Resource previously committed to serve load in such Delivery Year pursuant to an FRR Capacity Plan or prior auctions for such Delivery Year. Such calculation shall be based upon such resource's service history in the twelve (12) consecutive months ending September 30 last preceding such auction. Historical data shall be based on official reports of the Parties under rules and practices set forth in the PJM Manuals. Such rate shall also include (i) an adjustment, if any, for capacity unavailable due to energy limitations determined in accordance with definitions and criteria set forth in the PJM Manuals and (ii) any other adjustments approved by the Members Committee to adjust the parameters of a designated unit. For purposes of the calculations under this Paragraph B, outages deemed to be outside plant management control in accordance with NERC guidelines shall not be considered.

1. The EFOR_D of a unit in service twelve or more full calendar months prior to the calculation month shall be the average rate experienced by such unit during the twelve-month period specified above. Historical data shall be based on official reports of the Parties under rules and practices set forth in the PJM Manuals.
2. The EFOR_D of a unit in service at least one full calendar month but less than the twelve-month period specified above shall be the average of the EFOR_D experienced by the unit weighted by full months of service, and the class average rate for units with that capability and of that type weighted by a factor of [(twelve) minus (the number of months the unit was in service)]. Historical data shall be based on official reports of the Parties under rules and practices set forth in the PJM Manuals.

C. Calculation of average EFOR_D for the PJM Region

The forecast average EFOR_D for the PJM Region in a Delivery Year shall be the average of the forced outage rates, weighted for unit capability and expected time in service,

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attributable to all of the Generation Capacity Resources within the PJM Region, that are planned to be in service during the Delivery Year, including Generation Capacity Resources purchased from specified units and excluding Generation Capacity Resources sold outside the PJM Region from specified units. Such rate shall also include (i) an adjustment, if any, for capacity unavailable due to energy limitations determined in accordance with definitions and criteria set forth in the PJM Manuals and (ii) any other adjustments developed by the Office of Interconnection and maintained in the PJM Manuals to adjust the parameters of a designated unit when such parameters are or will be used to determine a future PJM Region reserve requirement and such adjustment is required to more accurately predict the future performance of such unit in light of extraordinary circumstances. For the purposes of this Schedule, the average EFOR_D shall be the average of the capacity-weighted EFOR_Ds of all units committed to serve load in the PJM Region; and for purposes of the EFOR_D calculations under this Paragraph C, outages deemed to be outside plant management control in accordance with NERC guidelines shall be considered. All rates shall be in percent.

1. The EFOR_D of a unit not yet in service or which has been in service less than one full calendar year at the time of forecast shall be the class average rate for units with that capability and of that type, as estimated and used in the calculation of the Forecast Pool Requirement.
2. The EFOR_D of a unit in service five or more full calendar years at the time of forecast shall be the average rate experienced by such unit during the five most recent calendar years. Historical data shall be based on official reports of the Parties under rules and practices developed by the Office of Interconnection and maintained in the PJM Manuals.
3. The EFOR_D of a unit in service at least one full calendar year but less than five full calendar years at the time of the forecast shall be determined as follows:

Full Calendar
Years of Service

- | | |
|---|--|
| 1 | One-fifth the rate experienced during the calendar year, plus four-fifths the class average rate. |
| 2 | Two-fifths the average rate experienced during the two calendar years, plus three-fifths the class average rate. |
| 3 | Three-fifths the average rate experienced during the three calendar years, plus two-fifths the class average rate. |
| 4 | Four-fifths the average rate experienced during the four calendar years, plus one-fifth the class average rate. |

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SCHEDULE 6

PROCEDURES FOR DEMAND RESOURCES AND ILR

- A. Parties can partially or wholly offset the amounts payable for the Locational Reliability Charge with Demand Resources or ILR that are operated under the direction of the Office of the Interconnection. FRR Entities may reduce their capacity obligations with Demand Resources that are operated under the direction of the Office of the Interconnection and detailed in such entity's FRR Capacity Plan. Demand Resources qualifying under the criteria set forth below may be offered for sale or designated as Self-Supply in the Base Residual Auction, included in an FRR Capacity Plan, or offered for sale in any Incremental Auction, for any Delivery Year for which such resource qualifies. In addition, *resources qualifying under the criteria set forth below may be certified as ILR on behalf of a Party that has not elected the FRR Alternative for a Delivery Year no later than three months prior to the first day of such Delivery Year.* Qualified Demand Resources and ILR may be provided by a Demand Resource Provider or ILR Provider, notwithstanding that such provider is not a Party to this Agreement.
1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and paragraph G of this schedule as applicable, the Office of the Interconnection of the Demand Resource or ILR that it is placing under the direction of the Office of the Interconnection.
 2. A Party must agree to reserve, for interruption at the direction of the Office of the Interconnection, at least 10 interruptions per Planning Period.
 3. The Demand Resource or ILR must be available during the summer period of June through September in the corresponding Delivery Year to be certified, or to be offered for sale or Self-Supplied in an auction, or included as Demand Response in an FRR Capacity Plan for the corresponding Delivery Year.
 4. A period of no more than 2 hours prior notification must apply to interruptible customers.
 5. The initiation of load interruption, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.
 6. The initiation of load reduction upon the request of the Office of the Interconnection is considered an emergency action and must be implementable prior to a voltage reduction.
 7. A Party must agree to reserve interruptions of at least 6-hour duration. As a minimum, such 6-hour duration for interruptions should be available on weekdays during the 8-hour daily peak window for the appropriate season. There will be no credit given to Parties who choose to provide interruption less than 6 hours and/or *exclusive of the above time period.*

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8. An entity offering for sale, ~~or~~ designating for self-supply, or including in any FRR Capacity Plan any Planned Demand Resource must demonstrate, in accordance with standards and procedures set forth in the PJM Manuals, that such resource shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such resource is committed.
- B. The Unforced Capacity value of a Demand Resource and ILR will be determined as:

the product of the Nominated Value of the Demand Resource, or the Nominated Value of the ILR, times the DR Factor, times the Forecast Pool Requirement. The DR Factor is a factor established by the PJM Board with the advice of the Members Committee to reflect the increase in the peak load carrying capability in the PJM Region due to Demand Resources and ILR for the PJM Region divided by the total Nominated Value of Demand Resources and ILR in the PJM Region. The DR Factor will be determined using an analytical program that uses a probabilistic approach to determine reliability. The determination of the DR Factor will consider the reliability of Demand Resources and ILR, the number of interruptions, and the total amount of load reduction. The detailed procedures used for calculating the DR Factor shall be set forth in the PJM Manuals.
- C. Demand Resources offered and cleared in a Base Residual or Incremental Auction shall receive the corresponding Capacity Resource Clearing Price as determined in such auction, in accordance with Attachment Y DD of the PJM Tariff. ~~Demand Resources are ineligible to receive any operational reliability constraint price adders.~~
- D. Certified ILR resources shall receive the Adjusted Zonal Capacity Price, less the amount paid in CTR credits per MW of load in the Zone in which such resource is offered, ~~less any price adders for binding operational reliability constraints,~~ in accordance with Attachment Y DD of the PJM Tariff.
- E. The Party, Electric Distributor, Demand Resource Provider, or ILR Provider that establishes a contractual relationship (by contract or tariff rate) with a customer for load reductions is entitled to receive the compensation specified in sections C and D for a committed Demand Resource or certified ILR, notwithstanding that such provider is not the customer's energy supplier.
- F. Any Party hereto shall demonstrate that its Demand Resources or ILR performed during periods when load management procedures were invoked by the Office of the Interconnection. The Office of the Interconnection shall adopt and maintain rules and procedures for verifying the performance of such resources. In addition, committed Demand Resources and certified ILR that do not comply with the directions of the Office of the Interconnection to reduce load during an emergency shall be subject to the penalty charge set forth in Attachment Y DD to the PJM Tariff.

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- G. ~~Prior to the commencement of the Planning Period~~, Parties may elect to place Demand Resources associated with Behind The Meter Generation under the direction of the Office of the Interconnection for a Delivery Year by submitting a Sell Offer for such resource (as Self Supply, or with an offer price) in the Base Residual Auction for such Delivery Year. This election shall remain in effect for the entirety of such Planning PeriodDelivery Year. In the event such an election is made, such Behind The Meter Generation will not be netted from load for the purposes of calculating the Daily Unforced Capacity Obligations under this Agreement.

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SCHEDULE 7

PLANS TO MEET OBLIGATIONS

- A. Each Party that elects to meet its estimated obligations for a Delivery Year by Self-Supply of Capacity Resources shall submit to the Office of the Interconnection, no later than one month prior to the start of the Base Residual Auction for such Delivery Year, its plans for such Capacity Resources, including (1) installation of Generation Capacity Resources (2) purchases, and (3) installation of Demand Resources or ILR.
- B. The Capacity Resource plans of each Party shall indicate the nature and current status of each resource, including the status of a Planned Generation Capacity Resource or Planned Demand Resource, the potential for deactivation or retirement of a Generation Capacity Resource or Demand Resource, and the status of commitments for each sale or purchase of capacity included in its plans. The Office of the Interconnection will review the adequacy of the submittals hereunder both as to timing and content.
- C. A Party that Self-Supplies Capacity Resources to satisfy its obligations for a Delivery Year must submit a Sell Offer as to such resource in the Base Residual Auction for such Delivery Year, in accordance with Attachment Y DD to the PJM Tariff.
- D. If, at any time after the close of the Third Incremental Auction for a Delivery Year, including at any time during such Delivery Year, a Capacity Resource that a Party has committed as a Self-Supplied Capacity Resource becomes physically incapable of delivering capacity or reducing load, the Party may submit a replacement Capacity Resource to the Office of the Interconnection. Such replacement Capacity Resource (1) may not be previously committed for such Delivery Year, (2) shall be capable of providing the same quantity of megawatts of capacity or load reduction as the originally committed Capacity Resource, and (3) shall be located in the same Locational Deliverability Area, if applicable, as the originally committed resource, ~~and (4) shall, if applicable, be capable of satisfying Resource Operational Reliability Requirements to the same extent as the original committed Capacity Resource.~~ In accordance with Attachment Y DD to the PJM Tariff, the Office of the Interconnection shall determine the acceptability of the replacement Capacity Resource.

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SCHEDULE 8

DETERMINATION OF UNFORCED CAPACITY OBLIGATIONS

A. For each billing month during a Delivery Year, the Daily Unforced Capacity Obligation of a Party that has not elected the FRR Alternative for such Delivery Year shall be determined on a daily basis for each Zone as follows:

Daily Unforced Capacity Obligation = $OPL \times \text{Final Zonal RPM Scaling Factor} \times \text{FPR}/100$

Where:

OPL = Obligation Peak Load, defined as the daily summation of the weather-adjusted coincident summer peak, last preceding the Delivery Year, of the end-users in such Zone (net of operating Behind The Meter Generation, but not to be less than zero) for which such Party was responsible on that billing day, as determined in accordance with the procedures set forth in the PJM Manuals

Final Zonal RPM Scaling Factor = the factor determined as set forth in sections B and C of this Schedule

FPR = the Forecast Pool Requirement

Netting of Behind the Meter Generation for a Party with regard to Non-Retail Behind the Meter Generation shall be subject to the following limitation:

For the 2006/2007 Planning Period, 100 percent of the operating Non-Retail Behind the Meter Generation shall be netted, provided that the total amount of Non-Retail Behind the Meter Generation in the PJM Region does not exceed 1500 megawatts ("Non-Retail Threshold"). For each Planning Period/Delivery Year thereafter, the Non-Retail threshold shall be proportionately increased based on load growth in the PJM Region but shall not be greater than 3000 megawatts. Load growth shall be determined by the Office of the Interconnection based on the most recent forecasted weather-adjusted coincident summer peak for the PJM Region divided by the weather-adjusted coincident peak for the previous summer for the same area. After the load growth factor is applied, the Non-Retail Threshold will be rounded up or down to the nearest whole megawatt and the rounded number shall be the Non-Retail Threshold for the current Planning Period and the base amount for calculating the Non-Retail Threshold for the succeeding planning period. If the Non-Retail Threshold is exceeded, the amount of operating Non-Retail Behind the Meter Generation that a Party may net shall be adjusted according to the following formula:

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Party Netting Credit = (NRT/ PJM NRBTMG) * Party Operating NRBTMG

Where: NRBTMG is Non-Retail Behind the Meter Generation

NRT is the Non-Retail Threshold

PJM NRBTMG is the total amount of Non-Retail Behind the Meter Generation in the PJM Region

The total amount of Non-Retail Behind the Meter Generation that is eligible for netting in the PJM Region is 3000 megawatts. Once this 3000 megawatt limit is reached, any additional Non-Retail Behind the Meter Generation which operates in the PJM Region will be ineligible for netting under this section.

In addition, the Party NRBTMG Netting Credit shall be adjusted pursuant to Schedule of this Agreement, if applicable.

A Party shall be required to report to PJM such information as is required to facilitate the determination of its NRBTMG Netting Credit in accordance with the procedures set forth in the PJM Manuals.

- B. Following the Base Residual Auction for a Delivery Year, the Office of the Interconnection shall determine the Base Zonal RPM Scaling Factor and the Base Zonal Unforced Capacity Obligation for each Zone for such Delivery Year as follows:

Base Zonal Unforced Capacity Obligation = (ZWNSP * Base Zonal RPM Scaling Factor * FPR) + Forecast Zonal I.R. Obligation

and

Base Zonal RPM Scaling Factor = $ZPLDY / ZWNSP \times [RUCO / (RPLDY \times FPR)]$

Where:

ZPLDY = Preliminary Zonal Peak Load Forecast for such Delivery Year

ZWNSP = Zonal Weather-Normalized Summer Peak for the summer season concluding ~~five~~ four years prior to the commencement of such Delivery Year

RUCO = the ~~Base~~ RTO Unforced Capacity Obligation satisfied in the Base Residual Auction for such Delivery Year.

RPLDY = RTO Preliminary Peak Load Forecast for such Delivery Year.

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For purposes of such determination, PJM shall determine the Preliminary RTO Peak Load Forecast, and the Preliminary Zonal Peak Load Forecasts for each Zone, in accordance with the PJM Manuals for each Delivery Year no later than one month prior to the Base Residual Auction for such Delivery Year. PJM shall determine the Final RTO and Zonal Peak Load Forecasts in accordance with the PJM Manuals for each Delivery Year no later than one month prior to the Second Incremental Auction for such Delivery Year; provided, however, that if the Second Incremental Auction is not conducted, the Preliminary RTO and Zonal Peak Load Forecasts for the Delivery Year shall be the Final RTO and Zonal Peak Load Forecasts, respectively, for such year. PJM shall determine the most recent Weather Normalized Summer Peak for each Zone no later than seven months prior to the start of the Delivery Year, and shall calculate the RTO Weather Normalized Summer Peak as the sum of the Weather Normalized Summer Peaks for all Zones.

C. The Final RTO Unforced Capacity Obligation for a Delivery Year shall be equal to the sum of (i) the unforced capacity obligations satisfied through the Base Residual Auction and the Second Incremental Auction, if held, and (ii) the Forecast RTO ILR Obligation for such Delivery Year, ~~times the DR Factor, times the Forecast Pool Requirement~~. The Final Zonal Unforced Capacity Obligation shall be equal to the sum of (i) the Base Zonal Unforced Capacity Obligation, and (ii) the unforced capacity obligation satisfied in the Second Incremental Auction times (the increase in the Final Zonal Peak Load Forecast from the Preliminary Zonal Peak Load Forecast divided by the increase in the RTO Final Peak Load Forecast from the RTO Preliminary Peak Load Forecast). If a Second Incremental Auction is not conducted, the Final Zonal Unforced Capacity Obligation shall be equal to the Base Zonal Unforced Capacity Obligation. The Final Zonal RPM Sealing Factor shall be equal to the Final Zonal Unforced Capacity Obligation divided by (FPR times the Zonal Weather Normalized Summer Peak for the summer concluding prior to the commencement of such Delivery Year).

D. 1. No later than five months prior to the start of each Delivery Year, the Electric Distributor for a Zone shall allocate the most recent Weather Normalized Summer Peak for such Zone to determine the Obligation Peak Load for each end-use customer within such Zone.

2. During the Delivery Year, no later than 36 hours prior to the start of each operating day, the Electric Distributor shall provide to PJM for each Party to this Agreement serving load in such Electric Distributor's Zone the Obligation Peak Load for all end-use customers served by such Party in such Zone. The daily Unforced Capacity Obligation of a Party for such Operating Day shall not be subject to change thereafter.

3. For purposes of such allocations, the daily sum of the Obligation Peak Loads of all Parties serving load in a Zone must equal the Zonal Obligation Peak Load for such Zone.

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SCHEDULE 8.1

FIXED RESOURCE REQUIREMENT ALTERNATIVE

A. The Fixed Resource Requirement ("FRR") Alternative provides an alternative means, under the terms and conditions of this Schedule, for an eligible Load-Serving Entity to satisfy its obligation hereunder to commit Unforced Capacity to ensure reliable service to loads in the PJM Region.

B. Eligibility

1. Except as provided in subsection B.3 below, a Party is eligible to select the FRR Alternative if it (a) is an IOU, Electric Cooperative, or Public Power Entity; and (b) demonstrates the capability to satisfy the Unforced Capacity obligation for all load in an FRR Service Area, including all expected load growth in such area, for the term of such Party's participation in the FRR Alternative.

2. A Party eligible under B.1 above may select the FRR Alternative only as to all of its load in the PJM Region; provided however, that a Party may select the FRR Alternative for only part of its load in the PJM Region if (a) the Party elects the FRR Alternative for all load (including all expected load growth) in one or more FRR Service Areas; (b) the Party complies with the rules and procedures of the Office of the Interconnection and all relevant Electric Distributors related to the metering and reporting of load data and settlement of accounts for separate FRR Service Areas; and (c) the Party separately allocates its Capacity Resources to and among FRR Service Areas in accordance with rules specified in the PJM Manuals.

3. Single Customer LSEs as identified in accordance with subsection B.3.a below, shall be eligible to elect the FRR Alternative upon the terms and conditions of this Schedule and the following additional terms and conditions. The aggregate Obligation Peak Load of all Single Customer LSEs electing the FRR Alternative in the PJM Region shall not exceed 1000 MW.

a) Single-Customer LSEs eligible for the FRR Alternative shall be limited to those that (i) signed that certain Settlement Agreement dated September 29, 2006 in FERC Docket Nos. ER05-1410 and EI.05-148 (or is an entity that was a named member of an association or coalition that was a signatory to such settlement and did not file or join in any comments opposing such settlement); and (ii) elected the FRR Alternative on or before April 1, 2008. The Office of the Interconnection, as necessary, shall establish and post in the PJM Manuals open-season procedures to apportion the maximum allowed service under the FRR Alternative among interested Single-Customer LSEs.

b) The Single-Customer LSE must install and maintain wholesale metering at each location that is monitored by, and regularly reported to, the Office of the Interconnection.

c) Each Single-Customer LSE warrants that (i) it has and shall maintain and enforce the contract right during the term of its election of the FRR Alternative to prohibit

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its retail customer(s) from terminating service from the Single-Customer LSE and obtaining such service from a different LSE; and (ii) it has and shall maintain for such term Financial Security or a Corporate Guaranty, both as defined in Attachment Q to the PJM Tariff, in an amount sufficient to cover any charge assessed under subsection B.3.e. A Single-Customer LSE will not violate its requirement under this subsection in the event that the retail customer terminates its service from the Single-Customer LSE and obtains service from an LSE that is an FRR Entity, provided that the Single-Customer LSE assigns Capacity Resources to the LSE providing such service in an amount equal to the Daily Unforced Capacity Obligation related to such retail customer.

- d) Each Single-Customer LSE shall obtain from its retail customer(s) and provide to the Office of the Interconnection and the entity designated under state law, order, or rule as such customer's default service provider or provider of last resort and the Electric Distributor a written statement agreeing that in the event such customer terminates its service from the Single-Customer LSE and obtains such service from a Party that is not an FRR Entity, then such customer's load shall be treated as ILR for the remaining duration of the period for which such Single-Customer LSE had elected the FRR Alternative, that for such purpose the Electric Distributor is authorized to obtain certification of such load as ILR, and that the customer agrees to provide the Electric Distributor with all information required for such certification. Nothing in this provision shall preclude such customer from using its owned or controlled generation to facilitate the interruption of its load as ILR.
- e) A Single-Customer LSE shall be assessed an Unauthorized Load Transfer Charge in the event such LSE's retail customer terminates its service from such LSE and obtains service from a Party that has not elected the FRR Alternative, or in the event such load transfer occurs to a Party that has elected the FRR Alternative, but the Single-Customer LSE does not transfer sufficient Capacity Resources as required by subsection B.3.e. Such charge shall equal two times the Cost of New Entry times the Daily Unforced Capacity Obligation related to such customer for the remaining duration of the period for which such Single-Customer LSE elected the FRR Alternative.
- f) Each Single Customer LSE shall provide to the Office of the Interconnection an FRR Capacity Plan in accordance with this schedule. Such FRR Capacity Plan, in addition to complying with all other applicable requirements of this Schedule, shall identify and commit for at least five delivery years Capacity Resources sufficient to satisfy such LSE's Daily Unforced Capacity Obligations hereunder consisting of generation assets or physical supply contracts that qualify as a 'forward contract' or a 'commodity contract' under the U.S. Bankruptcy Code. Each Single-Customer LSE warrants that all generation assets and forward supply contracts included in its FRR Capacity Plan shall be assigned to any successor-in-interest of its retail customer(s)'s assets and operations

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C. Election, and Termination of Election, of FRR Alternative

1. No less than two months before the conduct of the Base Residual Auction for the first Delivery Year for which such election is to be effective, any Party seeking to elect the FRR Alternative shall notify the Office of the Interconnection in writing of such election. Such election shall be for a minimum term of five consecutive Delivery Years. No later than one month before such Base Residual Auction, such Party shall submit its FRR Capacity Plan demonstrating its commitment of Capacity Resources for the term of such election sufficient to meet such Party's Daily Unforced Capacity Obligation (and all other applicable obligations under this Schedule) for the load identified in such plan.

2. An FRR Entity may terminate its election of the FRR Alternative effective with the commencement of any Delivery Year following the minimum five Delivery Year commitment by providing written notice of such termination to the Office of the Interconnection no later than two months prior to the Base Residual Auction for such Delivery Year. An FRR Entity that has terminated its election of the FRR Alternative shall not be eligible to re-elect the FRR Alternative for a period of five consecutive Delivery Years following the effective date of such termination.

3. Notwithstanding subsections C.1 and C.2 of this Schedule, in the event of a State Regulatory Structural Change, a Party may elect, or terminate its election of, the FRR Alternative effective as to any Delivery Year by providing written notice of such election or termination to the Office of the Interconnection in good faith as soon as the Party becomes aware of such State Regulatory Structural Change but in any event no later than two months prior to the Base Residual Auction for such Delivery Year.

4. To facilitate the elections and notices required by this Schedule, the Office of the Interconnection shall post, in addition to the information required by Section 5.11(a) of Attachment DD to the PJM Tariff, the percentage of Capacity Resources required to be located in each Locational Deliverability Area by no later than one month prior to the deadline for a Party to provide such elections and notices.

D. FRR Capacity Plans

1. Each FRR Entity shall submit its initial FRR Capacity Plan as required by subsection C.1 of this Schedule, and shall annually extend and update such plan by no later than one month prior to the Base Residual Auction for each succeeding Delivery Year in such plan. Each FRR Capacity Plan shall indicate the nature and current status of each resource, including the status of each Planned Generation Capacity Resource or Planned Demand Resource, the planned deactivation or retirement of any Generation Capacity Resource or Demand Resource, and the status of commitments for each sale or purchase of capacity included in such plan.

2. The FRR Capacity Plan of each FRR Entity that commits that it will not sell surplus Capacity Resources as a Capacity Market Seller in any auction conducted under Attachment DD of the PJM Tariff, or to any direct or indirect purchaser that uses such resource as the basis of any Sell Offer in such auction, shall designate Capacity Resources in a megawatt quantity no less than the Forecast Pool Requirement for each applicable Delivery Year times the FRR Entity's allocated share of the Preliminary Zonal Peak Load Forecast for such Delivery

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Year, as determined in accordance with procedures set forth in the PJM Manuals. If the FRR Entity is not responsible for all load within a Zone, the Preliminary Forecast Peak Load for such entity shall be the FRR Entity's Obligation Peak Load last determined prior to the Base Residual Auction for such Delivery Year, times the Base FRR Scaling Factor. The FRR Capacity Plan of each FRR Entity that does not commit that it will not sell surplus Capacity Resources as set forth above shall designate Capacity Resources at least equal to the Threshold Quantity. To the extent the FRR Entity's allocated share of the Final Zonal Peak Load Forecast exceeds the FRR Entity's allocated share of the Preliminary Zonal Peak Load Forecast, such FRR Entity's FRR Capacity Plan shall be updated to designate additional Capacity Resources in an amount no less than the Forecast Pool Requirement times such increase; provided, however, any excess megawatts of Capacity Resources included in such FRR Entity's previously designated Threshold Quantity, if any, may be used to satisfy the capacity obligation for such increased load.

3. As to any FRR Entity, the Base Zonal FRR Scaling Factor for each Zone in which it serves load for a Delivery Year shall equal $ZPLDY/ZWNSP$, where:

$ZPLDY$ = Preliminary Zonal Peak Load Forecast for such Zone for such Delivery Year; and

$ZWNSP$ = Zonal Weather-Normalized Summer Peak Load for such Zone for the summer concluding four years prior to the commencement of such Delivery Year.

4. Capacity Resources identified and committed in an FRR Capacity Plan shall meet all requirements under this Agreement and the PJM Operating Agreement applicable to Capacity Resources, including, as applicable, requirements and milestones for Planned Generation Capacity Resources and Planned Demand Resources. A Capacity Resource submitted in an FRR Capacity Plan must be on a unit-specific basis, and may not include "slice of system" or similar agreements that are not unit specific. An FRR Capacity Plan may include bilateral transactions that commit capacity for less than a full Delivery Year only if the resources included in such plan in the aggregate satisfy all obligations for all Delivery Years. All demand response, load management or similar programs on which such FRR Entity intends to rely for a Delivery Year must be included in the FRR Capacity Plan submitted three years in advance of such Delivery Year and must satisfy all requirements applicable to Demand Resources, including, without limitation, those set forth in Schedule 6 to this Agreement; provided, however, that previously uncommitted Unforced Capacity from such programs may be used to satisfy any increased capacity obligation for such FRR Entity resulting from a Final Zonal Peak Load Forecast applicable to such FRR Entity.

5. For each LDA for which the Office of the Interconnection has established a separate Variable Resource Requirement Curve for any Delivery Year addressed by such FRR Capacity Plan, the plan must include a minimum percentage of Capacity Resources for such Delivery Year located within such LDA. Such minimum percentage ("Percentage Internal Resources Required") will be calculated as the LDA Reliability Requirement less the CETL for the Delivery Year, as determined by the RTEP process as set forth in the PJM Manuals. Such requirement shall be expressed as a percentage of the Unforced Capacity Obligation based on the Preliminary Zonal Peak Load Forecast multiplied by the Forecast Pool Requirement.

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6. An FRR Entity may reduce such minimum percentage as to any LDA to the extent the FRR Entity commits to a transmission upgrade that increases the capacity emergency transfer limit for such LDA. Any such transmission upgrade shall adhere to all requirements for a Qualified Transmission Upgrade as set forth in Attachment DD to the PJM Tariff. The increase in CETL used in the FRR Capacity Plan shall be that approved by PJM prior to inclusion of any such upgrade in an FRR Capacity Plan. The FRR Entity shall designate specific additional Capacity Resources located in the LDA from which the CETL was increased, to the extent of such increase.

7. The Office of the Interconnection will review the adequacy of all submittals hereunder both as to timing and content. A Party that seeks to elect the FRR Alternative that submits an FRR Capacity Plan which, upon review by the Office of the Interconnection, is determined not to satisfy such Party's capacity obligations hereunder, shall not be permitted to elect the FRR Alternative. If a previously approved FRR Entity submits an FRR Capacity Plan that, upon review by the Office of the Interconnection, is determined not to satisfy such Party's capacity obligations hereunder, the Office of the Interconnection shall notify the FRR Entity, in writing, of the insufficiency within five (5) business days of the submittal of the FRR Capacity Plan. If the FRR Entity does not cure such insufficiency within five (5) business days after receiving such notice of insufficiency, then such FRR Entity shall be assessed an FRR Commitment Insufficiency Charge, in an amount equal to two times the Cost of New Entry for the relevant location, in \$/MW-day, times the shortfall of Capacity Resources below the FRR Entity's capacity obligation (including any Threshold Quantity requirement) in such FRR Capacity Plan, for the remaining term of such plan.

8. In a state regulatory jurisdiction that has implemented retail choice, the FRR Entity must include in its FRR Capacity Plan all load, including expected load growth, in the FRR Service Area, notwithstanding the loss of any such load to or among alternative retail LSEs. In the case of load reflected in the FRR Capacity Plan that switches to an alternative retail LSE, where the state regulatory jurisdiction requires switching customers or the LSE to compensate the FRR Entity for its FRR capacity obligations, such state compensation mechanism will prevail. In the absence of a state compensation mechanism, the applicable alternative retail LSE shall compensate the FRR Entity at the capacity price in the unconstrained portions of the PJM Region, as determined in accordance with Attachment DD to the PJM Tariff, provided that the FRR Entity may, at any time, make a filing with FERC under Sections 205 of the Federal Power Act proposing to change the basis for compensation to a method based on the FRR Entity's cost or such other basis shown to be just and reasonable, and a retail LSE may at any time exercise its rights under Section 206 of the FPA.

9. Notwithstanding the foregoing, in lieu of providing the compensation described above, such alternative retail LSE may, for any Delivery Year subsequent to those addressed in the FRR Entity's then-current FRR Capacity Plan, provide to the FRR Entity Capacity Resources sufficient to meet the capacity obligation described in paragraph D.2 for the switched load. Such Capacity Resources shall meet all requirements applicable to Capacity Resources pursuant to this Agreement and the PJM Operating Agreement, all requirements applicable to resources committed to an FRR Capacity Plan under this Agreement, and shall be committed to service to the switched load under the FRR Capacity Plan of such FRR Entity. The alternative retail LSE shall provide the FRR Entity all information needed to fulfill these requirements and permit the

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resource to be included in the FRR Capacity Plan. The alternative retail LSE, rather than the FRR Entity, shall be responsible for any performance charges or compliance penalties related to the performance of the resources committed by such LSE to the switched load. For any Delivery Year, or portion thereof, the foregoing obligations apply to the alternative retail LSE serving the load during such time period. PJM shall manage the transfer accounting associated with such compensation and shall administer the collection and payment of amounts pursuant to the compensation mechanism.

Such load shall remain under the FRR Capacity Plan until the effective date of any termination of the FRR Alternative and, for such period, shall not be subject to Locational Reliability Charges under Section 7.2 of this Agreement.

E. Conditions on Purchases and Sales of Capacity Resources by FRR Entities

1. An FRR Entity may not include in its FRR Capacity Plan for any Delivery Year any Capacity Resource that has cleared in any auction under Attachment DD of the PJM Tariff for such Delivery Year. Nothing herein shall preclude an FRR Entity from including in its FRR Capacity Plan any Capacity Resource that has not cleared such an auction for such Delivery Year. Furthermore, nothing herein shall preclude an FRR Entity from including in its FRR Capacity Plan a Capacity Resource obtained from a different FRR Entity, provided, however, that each FRR Entity shall be individually responsible for meeting its capacity obligations hereunder, and provided further that the same megawatts of Unforced Capacity shall not be committed to more than one FRR Capacity Plan for any given Delivery Year.

2. An FRR Entity that designates Capacity Resources in its FRR Capacity Plan for a Delivery Year based on the Threshold Quantity may offer to sell Capacity Resources in excess of that needed for the Threshold Quantity in any auction conducted under Attachment DD of the PJM Tariff for such Delivery Year, but may not offer to sell Capacity Resources in the auctions for any such Delivery Year in excess of an amount equal to the lesser of (a) 25% times the Unforced Capacity equivalent of the Installed Reserve Margin for such Delivery Year multiplied by the Preliminary Forecast Peak Load for which such FRR Entity is responsible under its FRR Capacity Plan for such Delivery Year, or (b) 1300 MW.

3. An FRR Entity that designates Capacity Resources in its FRR Capacity Plan for a Delivery Year based on the Threshold Quantity may not offer to sell such resources in any Reliability Pricing Model auction, but, but may use such resources to meet any increased capacity obligation resulting from unanticipated growth of the loads in its FRR Capacity Plan, or may sell such resources to serve loads located outside the PJM Region, or to another FRR Entity, subject to subsection E.1 above.

4. A Party that has selected the FRR Alternative for only part of its load in the PJM Region pursuant to Section B.2 of this Schedule that designates Capacity Resources as Self-Supply in a Reliability Pricing Model Auction to meet such Party's expected Daily Unforced Capacity Obligation under Schedule 8 shall not be required, solely as a result of such designation, to identify Capacity Resources in its FRR Capacity Plan based on the Threshold Quantity; provided, however, that such Party may not so designate Capacity Resources in an amount in excess of the lesser of (a) 25% times such Party's total expected Unforced Capacity obligation (under both Schedule 8 and Schedule 8.1), or (b) 200 MW. A Party that wishes to

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avoid the foregoing limitation must identify Capacity Resources in its FRR Capacity Plan based on the Threshold Quantity.

F. FRR Daily Unforced Capacity Obligations and Deficiency Charges

1. For each billing month during a Delivery Year, the Daily Unforced Capacity Obligation of an FRR Entity shall be determined on a daily basis for each Zone as follows:

Daily Unforced Capacity Obligation = OPL * Final Zonal FRR Scaling Factor * FPR

where:

OPL - Obligation Peak Load, defined as the daily summation of the weather-adjusted coincident summer peak, last preceding the Delivery Year, of the end-users in such Zone (net of operating Behind The Meter Generation, but not to be less than zero) for which such Party was responsible on that billing day, as determined in accordance with the procedures set forth in the PJM Manuals

Final Zonal FRR Scaling Factor = FZPLDY/FZWNSP;

FZPLDY - Final Zonal Peak Load Forecast for such Delivery Year; and

FZWNSP - Zonal Weather-Normalized Peak Load for the summer concluding prior to the commencement of such Delivery Year.

2. An FRR Entity shall be assessed an FRR Capacity Deficiency Charge in each Zone addressed in such entity's FRR Capacity Plan for each day during a Delivery Year that it fails to satisfy its Daily Unforced Capacity Obligation in each Zone. Such FRR Capacity Deficiency Charge shall be in an amount equal to the deficiency below such FRR Entity's Daily Unforced Capacity Obligation for such Zone times twice the Cost of New Entry applicable to such Zone.

3. If an FRR Entity acquires load that is not included in the Preliminary Zonal Peak Load Forecast such acquired load shall be treated in the same manner as provided in Sections H.1 and H.2 of this Schedule.

4. The shortages in meeting the minimum requirement within the constrained zones and the shortage in meeting the total obligation are first calculated. The shortage in the unconstrained area is calculated as the total shortage less shortages in constrained zones and excesses in constrained zones (the shortage is zero if this is a negative number). The Capacity Deficiency Charge is charged to the shortage in each zone and in the unconstrained area separately. This procedure is used to allow the use of capacity excesses from constrained zones to reduce shortage in the unconstrained area and to disallow the use of capacity excess from unconstrained area to reduce shortage in constrained zones.

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G. Capacity Resource Performance

Any Capacity Resource committed by an FRR Entity in an FRR Capacity Plan for a Delivery Year shall be subject during such Delivery Year to the charges set forth in sections 7, 8, 9, 10, 11, and 13 of Attachment DD to the PJM Tariff; provided, however, the Daily Deficiency Rate under sections 7, 8, 9, and 13 thereof, and the charge rates under section 10 thereof, shall be the net Cost of New Entry. An FRR Entity shall have the same opportunities to cure deficiencies and avoid or reduce associated charges during the Delivery Year that a Market Seller has under Sections 7 and 10 of Attachment DD to the PJM Tariff. An FRR Entity may cure deficiencies and avoid or reduce associated charges prior to the Delivery Year by procuring replacement Unforced Capacity outside of any RPM auction and committing such capacity in its FRR Capacity Plan.

H. Annexation of service territory by Public Power Entity

1. In the event a Public Power Entity that is an FRR Entity annexes service territory to include new customers on sites where no load had previously existed, then the incremental load on such a site shall be treated as unanticipated load growth, and such FRR Entity shall be required to commit sufficient resources to cover such obligation in the relevant Delivery Year.

2. In the event a Public Power Entity that is an FRR Entity annexes service territory to include load from a Party that has not elected the FRR Alternative, then:

- a. For any Delivery Year for which a Base Residual Auction already has been conducted, such acquiring FRR Entity shall meet its obligations for the incremental load by paying PJM for incremental obligations (including any additional demand curve obligation) at the Capacity Resource Clearing Price for the relevant location. Any such revenues shall be used to pay Capacity Resources that cleared in the BRA for that LDA.
- b. For any Delivery Year for which a Base Residual Auction has not been conducted, such acquiring FRR Entity shall include such incremental load in its FRR Capacity Plan.

3. Annexation whereby a Party that has not elected the FRR Alternative acquires load from an FRR entity:

- a. For any Delivery Year for which a Base Residual Auction already has been conducted, PJM would consider shifted load as unanticipated load growth for purposes of determining whether to hold a Second Incremental Auction. If a Second Incremental Auction is held, FRR entity would have a must offer requirement for sufficient capacity to meet the load obligation of such shifted load. If no Second Incremental Auction is conducted, the FRR Entity may sell the associated quantity of capacity into an RPM Auction or bilaterally.

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- b. For any Delivery Year for which a Base Residual Auction has not been conducted, the FRR Entity that lost such load would no longer include such load in its FRR Capacity Plan, and PJM would include such shifted load in future BRAs.

I. Savings Clause for State-Wide FRR Program

Nothing herein shall obligate or preclude a state, acting either by law or through a regulatory body acting within its authority, from designating the Load Serving Entity or Load Serving Entities that shall be responsible for the capacity obligation for all load in one or more FRR Service Areas within such state according to the terms and conditions of that certain Settlement Agreement dated September 29, 2006 in FERC Docket Nos. ER05-1410 and EI05-148, the PJM Tariff and this Agreement. Each LSE subject to such state action shall become a Party to this Agreement and shall be deemed to have elected the FRR Alternative.

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SCHEDULE 9

PROCEDURES FOR ESTABLISHING THE CAPABILITY OF GENERATION CAPACITY RESOURCES

- A. Such rules and procedures as may be required to determine and demonstrate the capability of Generation Capacity Resources for the purposes of meeting a Load Serving Entity's obligations under the Agreement shall be developed by the Office of Interconnection and maintained in the PJM Manuals.
- B. The rules and procedures for determining and demonstrating the capability of generating units to serve load in the PJM Region shall be consistent with achieving uniformity for planning, operating, accounting and reporting purposes.
- C. The rules and procedures shall recognize the difference in types of generating units and the relative ability of units to maintain output at stated capability over a specified period of time. Factors affecting such ability include, but are not limited to, fuel availability, stream flow for hydro units, reservoir storage for hydro and pumped storage units, mechanical limitations, and system operating policies.

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SCHEDULE 9.1

RESOURCE OPERATIONAL RELIABILITY REQUIREMENTS

~~The Final Zonal Capacity Price determined pursuant to Attachment Y to the PJM Tariff shall recognize and quantify the reliability value of certain operating characteristics of Generation Capacity Resources. To ensure that Generation Capacity Resources in the PJM Region have sufficient operational flexibility to maintain reliability, and that such reliability value is properly recognized and quantified, the Office of the Interconnection shall: (a) establish Resource Operational Reliability Requirements for each Planning Period; and (b) certify Generation Capacity Resources that meet such requirements.~~

~~The Office of Interconnection shall establish minimum Resource Operational Reliability Requirements for the PJM Region, in accordance with the PJM Manuals, and consistent with NERC and Applicable Regional Reliability Council standards and Good Utility Practice, for Load Following Resources and Thirty Minute Start Resources.~~

~~The Load Following Requirement shall quantify the minimum amount of megawatts that must be committed for the Delivery Year from Load Following Resources that are capable of either dispatching within a given range at or above a minimum ramp rate, or cycling on and off line to respond to changes in system load as they occur. The Thirty Minute Start Requirement shall quantify the minimum amount of megawatts required from Thirty Minute Start Resources that must be committed for the Delivery Year. The Load Following and Thirty Minute Start Requirements are PJM Region wide requirements.~~

~~The Load Following Requirement shall be equal to the Weather Normalized Summer Peak forecast times the load following factor as specified by the PJM Manuals, times the Forecast Pool Requirement. The Thirty Minute Start Requirement shall be defined as a percentage of the weather normalized forecast summer peak load for the Delivery Year, times one minus the average EFORD for the PJM Region, as specified in the PJM Manuals.~~

~~In accordance with procedures set forth in the PJM Manuals, the Office of the Interconnection shall certify Generation Capacity Resources electrically located in the PJM Region (a) having either a flexible start capability or a dispatchable capability that are qualified to contribute towards the Load Following Requirement; and (b) having a thirty (30) minutes or less start time capability that are qualified to contribute towards the Thirty Minute Start Requirement. To qualify as a flexible start resource, a unit must be capable of at least three starts per day, and the combination of its minimum down time and minimum run time must be no more than eight hours. To qualify as a dispatchable resource, a unit must have a range between its minimum and maximum output and must be able to ramp at an average rate of at least 1 MW/minute over the unit's dispatchable range. To qualify as a thirty minute start resource, a resource must have generating capability over and above the capability needed to meet day-to-day peak demand that can be converted fully into energy within thirty (30) minutes of a request from the Office of the Interconnection.~~

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~~A unit that is committed in a Base Residual or Incremental Auction as a Thirty-Minute Start Resource or Load Following Resource shall be required to specify parameters in its offer data to the PJM Interchange Energy Market consistent with such status, as specified in the PJM Manuals, and shall be subject to monitoring and/or performance tests to ensure compliance with such requirements. A unit that fails to either specify or meet such parameters shall be subject to deficiency charges as set forth in Attachment Y to the PJM Tariff.~~

SCHEDULE 10

PROCEDURES FOR ESTABLISHING DELIVERABILITY OF GENERATION CAPACITY RESOURCES

Generation Capacity Resources must be deliverable, consistent with a loss of load expectation as specified by the Reliability Principles and Standards, to the total system load, including portion(s) of the system in the PJM Region that may have a capacity deficiency at any time. Deliverability shall be demonstrated by either obtaining or providing for Network Transmission Service or Firm Point-To-Point Transmission Service within the PJM Region such that each Generation Capacity Resource is either a Network Resource or a Point of Receipt, respectively. In addition, for Generation Capacity Resources located outside the metered boundaries of the PJM Region that are used to meet an Unforced Capacity Obligation, the capacity and energy of such Generation Capacity Resources must be delivered to the metered boundaries of the PJM Region through firm transmission service.

Certification of deliverability means that the physical capability of the transmission network has been tested by the Office of the Interconnection and found to provide that service consistent with the assessment of available transfer capability as set forth in the PJM Tariff and, for Generation Resources owned or contracted for by a Load Serving Entity, that the Load Serving Entity has obtained or provided for Network Transmission Service or Firm Point-to-Point Transmission Service to have capacity delivered on a firm basis under specified terms and conditions.

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SCHEDULE 10.1

LOCATIONAL DELIVERABILITY AREAS AND REQUIREMENTS

The ~~Final Zonal Capacity Price determined pursuant to Attachment Y to the PJM Tariff~~ shall ~~capacity obligations imposed under this Agreement~~ recognize and quantify the locational value of Capacity Resources. To ensure that such locational value is properly recognized and quantified, the Office of the Interconnection shall follow the procedures in this Schedule.

A. ~~To recognize and quantify the locational value of capacity, the Unforced Capacity Obligation shall include Locational Deliverability Requirements. In accordance with~~ following the Transition Period, as such term is defined in Attachment Y DD to the Tariff, the ~~Office of the Interconnection shall determine and post, three months prior to the Base Residual Auction for each Delivery Year, the~~ Locational Deliverability Areas for the purposes of determining locational capacity obligations hereunder, but not necessarily for the purposes of the Regional Transmission Expansion Planning Protocol, shall consist of the following Zones (as defined in Schedule 15), combinations of such Zones, and portions of such Zones:

- ☐ Dominion
- ☐ PeneElec
- ☐ ComEd
- ☐ AEP
- ☐ Dayton
- ☐ Duquesnel
- ☐ APS
- ☐ AE
- ☐ BGE
- ☐ DPL
- ☐ PECO
- ☐ PEPCO
- ☐ PSEG
- ☐ JCPL
- ☐ MetEd
- ☐ PPL
- ☐ Mid-Atlantic Area Council (MAAC) Region (consisting of all the zones listed below for Eastern MAAC, Western MAAC, and Southwestern MAAC)
- ☐ ComEd, AEP, Dayton, APS, and Duquesne
- ☐ Eastern MAAC (PSE&G, JCP&L, PECO, AE, DPL & RE)
- ☐ Southwestern MAAC (PEPCO & BG&E)
- ☐ Western MAAC (PeneElec, MetEd, PPL)
- ☐ PSEG northern region (north of Linden substation); and
- ☐ DPL southern region (south of Chesapeake and Delaware Canal)

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~~B. applicable to such Delivery Year.~~ For purposes of evaluating the need for any changes to the foregoing list, Locational Deliverability Areas shall be those areas, identified by the load deliverability analyses conducted pursuant to the Regional Transmission Expansion Planning Protocol and the PJM Manuals that have a limited ability to import capacity due to physical limitations of the transmission system, voltage limitations or stability limitations. Such limits on import capability shall not reflect the effect of Qualifying Transmission Upgrades offered in the Base Residual Auction. ~~for The~~ Locational Deliverability Areas identified in Paragraph A above (as it may be amended from time to time) for a Delivery Year shall be modeled in the Base Residual Auction and any Incremental Auction conducted for such Delivery Year. If the Office of the Interconnection includes a new Locational Deliverability Area in the Regional Transmission Expansion Planning Protocol, it shall make a filing with FERC to amend this Schedule to add a new Locational Deliverability Area (including a new aggregate LDA), if such new Locational Deliverability Area is projected to have a capacity emergency transfer limit less than 1.05 times the capacity emergency transfer objective of such area, or if warranted by other reliability concerns consistent with the Reliability Principles and Standards. In addition, any Party may propose, and the Office of the Interconnection shall evaluate, consistent with the same CETO/CETO comparison or other reliability concerns, possible new Locational Deliverability Areas (including aggregate LDAs) for inclusion under the Regional Transmission Expansion Planning Protocol and for purposes of determining locational capacity obligations hereunder.

C. For each Locational Deliverability Area for which a separate VRR Curve was established for a Delivery Year, the Office of the Interconnection shall determine, pursuant to procedures set forth in the PJM Manuals, an the Percentage of Internal Capacity Resources Requirement, equal to the quantity, in megawatts, of Unforced Capacity that must be committed during such Delivery Year from Capacity Resources physically located in such Locational Deliverability Area.

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SCHEDULE 11

DATA SUBMITTALS

To perform the studies required to determine the Forecast Pool Requirement and Daily Unforced Capacity Obligations under this Agreement and to determine compliance with the obligations imposed by this Agreement, each Party and other owner of a Capacity Resource shall submit data to the Office of the Interconnection in conformance with the following minimum requirements:

1. All data submitted shall satisfy the requirements, as they may change from time to time, of any procedures adopted by the Members Committee.
2. Data shall be submitted in an electronic format, or as otherwise specified by the Markets and Reliability Committee and approved by the PJM Board.
3. Actual outage data for each month for Generator Forced Outages, Generator Maintenance Outages and Generator Planned Outages shall be submitted so that it is received by such date specified in the PJM Manuals.
4. On or before the date specified in the PJM Manuals, planned and maintenance outage data for all Generation Resources and load forecasts (including seasonal and average weekly peaks) shall be submitted.
5. On or before the date specified in the PJM Manuals, adjustments to forecasts shall be submitted.
6. On or before the date or schedule for updates specified in the PJM Manuals, revisions to capacity and load forecasts (including the plans for satisfying the Daily Unforced Capacity Obligation of the Party) shall be submitted.
7. Capacity plans or revisions to previously submitted capacity plans, required under Schedule 6.
8. As desired by a Party, revisions to monthly peak load forecasts may be submitted.

The Parties acknowledge that additional information required to determine the Forecast Pool Requirement is to be obtained by the Office of the Interconnection from Electric Distributors in accordance with the provisions of the Operating Agreement.

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SCHEDULE 12

DATA SUBMISSION CHARGES

A. Data Submission Charge

For each working day of delay in the submittal of information required to be submitted under this Agreement, a data submission charge of \$500 shall be imposed.

B. Distribution Of Data Submission Charge Receipts

1. Each Party that has satisfied its obligations for data submittals pursuant to Schedule 11 during a Delivery Year, without incurring a data submission charge related to that obligation, shall share in any data submission charges paid by any other Party that has failed to satisfy said obligation during such Planning Period. Such shares shall be in proportion to the sum of the Unforced Capacity Obligations of each such Party entitled to share in the data submission charges for the most recent month.
2. In the event all of the Parties have incurred a data submission charge during a Delivery Year, those data submission charges shall be distributed as approved by the PJM Board.

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SCHEDULE 13

EMERGENCY PROCEDURE CHARGES

Following an Emergency, the compliance of each Party with the instructions of the Office of the Interconnection shall be evaluated as directed by the Markets and Reliability Committee. If, based on such evaluation, it is determined that a Party refused to comply with, or otherwise failed to employ its best efforts to comply with, the instructions of the Office of the Interconnection to implement PJM emergency procedures, that Party shall pay an emergency procedure charge, as set forth in Attachment ~~DD~~ to the PJM Tariff. The revenue associated with Emergency Procedure Charges shall be allocated in accordance with Attachment ~~Y-DD~~ to the PJM Tariff.

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SCHEDULE 14

DELEGATION TO THE OFFICE OF THE INTERCONNECTION

The following responsibilities shall be delegated by the Parties to the Office of the Interconnection:

1. New Parties. With regard to the addition, withdrawal or removal of a Party:
 - (a) Receive and evaluate the information submitted by entities that plan to serve loads within the PJM Region, including entities whose participation in the Agreement will expand the boundaries of the PJM Region. Such evaluation shall be conducted in accordance with the requirements of the Agreement.
 - (b) Evaluate the effects of the withdrawal or removal of a Party from this Agreement.
2. Implementation of Reliability Assurance Agreement. With regard to the implementation of the provisions of this Agreement:
 - (a) Receive all required data and forecasts from the Parties and other owners of Capacity Resources;
 - (b) Perform all calculations and analyses necessary to determine the Forecast Pool Requirement and the obligations imposed under the Reliability Assurance Agreement, including periodic reviews of the capacity benefit margin for consistency with the Reliability Principles and Standards;
 - (c) Monitor the compliance of each Party with its obligations under the Agreement;
 - (d) Keep cost records, and bill and collect any costs or charges due from the Parties and distribute those charges in accordance with the terms of the Agreement;
 - (e) Assist with the development of rules and procedures for determining and demonstrating the capability of Capacity Resources;
 - (f) Establish the capability and deliverability of Generation Capacity Resources consistent with the requirements of the Reliability Assurance Agreement;
 - (g) Establish standards and procedures for Planned Demand Resources;
 - (h) Collect and maintain generator availability data;

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- (i) Perform any other forecasts, studies or analyses required to administer the Agreement;
- (j) Coordinate maintenance schedules for generation resources operated as part of the PJM Region;
- (k) Determine and declare that an Emergency exists or ceases to exist in all or any part of the PJM Region or announce that an Emergency exists or ceases to exist in a Control Area interconnected with the PJM Region;
- (l) Enter into agreements for (i) the transfer of energy in Emergencies in the PJM Region or in a Control Area interconnected with the PJM Region and (ii) mutual support in such Emergencies with other Control Areas interconnected with the PJM Region; and
- (m) Coordinate the curtailment or shedding of load, or other measures appropriate to alleviate an Emergency, to preserve reliability in accordance with FERC, NERC or Applicable Regional Reliability Council principles, guidelines, standards and requirements, and to ensure the operation of the PJM Region in accordance with Good Utility Practice.

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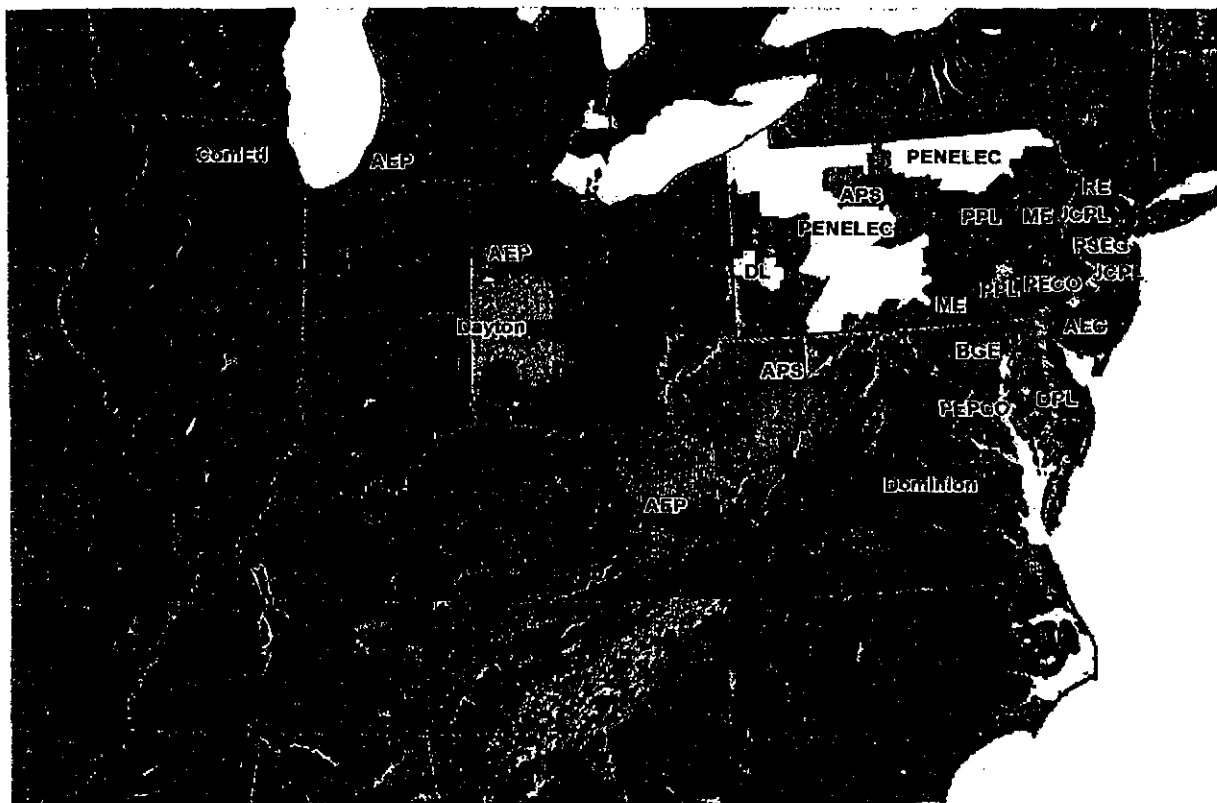
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SCHEDULE 15

ZONES WITHIN THE PJM REGION



FULL NAME

SHORT NAME

Pennsylvania Electric Company	PENELECPenelec
Allegheny Power	APS
PPL GroupElectric Utilities Corporation	PPL
Metropolitan Edison Company	MEMetEd
Jersey Central Power and Light Company	JCPL
Public Service Electric and Gas Company	PSEG
Atlantic City Electric Company	AEC
PECO Energy Company	PECO
Baltimore Gas and Electric Company	BGE
Delmarva Power and Light Company	DPL
Potomac Electric Power Company	PEPCO
Rockland Electric Company	RE
Commonwealth Edison Company	ComEd
AEP East Zone	AEP
The Dayton Power and Light Company	Dayton
Virginia Electric and Power Company	Dominion
Duquesne Light Company	DL

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SCHEDULE 16

Non-Retail Behind the Meter Generation Maximum Generation Emergency Obligations

1. A Non-Retail Behind The Meter Generation resource that has output that is netted from the Accounted-For Obligation of a Party pursuant to Schedule 7 of this Agreement shall be required to operate at its full output during the first ten times between November 1 and October 31 that Maximum Generation Emergency (as defined in section 1.3.13 of Schedule 1 of the Operating Agreement) conditions occur in the zone in which the Non-Retail Behind The Meter Generation resource is located.

2. The Party for which Non-Retail Behind The Meter Generation output is netted from its Accounted-For Obligation shall be required to report to PJM scheduled outages of the resource prior to the occurrence of such outage in accordance with the time requirements and procedures set forth in the PJM Manuals. Such Party also shall report to PJM the output of the Non-Retail Behind The Meter Generation resource during each Maximum Generation Emergency condition in which the resource is required to operate in accordance with the procedures set forth in PJM Manuals.

3. Except for failures to operate due to scheduled outages during the months of October through May, for each instance a Non-Retail Behind The Meter Generation resource fails to operate, in whole or in part, as required in paragraph 1 above, the amount of operating Non-Retail Behind The Meter Generation from such resource that is eligible for netting will be reduced pursuant to the following formula:

$$\frac{\text{Adjusted}}{\text{ENRBTMG}} - \text{ENRBTMG} - \Sigma(10\% \text{ of the Not Run NRBTMG})$$

Where:

ENRBTMG equals the operating Non-Retail Behind The Meter Generation eligible for netting, as determined pursuant to Schedule 7 of this Agreement.

Not Run NRBTMG is the amount in megawatts that the Non-Retail Behind The Meter Generation resource failed to produce during an occurrence of Maximum Generation Emergency conditions in which the resource was required to operate.

$\Sigma(10\% \text{ of the Not Run NRBTMG})$ is the summation of 10% megawatt reductions associated with the events of non-performance.

The Adjusted ENRBTMG shall not be less than zero and shall be applicable for the succeeding Planning Period.

4. If a Non-Retail Behind The Meter Generation resource that is required to operate during a Maximum Generation Emergency condition is an Energy Resource and injects energy into the Transmission System during the Maximum Generation Emergency condition, the Network Customer that owns the resource shall be compensated for such injected energy in accordance with the PJM market rules.

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SCHEDULE 17

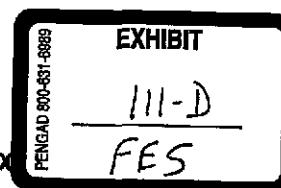
PARTIES TO THE RELIABILITY ASSURANCE AGREEMENT

This Schedule sets forth the Parties to the Agreement:

Harrison REA Inc.
City of New Martinsville
City of Philippi
Letterkenny Industrial Development Authority-PA
Old Dominion Electric Cooperative
Town of Front Royal
Hagerstown
Borough of Chambersburg
Town of Williamsport
Thurmont
Allegheny Electric Cooperative, Inc.
Allegheny Power
AES New Energy, Inc.
BP Energy Co.
Commonwealth Edison Company
Commonwealth Edison Company of Indiana
Dayton Power & Light Company (The)
American Municipal Power-Ohio, Inc.
American Electric Power Service Corporation on behalf of its affiliates:
 Appalachian Power Company
 Columbus Southern Power Company
 Indiana Michigan Power Company
 Kentucky Power Company
 Kingsport Power Company
 Ohio Power Company
 Wheeling Power Company
Allegheny Energy Supply Company, L.L.C.
Blue Ridge Power Agency, Inc.
Central Virginia Electric Cooperative
City of Dowogiac
Hoosier Energy REC, Inc.
Indiana Municipal Power Agency
Ormet Primary Aluminum Corporation
City of Sturgis
Wabash Valley Power Association, Inc.
Duquesne Light Company
Virginia Electric and Power Company

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ATTORNEYS AT LAW

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September 29, 2006

4094

Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E. Room 1A
Washington, D.C. 20426

FILED
OFFICE OF THE
SECRETARY
2006 SEP 29 P 3 45
FEDERAL ENERGY
REGULATORY COMMISSION

Re: Settlement Agreement and Explanatory Statement of the Settling Parties Resolving All Issues in PJM Interconnection L.L.C., Docket Nos. ER05-1410-000 and -001, and EL05-148-000 and -001

Dear Ms. Salas:

PJM Interconnection, L.L.C. ("PJM"), pursuant to Rule 602 of the Commission's Rules, submits for filing, on behalf of itself and the parties listed in the enclosed Settlement Agreement (collectively "Settling Parties"), an original and 14 copies of the settlement documents described below.

I. Description of the Filing

The Settlement Agreement filed herein resolves all issues regarding the implementation by PJM of a reliability pricing model ("RPM") to replace PJM's existing capacity obligation rules, without the need for an evidentiary hearing or further proceedings. Therefore, the Settling Parties respectfully request that the Commission approve the Settlement Agreement, including the enclosed revised sheets of the PJM Open Access Transmission Tariff ("PJM Tariff"), PJM Operating Agreement, and the enclosed new Reliability Assurance Agreement for the PJM Region ("RAA"), as set forth in Attachments A through F to the Settlement Agreement.

II. Documents Enclosed

The Settling Parties submit the following settlement materials:

1. Explanatory Statement, including appendices containing supplemental affidavits of Mr. Andrew L. Ott, Mr. Joseph E. Bowring, and Mr. Benjamin F. Hobbs, on behalf of PJM; Mr. Paul Williams, on behalf of the Portland Cement Association; and Mr. Robert Stoddard, on behalf of Mirant.

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2. Settlement Agreement, including appendices containing revised sheets to the PJM Tariff, Operating Agreement and RAA;
3. Proposed Letter Order; and
4. Certificate of Service.

III. Comment Dates

Pursuant to Rule 602(f)(2), comments on the Settlement Agreement must be filed with the Secretary within 20 days of the filing of the settlement, i.e., on or before October 19, 2006, and reply comments must be filed with the Secretary within 30 days of such filing, i.e. on or before October 30, 2006.

IV. Request for Review and Waiver

The Settlement Agreement provides that the RPM construct shall replace PJM's current capacity construct beginning on June 1, 2007, which is the first day of the next annual Delivery Year under the new capacity rules. To permit this implementation date, PJM must conduct the Base Residual Auction for the 2007-2008 Delivery Year in April 2007; therefore, PJM and the market participants must begin to implement the necessary systems and business practice changes as soon as possible. To that end, the Settling Parties are asking the Commission to approve the Settlement Agreement by December 22, 2006. To the extent necessary, waiver of the Commission's notice requirements is requested.

V. Service and Request for Waiver of Posting Requirements

Pursuant to Rules 602(d) and 2010 (18 C.F.R. §§ 385.602(d) & 2010), PJM has served, either by paper or electronic service, the settlement documents listed in section II above, on all the parties listed on the official service list compiled by the Secretary in this proceeding, all PJM members, and all state commissions in the PJM Region.

With regard to service on the PJM members and the state commissions, PJM requests waiver of the posting requirements, so as to permit electronic service rather than paper service. Waiver of paper service is consistent with the Commission's decision to establish electronic service as the default method of service on service lists maintained by the Commission Secretary for Commission proceedings.¹ While Order No. 653 did not amend the posting requirements, application of its rules to tariff filings would be consistent with the Commission's "efforts to reduce the use of paper in compliance with the Government Paperwork Elimination Act."² Applying amended section 385.2010(f) to


¹ See Electronic Notification of Commission Issuances, Order No. 653, 110 FERC ¶ 61,110 (2005).

² Id. at P 2, citing 44 U.S.C. § 3504.

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this filing, PJM will post this filing today to the FERC filings section of its internet site, <http://www.pjm.com/documents/ferc.html>, and send an e-mail to all PJM members and all state utility regulatory commissions in the PJM Region³ alerting them that this filing has been made by PJM today and is available by following such link. Within one business day, PJM will send a second e-mail to the same list, containing a link that takes the recipient directly to the filed document.⁴

Respectfully submitted,



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mayesj@pjm.com

Attorneys for
PJM Interconnection, L.L.C.

Encl.
cc: Service List

³ PJM already maintains, updates, and regularly uses e-mail lists for all Members and affected commissions.

⁴ PJM anticipates that in unusual circumstances, it may not be possible to post the document to its website on the day of filing, or to distribute an active link to the document within one business day. Consistent with §385.2010(i)(3), if a link to the document does not become available within two business days after filing, PJM will arrange for immediate service by other means.

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

b) The information listed in (a), with the exception of the Preliminary PJM Region Peak Load Forecast and the Variable Resource Requirement Curves, will continue to be posted and applicable for the First, Second, and Third Incremental Auctions for such Delivery Year. The Variable Resource Requirement Curves shall remain posted during the auction process for a Delivery Year, but shall be used only in the Base Residual Auction for such Delivery Year.

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 incremental obligation resulting from such final forecast, prior to conducting the Second Incremental Auction 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 EPORd values for such Generation Capacity Resources prior to the conduct of the Third Incremental Auction for such Delivery Year.

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;
- the PJM Region Reliability Requirement, minus the Forecast RTO ILR Obligation.

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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. 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) First Incremental Auction

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

- the same locational constraints that were modeled in the Base Residual Auction ; and
- the Sell Offers and Buy Bids submitted in such auction.

The optimization algorithm shall calculate the overall clearing result to minimize the cost of committing replacement Capacity Resources in response to the Buy Bids submitted, while satisfying or honoring such reliability requirements and constraints.

c) Second Incremental Auction

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

- The PJM Region Reliability Requirement, less the Forecast RTO ILR Obligation;

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- For each LDA, such LDA's share of the Final RTO Peak Load Forecast less the Forecast RTO ILR Obligation;
- The Sell Offers submitted in such auction;
- The Unforced Capacity previously committed for such Delivery Year; and
- the same Locational Deliverability Requirements that were modeled in the Base Residual Auction.

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 Final PJM Peak Load Forecast, while satisfying or honoring such reliability requirements and constraints, in the same manner as set forth in subsection (a) above.

d) Third Incremental Auction

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

- the same Locational constraints that were modeled in the Base Residual Auction ; and
- the Sell Offers and Buy Bids submitted in such auction.

The optimization algorithm shall calculate the overall clearing result to minimize the cost of committing replacement Capacity Resources in response to the Buy Bids submitted, while satisfying or honoring such reliability requirements and constraints.

(e) 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.

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5.13 Certification of ILR

No later than three months prior to the start of the Delivery Year, ILR Providers may submit resources for review and certification by the Office of the Interconnection, in accordance with the Reliability Assurance Agreement and the PJM Manuals, as ILR Resources for the Delivery Year. In accordance with Schedule 6 of the Reliability Assurance Agreement, ILR Providers must provide the Nominated ILR Value for the ILR resources certified.

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, and (2) the Locational Price Adder, if any in such LDA, 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.

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 Second Incremental Auction 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 a First or Third Incremental Auction 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.

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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:

- a. 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;
- b. Acceptance of such Sell Offer in such BRA increases the total Unforced Capacity in the LDA in which such Resource will be located from a megawatt quantity below the LDA Reliability Requirement to a megawatt quantity corresponding to a point on the VRR Curve where price is no greater than 0.40 times the applicable Net CONE divided by (one minus the pool-wide average EFORD); and
- c. Such Capacity Market Seller submits Sell Offers in the BRA for the two immediately succeeding Delivery Years for the entire Unforced Capacity of such Generation Capacity Resource equal to the lesser of: 1) the price in such seller's Sell Offer for the BRA in which such resource qualified as a Planned Generation Capacity Resource; or 2) 0.90 times the then-current Net CONE, on an Unforced Capacity basis, for such LDA.

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

- i. in the first Delivery Year, the Resource sets the Capacity Resource Clearing Price for the LDA and all resources in the LDA receive the Capacity Resource Clearing Price.
- ii. in the subsequent two BRAs, if the Resource clears, it shall receive the higher of the foregoing Sell Offer price and the Capacity Resource Clearing Price for such LDA. If the Sell Offer price exceeds the Capacity Resource Clearing Price, the difference will be paid 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).

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iii. The failure to submit a Sell Offer consistent with Section 5.14(c)(i)-(iii) in the BRA for Delivery Year 3 shall not retroactively revoke the New Entry Price Adjustment for Delivery Year 2.

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

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.

e). Locational Reliability Charge

In accordance with the Reliability Assurance Agreement, each LSE shall incur a Locational Reliability Charge (subject to certain offsets as described in sections 5.13 and 5.15) equal to such LSE's Daily Unforced Capacity Obligation in a Zone during such Delivery Year multiplied by the applicable Final Zonal Capacity Price in such Zone.

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; and 3)

an adjustment, if required, to account for Resource Make-Whole Payments, all as determined in accordance with the optimization algorithm.

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ii) The Office of the Interconnection shall calculate and post the Adjusted Zonal Capacity Price following each Second Incremental Auction. The Adjusted Zonal Capacity Price for each Zone shall equal (1) the Preliminary Zonal Capacity Price, plus (2) the Zonal Capacity Price for such Zone in the Second Incremental Auction minus the Preliminary Zonal Capacity Price for such Zone, multiplied by the ratio of (y) the total megawatts of Unforced Capacity cleared in the Second Incremental Auction divided by (z) the sum of the megawatts of Unforced Capacity cleared in the Base Residual Auction and the megawatts of Unforced Capacity cleared in the Second Incremental Auction, plus the Forecast RTO ILR Obligation.

iii) The Office of the Interconnection shall calculate and post the Final Zonal Capacity Price after all ILR resources are certified for the Delivery Year. The Final Zonal Capacity Price for each Zone shall equal the Adjusted Zonal Capacity Price, as further adjusted 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.

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g) Resource Substitution Charge

Each Capacity Market Buyer in the First Incremental Auction or Third Incremental Auction 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) Prior to each Base Residual Auction, the Market Monitoring Unit shall develop locational asset-class estimates of competitive, cost-based, real levelized (year one) Cost of New Entry, net of energy and ancillary service revenues ("Net Asset Class Cost of New Entry"). Other than the levelization approach, determination of the 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. Notwithstanding the foregoing, the Net Asset Class Cost of New Entry shall be zero for: (i) base load resources, such as nuclear, coal and Integrated Gasification Combined Cycle, that require a period for development greater than three years; (ii) any facility associated with the production of hydroelectric power; (iii) any upgrade or addition to an existing Generation Capacity Resource; or (iv) any Planned Generation Capacity Resource being developed in response to a state regulatory or legislative mandate to resolve a projected capacity shortfall in the Delivery Year affecting that state, as determined pursuant to a state evidentiary proceeding that includes due notice, PJM participation, and an opportunity to be heard.

(2) The Market Monitoring Unit shall evaluate any Sell Offer that is based on a Planned Generation Capacity Resource submitted in a Base Residual Auction for the first Delivery Year in which such resource qualifies as such a resource, in any LDA for which a separate VRR Curve has been established, and shall determine whether such Sell Offer meets each of the following criteria:

- i. Sell Offer affects the Clearing Price;
- ii. Sell Offer is less than 80 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 the Reference Resource effective in such LDA; and

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iii. The Capacity Market Seller and any Affiliates has or have a "net short position" in such Base Residual Auction for such LDA that equals or exceeds (a) ten percent of the LDA Reliability Requirement, if less than 10,000 megawatts, or (b) five percent of the total LDA Reliability Requirement, if equal to or greater than 10,000 megawatts. A "net short position" shall be calculated as the actual retail load obligation minus the portfolio of supply. An "actual retail load obligation" shall mean the LSE's combined load served in the LDA at or around the time of the Base Residual Auction adjusted to account for load growth up to the Delivery Year, using the Forecast Pool Requirement. A "portfolio of supply" shall mean the Generation Capacity Resources (on an unforced capacity basis) owned by the Capacity Market Seller and any Affiliates at the time of the Base Residual Auction plus or minus any generation that is, at the time of the BRA, under contract for the Delivery Year.

(3) If the Market Monitoring Unit determines that all of the criteria of Section 5.14(h)(2) are met, it shall notify the Capacity Market Seller of this determination. Within five business days, or such other period to which the Market Monitoring Unit consents, such Capacity Market Seller may supply the Market Monitoring Unit with specific information about the costs and operational parameters relating to its Sell Offer. If the Capacity Market Seller fails to supply any such information within the specified time, or if the Market Monitoring Unit determines that the information provided, combined with revenues that would be earned in PJM-administered markets as determined by PJM, does not support the offer, the applicable cost-based net Cost of New Entry determined in Section 5.14(h)(1) shall be used to establish an alternative Sell Offer. The alternative Sell Offer employed in place of the actual Sell Offer shall be equal to 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 equal to 80 percent of the Net Asset Class Cost of New Entry for the Reference Resource. Upon timely receipt of such information, the Market Monitoring Unit shall determine whether such Sell Offer is consistent with the real levelized (year one) competitive, cost-based, fixed, net cost of new entry were the resource to rely solely on revenues from PJM-administered markets (i.e., were all output from the unit sold in PJM-administered spot markets). The Market Monitoring Unit shall adjust the alternative Sell Offer if appropriate on the basis of the relevant and reliable supporting information available and the application of an objective analysis.

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(4) The Market Monitoring Unit shall request that the Office of the Interconnection perform a sensitivity analysis on any Base Residual Auction that included Sell Offers meeting the criteria of Section 5.14(h)(2), for which an acceptable alternative Sell Offer was not provided consistent with Section 5.14(h)(3). Such analysis shall re-calculate the clearing price for the Base Residual Auction employing in place of each actual Sell Offer meeting the criteria a substitute Sell Offer equal to 90 percent of the applicable estimated cost determined in accordance with Section 5.14(h)(1) above, or, if there is no applicable estimated cost, equal to 80 percent of the then-applicable Net CONE. If the resulting difference in price between the new clearing price and the initial clearing price differs by an amount greater than the greater of 20 percent or 25 dollars per megawatt-day for a total LDA Reliability Requirement greater than 15,000 megawatts; or the greater of 25 percent or 25 dollars per megawatt-day for a total LDA Reliability Requirement greater than 5,000 and less than 15,000 megawatts; or the greater of 30 percent or 25 dollars per megawatt-day for a total LDA Reliability Requirement of less than 5,000 megawatts; then the Market Monitoring Unit shall discard the results of the Base Residual Auction and determine a replacement clearing price and the identity of the accepted Capacity Resources using the procedure set forth in section 5.14(h)(5) below.

(5) Including all of the Sell Offers in a single Base Residual Auction that meet the criteria of 5.14(h)(4) above, PJM shall first calculate the replacement clearing price and the total quantity of Capacity Resources needed for the LDA. PJM shall then accept Sell Offers to provide Capacity Resources in accordance with the following priority and criteria for allocation: (i) first, all Sell Offers in their entirety designated as self-supply; (ii) then, all Sell Offers of zero, prorating to the extent necessary, and (iii) then all remaining Sell Offers in order of the lowest price, subject to the optimization principles set forth in Section 5.14.

(6) Notwithstanding the foregoing, this provision shall terminate when there exists a positive net demand for new resources, as defined in Section 5.10(a)(iv)(B) of this Attachment, calculated over a period of consecutive Delivery Years beginning with the first Delivery Year for which this Attachment is effective and concluding with the last Delivery Year preceding such calculation, in an area comprised of the Unconstrained LDA Group in existence during such first Delivery Year. Notwithstanding the foregoing, the Market Monitoring Unit shall reinstate the provisions of this section, solely under conditions in which a

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constrained LDA has a gross Cost of New Entry equal to or greater than 150 percent of the greatest prevailing gross Cost of New Entry in any adjacent LDA.

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 as determined in the Base Residual Auction ("Capacity Imported"), less 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 purposes of any Base Residual Auction in an LDA that results in a positive Locational Price Adder, the holder of the Capacity Transfer Rights shall receive a payment during the Delivery Year equal to (i) the Locational Price Adder determined as a result of such auction for such LDA minus the Locational Price Adder for the LDA from which Unforced Capacity is imported to determine the Capacity Transfer Right, multiplied by (ii) the megawatt quantity of the Capacity Transfer Right allocated to such LSE. (c) For purposes of any Second Incremental Auction in such LDA that results in a positive Locational Price Adder, the holder of a Capacity Transfer Right shall receive a payment during the Delivery Year equal to (i) the difference between the Locational Price Adder determined as a result of such auction for such LDA and the Locational Price Adder for the LDA from which Unforced Capacity is imported to determine the Capacity Transfer Right, multiplied by (ii) the megawatt quantity of the Capacity Transfer Right allocated to such LSE, multiplied by (iii) the ratio of the increase in the quantity of Capacity Imported into such LDA from the Base Residual Auction to the Second Incremental Auction, divided by the quantity of Unforced Capacity imported into such LDA in the Base Residual Auction.

(d) Where an LDA is entirely contained within another LDA: (i) a portion of the Capacity Imported into the larger LDA will be allocated to the smaller LDA, based on the smaller LDA's proportion of the larger zone's unforced capacity obligation; (ii) the CTRs available for allocation to LSEs in the smaller LDA will include the product of the assigned portion of the larger LDA's Capacity Imported times the difference between the Locational Price Adder in the smaller LDA and the Locational Price Adder in the area from which capacity was imported into the larger LDA; and (iii) the total amount of Imported Capacity into the smaller LDA remaining for determination of further credits will be reduced by the allocation of credits attributable to Capacity Imported into the larger LDA.

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(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.

5.16 Incremental Capacity Transfer Rights

(a) The Office of the Interconnection shall allocate Incremental Capacity Transfer Rights to a Generation Interconnection Customer or Transmission 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 an 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 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.

(b) For any Base Residual or Incremental Auction that results in a positive Locational Price Adder for such LDA, the holder of an Incremental Capacity Transfer Right shall receive a payment equal to such Locational Price Adder multiplied by the megawatt quantity of the Incremental Capacity Transfer Right allocated to such Interconnection Customer.

6. MARKET POWER MITIGATION

6.1 Applicability

The provisions of the Market Monitoring Plan in Attachment M to this Tariff apply to the Reliability Pricing Model Auctions. In addition, PJM shall apply market power mitigation measures, as set forth in this section 6, to any Base Residual Auction or Incremental Auction for any Locational Deliverability Area having a Locational Price Adder greater than zero as determined by the optimization algorithm pursuant to section 5.12, but only in the event the Sell Offers that were accepted by such algorithm to resolve any locational constraint giving rise to the Locational Price Adder (and that would not have been accepted absent such constraint), and all Sell Offers that would resolve such constraint remaining available but unaccepted by such algorithm, collectively fail the Market Structure Screen set forth in this section 6. PJM shall also apply market power mitigation measures, as set forth in this section 6, to any Base Residual Auction or Incremental Auction for the entire PJM Region. This section also specifies an offer requirement applicable to all Capacity Resources, regardless of Locational Deliverability Area.

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6.2 Process

(a) By no later than three months (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 the results of the Market Monitoring Unit's application of the Preliminary Market Structure Screen set forth below to each such LDA and to the entire PJM Region.

(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 PJM's final determination of clearing prices and charges pursuant to section 5.14, PJM 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 Offer Caps, if required under this section 6; and (iii) recompute the optimization algorithm to clear the auction with the Offer Caps in place.

6.3 Market Structure Tests

(a) Preliminary Market Structure Screen.

(i) In sufficient time to permit the posting required by section 6.2(a), the Market Monitoring Unit shall apply the Preliminary Market Structure Screen to identify the LDAs in which Capacity Market Sellers must provide the data specified in section 6.7(b) for any auction conducted with respect to such Delivery Year and whether Capacity Market Sellers must provide this data for the entire PJM Region. For each LDA and for the PJM Region, the Preliminary Market Structure Screen will be based on: (1) the Unforced Capacity available for such Delivery Year from Generation Capacity Resources located in such area; and (2) the Locational Deliverability Area Reliability Requirement and the PJM Reliability Requirement. For purposes of this screen, any LDA for which a separate Variable Resource Requirement Curve has not been established under section 5.10 of this Attachment shall be combined with all other such LDAs that form an electrically contiguous area ("Unconstrained LDA Group"), and the screen shall be applied to such area in the aggregate, rather than to each such LDA individually. Any such Unconstrained LDA Groups shall be identified in the posting required by section 6.2(a).

(ii) An LDA, Unconstrained LDA Group, or the entire PJM Region shall fail the Preliminary Market Structure Screen, and Capacity Market Sellers owning or controlling any Generation Capacity Resource located in such LDA, Unconstrained LDA Group, or region shall be required to provide the information specified in section 6.7, if any one of the following three conditions is met: (1) the market share of any Capacity Market Seller exceeds twenty percent; (2) the HHI for all such sellers is 1800 or higher; or (3) there are not more than three jointly pivotal suppliers.

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(b) Market Structure Test.

(i) In accordance with the schedule set under section 6.2, the Market Monitoring Unit shall apply the Market Structure Test to an LDA or the PJM Region if the conditions specified in section 6.5 are met as to such LDA.

(ii) An LDA, Unconstrained LDA Group, 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 or Unconstrained LDA Group controlled by such suppliers by contract), if, as to the Sell Offers described in section 6.1, there are not more than three jointly pivotal suppliers.

(c) Determination of Incremental Supply

In applying the market structure screen and market structure test, the Market Monitoring Unit shall consider all incremental supply up to and including all such supply available at an effective cost less than or equal to 150% of the cost-based clearing price calculated using the incremental megawatts of supply available to solve the constraint and the need for megawatts to solve the constraint giving rise to a Locational Price Adder.

6.4 Market Seller Offer Caps

The Market Seller Offer Cap, stated in dollars per MW-year, 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. 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 applicable to price-quantity offers within the EFORD Offer Segment for an existing Generation Capacity Resource shall be the net Cost of New Entry for the Delivery Year. Notwithstanding the foregoing, the Market Seller Offer Cap for an existing Generation Capacity Resource shall be the Opportunity Cost for such resource, if applicable 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 FERC for its approval.

6.5 Mitigation

The Office of the Interconnection shall apply market power mitigation measures to any Base Residual Auction or Incremental Auction for any LDA, Unconstrained LDA Group, or the PJM Region that, without mitigation, would have a Locational Price Adder greater than zero, but only in the event the cost-based Sell Offers that would be accepted by the optimization algorithm

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to resolve any locational constraint giving rise to the Locational Price Adder (and that would not have been accepted absent such constraint), and all cost-based Sell Offers made at a price less than or equal to 150 percent of the clearing price determined by the optimization algorithm that would help resolve such constraint remaining available but unaccepted by such algorithm, collectively fail the Market Structure Test.

(a) Mitigation for Generation Capacity Resources.

i) Existing Generation Resource.

Mitigation will be applied on a unit-specific basis and only if the Sell Offer of Unforced Capacity from a 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 shall be presumed to be competitive and shall not be subject to market power mitigation in the Base Residual Auction or Second Incremental Auction for the first Delivery Year for which such resource qualifies as a Planned Generation Capacity Resource, but may be rejected if found by the PJM Market Monitoring Unit not to be competitive in accordance with the criteria and procedures set forth below. Such resources shall be treated as Existing Generation Capacity Resources in the auctions for any subsequent Delivery Year; provided, however, that 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.

(B) Sell Offers based on 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.

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(C) Where the two conditions stated in Paragraph (B) are not met, or the Sell Offer is pivotal, the Market Monitoring Unit shall (1) compare each such Sell Offer to Sell Offers submitted in other LDAs (with due recognition for locational differences) and to the Cost of New Entry for the LDA in which the offer otherwise would clear and other LDAs (with due recognition for locational differences); (2) evaluate potential barriers to new entry on the basis of interviews with potential suppliers and other market participants; and (3) determine, based on that analysis, whether to reject such Sell Offer as non-competitive. Following the conduct of the applicable auction and before the final determination of clearing prices, in accordance with Section 6.2(b) above, the Market Monitoring Unit shall notify a Capacity Market Seller whose Sell Offer is deemed non-competitive and allows such Capacity Market Seller an opportunity to submit a revised Sell Offer. The Office of the Interconnection then shall clear the auction with such revised Sell Offer in place if the Market Monitoring Unit determines that such revised offer is competitive in accordance with the above criteria. If the revised Sell Offer is not deemed competitive, it will be rejected.

(b) Mitigation for Demand Resources

The Market Seller Offer Cap shall not be applied to Sell Offers of Planned Demand Resources. When the Market Structure Test is failed, any Sell Offers of existing Demand Resources shall not be considered in determining the Capacity Resource Clearing Price in any auction for the market for which such test was failed.

6.6 Offer Requirement for Capacity Resources

(a) To avoid application of subsection (d), all Unforced Capacity of all existing Generation Capacity Resources located in the PJM Region shall be offered (which may include submission as Self-Supply) in the Base Residual Auction for each Delivery Year, where Unforced Capacity is determined using an EFORD less than or equal to the EFORD for the 12 months ending on the September 30 that last precedes the submission of such offers.

(b) Notwithstanding the foregoing, to address the risk of a change in EFORD between the auction and the Delivery Year, a Capacity Market Seller may include an EFORD Offer Segment in its Sell Offer(s) pursuant to section 6.7.

(c) Existing generation resources in the PJM Region capable of qualifying as a Generation Capacity Resource may not avoid the rule in subsection (a) 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, excepting only generation resources that, as shown by appropriate documentation: (i) are reasonably expected to be physically unable to participate in the relevant Delivery Year; (ii) have a financially and physically firm commitment to an external sale of its capacity, or (iii) were interconnected to the Transmission System as Energy Resources and not subsequently converted to a Capacity Resource.

(d) Any existing generation resource located in the PJM Region that is not offered into the Base Residual Auction for a Delivery Year, and that does not meet any of the

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exceptions stated in the prior subsection: (i) may not participate in any subsequent auctions conducted for such Delivery Year; (ii) shall not receive any payments under section 5.14 for such Delivery Year; 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.

(e) To avoid application of subsection (f), any existing Generation Capacity Resource located in the PJM Region that is offered into the Base Residual Auction for a Delivery Year, but that does not clear in such auction, shall be offered in the First, Second, and Third Incremental Auctions for such Delivery Year, unless such Generation Capacity Resource, as shown by appropriate documentation, (i) is reasonably expected to be physically unable to participate in the relevant auction; (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.

(f) Any existing Generation Capacity Resource located in the PJM Region that is offered into the Base Residual Auction for a particular Delivery Year, does not clear in such auction, is not offered into the First, Second, or Third Incremental Auctions for such Delivery Year, and does not meet any of the exceptions stated in subsection (e): (i) may not participate in any subsequent auctions conducted for such Delivery Year; (ii) shall not receive any payments under section 5.14 for such Delivery Year; 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.

(g) In addition to the remedies set forth in subsections (c), (d), (e), and (f), 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 into an auction would result in an increase of greater than five percent in any Zonal Capacity Price determined through such auction, 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 auction, or for other appropriate relief, and PJM will postpone clearing the auction pending FERC's decision on the matter.

6.7 Data Submission

(a) Potential participants in any PJM Reliability Pricing Model Auction shall submit the following data, (all submitted data is subject to verification by the MMU) 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.

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(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, (all submitted data is subject to verification by the MMU) 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, EFORd Offer Segment, 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 determined by the Market Monitoring Unit 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 the level identified for the relevant resource class by the Market Monitoring Unit.

The Market Monitoring Unit shall determine, in its discretion, following stakeholder consultation, the resource classes and corresponding prices described in this subsection and shall identify such resource classes and prices in the posting required by section 6.2(a). 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 identified in the Sell Offer, as previously specified by the Market Monitoring Unit in the posting required by section 6.2(a). Notwithstanding the foregoing, if the Capacity Market Seller demonstrates to the satisfaction of the Market Monitoring Unit that a significant change in circumstances warrants submission of a Sell Offer that is inconsistent with a prior commitment under this subsection, then the Market Monitoring Unit shall allow such Sell Offer provided that the Capacity Market Seller promptly notifies the Market Monitoring Unit upon becoming aware of the change in circumstances and provides all information deemed necessary by the Market Monitoring Unit to

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support such Sell Offer and that the offer is otherwise consistent with the requirements of this section 6. 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.

(d) In order for costs to qualify for inclusion in the Market Seller Offer Cap, the Capacity Market Seller must provide to PJM relevant cost data concerning each data item specified. Based on the data and calculations submitted by the Capacity Market Sellers for each existing generation resource and the formulas specified below, the MMU shall calculate the Market Seller Offer Cap for each such resource, and notify the Capacity Market Seller one month prior to the auction whether such submittal will be accepted, and if not, provide to such seller detailed information as to why such submittal was not accepted. If a Capacity Market Seller fails to submit costs consistent with the above, it shall be required to submit any Sell Offer in such auction as Self-Supply. (All submitted data is subject to verification by the MMU.)

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, PJM 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 PJM'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.

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iii. **EFORD Offer Segment:** To address the risk of a change in EFORD for an existing generation resource between the auction and the Delivery Year, a Capacity Market Seller may submit a Sell Offer that includes a quantity of megawatts priced at up to the Net Cost of New Entry. Such quantity of megawatts shall be no greater than such resource's demonstrated summer net capability of installed capacity, as determined in accordance with the PJM Manuals, multiplied by, at the Capacity Market Seller's election, either: (A) the positive difference between such resource's five-year average EFORD for the five consecutive years ending three months prior to the submission of such Sell Offer and such resource's twelve-month average EFORD for the twelve months ending three months prior to the submission of such Sell Offer, or (B) the positive difference between the EFORD reasonably anticipated, based on known and measurable changes and supported by appropriate documentation, for the twelve months ending on the September 30 last preceding the commencement of the Delivery Year, and the twelve-month average EFORD for the twelve months ending three months prior to the submission of such Sell Offer.

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

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:

$$\text{Avoidable Cost Rate} = [1.10 * (\text{AOML} + \text{AAE} + \text{AME} + \text{AVE} + \text{ATFI} + \text{ACC} + \text{ACLE}) + \text{APIR}]$$

Where:

- **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.

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- **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 ATFI 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.

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- **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 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 Unit (Years)	Remaining Life of Plant (Years)	Levelized CRF
1 to 5	20	0.125
6 to 10	15	0.146
11 to 15	10	0.198
16 Plus	5	0.363
Mandatory Capital Expenditures ("CapEx")	4	0.450
40 Plus Alternative	1	1.100

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 "16 Plus" 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 PJM 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

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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. A Sell Offer submitted in the BRA for either or both of the 2007-2008 and 2008-2009 Delivery Years for which the "16 Plus" CRF and recovery schedule is selected may not exceed an offer price equal to the then-current Net CONE (on an unforced-equivalent basis).

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 PJM 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.

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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, began commercial operation at least 50 years prior to the effective date of that certain September 29, 2006 Settlement Agreement in FERC Docket Nos. ER05-1410 and EL05-148, and the Capacity Market Seller submitting the sell offer for such resource was a signatory or an Affiliate of a signatory to such Settlement Agreement.

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 Year 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 Year Plus 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).

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(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.

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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, 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.

7. GENERATION RESOURCE RATING TEST FAILURE CHARGE

7.1 Generation Resource Rating Test Failure Charges

A Generation Resource Rating Test Failure Charge shall be assessed on any Market Seller that commits a Generation Capacity Resource for a Delivery Year if such resource fails a generation resource capacity test, as provided herein.

a) Generation Resource Fails Capacity Test in Delivery Year

Each Generation Capacity Resource committed for a Delivery Year shall be obligated to complete a generation resource capacity test, as described in the PJM Manuals, for both the Summer and Winter Seasons. The Market Seller that committed the resource may perform an unlimited number of tests during each such period. If none of the tests during a testing period certify full delivery of the megawatt amount of installed capacity the Market Seller committed for such Delivery Year, the Market Seller shall be assessed a daily Generation Resource Rating Test Failure Charge for each day from the first day of the Summer or Winter Season in which such resource failed the rating test through the last day of such Delivery Year, provided, however, that a Capacity Market Seller that fails or is expected to fail a rating test may obtain and commit Unforced Capacity from a replacement Generation Capacity Resource meeting the same locational requirements. Such Unforced Capacity may include uncommitted or uncleared Sell Offer blocks from Generation Capacity Resources that were otherwise committed. In such case, the charge prescribed below shall be assessed from the first day of the season for which the test was failed through the last day before the effective date of the commitment of such replacement Generation Capacity Resource in an amount equal to the full shortage of Unforced Capacity determined in subsection (b) below. Any such commitment of replacement capacity shall be effective upon no less than one day's notice to the Office of the Interconnection. Thereafter, any charges assessed on the Capacity Market Seller that fails such a rating test shall be assessed for the quantity of Unforced Capacity less any amount from such replacement Generation Capacity Resource.

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b) **Generation Resource Rating Test Failure Charge**

The Generation Resource Rating Test Failure Charge shall equal the Daily Deficiency Rate multiplied by the following megawatt quantity, converted to an Unforced Capacity basis using the $EFOR_D$ associated with such Market Seller's cleared Sell Offer: (i) the installed capacity in such Sell Offer for such resource, minus (ii) the highest installed capacity rating determined for such resource in any test during the relevant testing period. The Daily Deficiency Rate shall equal the greater of: (iii) two times the Capacity Resource Clearing Price, in \$/MW-day, applicable to the Generation Capacity Resource; or (iv) the Net Cost of New Entry. If a single resource is the basis for cleared Sell Offers of multiple Capacity Market Sellers, the installed capacity shortfall determined under (i) and (ii) above shall be assessed upon such Capacity Market Sellers on a pro-rata basis in accordance with the megawatts of capacity from such resource in their cleared Sell Offers.

c) **Allocation of Revenue Collected from Generation Resource Rating Test Failure Charges.**

The revenue collected from Generation Resource Rating Test Failure Charges shall be distributed on a pro-rata basis to LSEs that were charged a Locational Reliability Charge for the Delivery Year for which the Generation Resource Rating Test Failure Charge was assessed. The charges shall be allocated on a pro-rata basis to LSEs based on their Daily Unforced Capacity Obligation.

8. CAPACITY RESOURCE DEFICIENCY CHARGE

8.1 A Capacity Resource Deficiency Charge shall be assessed on any Capacity Market Seller that commits a Capacity Resource for a Delivery Year that is unable or unavailable to deliver Unforced Capacity for all or any part of such Delivery Year for any of the following reasons, and that does not obtain replacement Unforced Capacity in the megawatt quantity required to satisfy its cleared Sell Offer:

a) **Unit Derating** – Such Capacity Resource is a Generation Capacity Resource and its capacity value is derated prior to or during the Delivery Year;

b) **$EFOR_D$ Increase** – Such Capacity Resource is a Generation Capacity Resource and the $EFOR_D$ value determined for such resource two (2) months prior to the Third Incremental Auction is lower than the $EFOR_D$ value submitted in the Capacity Market Seller's cleared Sell Offer;

c) **Planned Generation Resource** – Such Capacity Resource is a Planned Generation Capacity Resource and Interconnection Service has not commenced as to such resource prior to the start of the Delivery Year;

d) **Planned Demand Resource** – Such Capacity Resource is a Planned Demand Resource and the associated demand response program is not installed prior to the start of the Delivery Year; or

e) **Existing Demand Resource** – Such Capacity Resource is an existing Demand Resource and, subject to section 8.4, is not capable of providing the megawatt quantity of load response specified in the cleared Sell Offer.

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8.2. Capacity Resource Deficiency Charge

The Capacity Resource Deficiency Charge shall equal the Daily Deficiency Rate (as defined in section 7) multiplied by the megawatt quantity of deficiency below the level of capacity committed in such Capacity Market Seller's Sell Offer, for each day such Capacity Market Seller is deficient.

8.3. Allocation of Revenue Collected from Capacity Resource Deficiency Charges

The revenue collected from the assessment of a Capacity Resource Deficiency Charge shall be distributed on a pro-rata basis to all LSEs that were charged a Locational Reliability Charge for the day for which such Capacity Resource Deficiency Charge was assessed. Such revenues shall be distributed on a pro-rata basis to such LSEs based on their Daily Unforced Capacity Obligations.

8.4 Relief from Charges

A Capacity Market Seller that is otherwise subject to the Capacity Resource Deficiency Charge solely as a result of section 8.1(e) may receive relief from such Charge if it demonstrates that the inability to provide the level of demand response specified in its Sell Offer is due to the permanent departure (due to plant closure, efficiency gains, or similar reasons) from the Transmission System of load that was relied upon for load response in such Sell Offer; provided, however, that the Capacity Market Seller must provide the Office of the Interconnection with all information deemed necessary by the Office of the Interconnection to assess the merits of the request for relief.

9. PEAK SEASON MAINTENANCE COMPLIANCE PENALTY CHARGE.

a) Purpose

To preserve and maintain the reliability of the PJM Region and to recognize the impact of planned outages and maintenance outages of Generation Capacity Resources during the Peak Season, each Capacity Market Seller that commits a Generation Capacity Resource for a Delivery Year must ensure that such Generation Capacity Resource has available sufficient Unforced Capacity during the Peak Season to satisfy the megawatt amount specified in the cleared Sell Offer for such resource.

b) Peak Season Requirement

To the extent the Generation Capacity Resource will not be available due to a planned or maintenance outage that occurs during the Peak Season without the approval of the Office of the Interconnection, the Capacity Market Seller must obtain replacement Unforced Capacity from a Capacity Resource that is not already committed for such Delivery Year and that meets all characteristics specified in the Sell Offer, including the megawatt quantity of Unforced Capacity committed for such Delivery Year, or otherwise pay a Peak Season Maintenance Compliance Penalty Charge. The Capacity Market Seller shall commit such replacement Capacity Resource in accordance with the procedure set forth in the PJM Manuals.

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c) **Peak Season Planned and Maintenance Outages**

The Office of the Interconnection shall adopt and maintain rules and procedures for determining the allowable Peak Season planned and maintenance outages.

d) **Peak Season Maintenance Compliance Penalty Charge**

The Peak Season Maintenance Compliance Penalty Charge shall equal the Daily Deficiency Rate (as defined in section 7) multiplied by the megawatt quantity of capacity committed from such Generation Capacity Resource in the cleared Sell Offer, for each day during the Peak Season that such resource is out-of-service on a maintenance outage that is not authorized by the Office of the Interconnection.

e) **Allocation of Revenue Collected from Peak Season Maintenance Compliance Penalty Charges**

The revenue collected from assessment of a Peak Season Maintenance Compliance Penalty Charge shall be distributed on a pro-rata basis to all LSEs that were charged a Locational Reliability Charge for the day for which the Capacity Resource Deficiency Charge was assessed. Such revenues shall be distributed on a pro-rata basis to all such LSEs based on their Daily Unforced Capacity Obligation.

10. PEAK-HOUR-PERIOD AVAILABILITY CHARGES AND CREDITS

(a) To preserve and maintain the reliability of the PJM Region and to encourage Capacity Market Sellers to maintain the availability of Generation Capacity Resources during critical peak hours of the Delivery Year, each Capacity Market Seller that commits a Generation Capacity Resource for a Delivery Year shall be credited or charged to the extent the critical peak-period availability of its committed Generation Capacity Resources exceeds or falls short, respectively, of the expected availability of such resources. Charges and credits hereunder shall not apply to wind or solar resources.

(b) Critical peak periods for purposes of this assessment ("Peak-Hour Periods") shall be the hour ending 1500 EPT through the hour ending 1900 EPT on any day during the calendar months of June through August that is not a Saturday, Sunday, or federal holiday, and the hour ending 800 EPT through the hour ending 900 EPT and the hour ending 1900 EPT through the hour ending 2000 EPT on any day during the calendar months of January and February that is not a Saturday, Sunday or federal holiday.

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c) Peak-Period Equivalent Forced Outage Rate and Peak-Period Capacity Calculations

The Peak-Period Equivalent Forced Outage Rate shall be calculated for Peak-Hour Periods based on the following formula:

$$EFOR_p(\%) = (FOH + EFPOH) / (SH + FOH)$$

where

FOH = full forced outage hours when the unit was called upon, excluding those outages deemed as OMC (as defined below);

EFPOH = equivalent forced partial outage hours when the unit was called upon, excluding those outages deemed as OMC (as defined below); and

SH = service hours as defined pursuant to NERC GADS standards.

The Peak-Period Capacity of a Generation Capacity Resource shall be calculated as follows:

$$PCAP = ICAP * (1.0 - EFOR_p)$$

where

ICAP = the installed capacity rating of such Generation Capacity Resource

d) Determination of Expected EFOR_p and PCAP for Generation Capacity Resources

For each Delivery Year, the expected EFOR_p and PCAP of each Generation Capacity Resource committed to serve load in such Delivery Year shall be the EFOR_p and UCAP, respectively, calculated on a rolling-average basis using such resource's service history during the five consecutive annual periods of twelve consecutive months ending September 30 last preceding such Delivery Year. Such EFOR_p and UCAP shall be determined in accordance with Schedule 5 of the Reliability Assurance Agreement, which excludes (for purposes of Capacity Resource UCAP calculations) outages deemed outside management control in accordance with the standards and guidelines of NERC, as defined in the Generating Availability Data System, Data Reporting Instructions in Attachment K or its successor ("Outside Plant Management Control" or "OMC").

(e) For each Delivery Year, the actual EFOR_p and PCAP of each Generation Capacity Resource shall be calculated during the Peak-Hour Periods of such Delivery Year, provided however, that such calculation shall not include any day such a resource was unavailable if such unavailability resulted in a charge or penalty due to delay, cancellation, retirement, de-rating, or rating test failure. The full or partial forced outage hours when called upon shall be those outage hours during which the cost-based offer for energy from the resource would have been less than the applicable Locational Marginal Price for such resource, or when the Office of the Interconnection would have called upon the resource (absent the outage) for

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operating reserves, in both cases as determined by the Office of the Interconnection in accordance with the procedures specified in the PJM Manuals (including, without limitation, respecting such unit's current operating constraints). In addition, for single-fueled, natural gas-fired units, a failure to perform during the winter Peak-Hour Period shall be excused for purposes of this section if the Capacity Market Seller can demonstrate to the Office of the Interconnection that such failure was due to non-availability of gas to supply the unit.

(f) If the calculation under subsection (c) for any Generation Capacity Resource for a Delivery Year results in fewer than fifty total Service Hours during Peak Hours, then the actual EFORP for purposes of such calculation shall be the resource's EFOR_D and the actual PCAP for purposes of such calculation shall be the resource's UCAP, in both cases considering all hours in the Delivery Year (to the extent required by the EFOR_D and UCAP calculations).

(g) For each Delivery Year, the excess or shortfall in Peak-Hour Period availability for each Generation Capacity Resource shall be determined by comparing such resource's expected and actual PCAP, subject to the limitation under subsection (i) below. The net Peak-Hour Period availability shortfall or excess for each Capacity Market Seller and FRR Entity in each Locational Deliverability Area shall be the net of the shortfalls and excesses of all Generation Capacity Resources in such Locational Deliverability Area committed by such Capacity Market Seller for such Delivery Year.

(h) As to any Generation Capacity Resource experiencing or expected to experience a full or partial outage during any Peak-Hour Period that would or could result in a shortfall under subsection (g) above, a Capacity Market Seller may obtain and commit Unforced Capacity from a replacement Generation Capacity Resource (not previously committed) meeting the same locational requirements as such resource. Such Unforced Capacity shall be recognized for purposes of this section prospectively from the effective date of commitment of such replacement resource, and to the extent such replacement Unforced Capacity thereafter is available during Peak-Hour Periods, any shortfall that otherwise would have been calculated shall be reduced to that extent. Any such commitment of replacement capacity shall be effective upon no less than one day's notice to the Office of the Interconnection.

(i) The shortfall determined for any Generation Capacity Resource shall not exceed an amount equal to 0.50 times the Unforced Capacity of such resource; provided, however, that if such limitation is triggered as to any Generation Capacity Resource for a Delivery Year, then the decimal multiplier for this calculation as to such resource in the immediately succeeding Delivery Year shall be increased to 0.75, and if such limitation again is triggered in such succeeding Delivery Year, then the multiplier shall be increased to 1.00. The multiplier shall remain at either such elevated level for each succeeding Delivery Year until the shortfall

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experienced by such resource is less than 0.50 times the Unforced Capacity of such resource for three consecutive Delivery Years.

(j) A Peak-Hour Period Availability Charge shall be assessed on each Capacity Market Seller with a net shortfall in PCAP in an LDA, where such charge is equal to such shortfall times the Capacity Resource Clearing Price determined for such Locational Deliverability Area for such Delivery Year.

(k) The revenues from such charges shall be distributed to the Capacity Market Sellers, and FRR Entities that committed Generation Capacity Resources, in such Locational Deliverability Area that have net excess PCAP for such Delivery Year, provided however that any such seller shall be paid no more than the product of such seller's net excess PCAP times the Capacity Clearing Price determined for such Locational Deliverability Area for such Delivery Year. Any excess revenues remaining after such distribution shall be distributed on a pro-rata basis to all LSEs in the Zone that were charged the same Locational Reliability Charge for the Delivery Year for which the Peak Hour Availability Charge was assessed, and to all FRR Entities in the Zone that are LSEs and whose FRR Capacity Plan resources over-performed in the Delivery Year, on a pro-rata basis in accordance with each LSE's Daily Unforced Capacity Obligation.

(l) The Office of the Interconnection shall provide estimated charges and credits based on the summer Peak-Hour Periods within three calendar months after the end of the summer period. Final charges and credits for the Delivery Year shall be billed within three calendar months following the end of the winter period.

11. DEMAND RESOURCE AND ILR COMPLIANCE PENALTY CHARGE

(a) The Office of the Interconnection shall separately evaluate compliance of each Demand Resource offered and cleared in a Reliability Pricing Model Auction and each nominated ILR resource certified for a Delivery Year, in accordance with procedures set forth in the PJM Manuals. The compliance is evaluated separately in each LDA (or Zone, where such Zone encompasses two or more LDAs). Capacity Market Sellers that committed Demand Resources and ILR Providers that nominated ILR for a Delivery Year that cannot demonstrate the hourly performance of such resource in real-time based on the capacity commitment reflected in the applicable Sell Offer or ILR certification shall be assessed a Demand Resource and ILR Compliance Penalty charge; provided, however, that such under compliance shall be determined on an aggregate basis for all Demand Resources and ILR offered by the same Capacity Market Seller or by the same ILR Provider in a single Zone.

b) The Demand Resource and ILR Compliance Penalty Charge shall equal 0.20 times the Annual Revenue Rate multiplied by the following megawatt quantity, converted to an Unforced Capacity basis using the applicable DR Factor and Forecast Pool Requirement: (i) the megawatts of load reduction capability committed in the applicable Sell Offer or ILR certification minus (ii) the under-compliance megawatts of load reduction actually provided during a reduction event called by the Office of the Interconnection. The Annual Revenue Rate for a Demand Resource shall be the Resource Clearing Price that the resource received in the auction in which it cleared. The Annual Revenue Rate for an ILR resource shall be the

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Adjusted Zonal Capacity Price for the Zone in which such ILR was certified, but no to exceed the Locational Reliability Charges assessed on loads in such LDA, net of any Capacity Transfer Right credits allocated to such loads. The total charge per megawatt that may be assessed on a Demand Resource or ILR resource in a Delivery Year shall be capped at the Annual Revenue Rate the resource would receive in the Delivery Year.

c) Revenues from assessment of a Demand Resource and ILR Compliance Penalty Charge shall be distributed by the third billing month following the event that gave rise to such charge on a pro-rata basis to Demand Resource Providers and ILR Providers that provided load reductions in excess of the amount such resources were committed or certified to provide. Such revenue distribution, however, shall not exceed for any resource the quantity of excess megawatts provided by such resource during a single event times 0.20 times the Annual Revenue Rate received by such resource. To the extent any such revenues remain after such distribution, the remaining revenues shall be distributed to LSEs based on each LSE's average Daily Unforced Capacity Obligation for the month in which the non-compliance event occurred.

12. QUALIFYING TRANSMISSION UPGRADE COMPLIANCE PENALTY CHARGE

If a Qualifying Transmission Upgrade forming the basis of a Sell Offer that cleared in the Base Residual Auction for a Delivery Year is not in service at the commencement of such Delivery Year, and the Capacity Market Seller does not obtain replacement Capacity Resources in the LDA for which such upgrade was to increase CETL, such seller shall pay a compliance penalty charge for each day such upgrade is delayed during such Delivery Year equal to the megawatt quantity of Import Capability cleared in the Base Residual Auction based on such upgrade, multiplied by the greater of: (i) two times the Locational Price Adder of the LDA into which the Qualifying Transmission Upgrade is cleared, in \$/MW-day; or (ii) the Net Cost of New Entry less the clearing price in the LDA from which CETL was increased. The revenue collected from the assessment of Qualifying Transmission Upgrade Compliance Penalty Charges shall be distributed on a pro-rata basis to all LSEs that were charged a Locational Reliability Charge for the day for which such charge was assessed. Such revenues shall be distributed on a pro-rata basis to such LSEs based on their Daily Unforced Capacity Obligations.

13. EMERGENCY PROCEDURE CHARGE

13.1 Application of the Emergency Procedure Charge

Following an Emergency, the compliance during the period of such Emergency with the instructions of the Office of the Interconnection of: (a) each Capacity Market Seller that committed Capacity Resources during such period; and (b) each ILR Provider responsible for ILR certified for such period, shall be evaluated as recommended by the Reliability Committee and directed by the PJM Board. If, based on such evaluation, it is determined that a Capacity Market Seller or ILR Provider refused to comply with, or otherwise failed to employ its best efforts to comply with, the instructions of the Office of the Interconnection to implement PJM emergency procedures, then such Market Seller or ILR Provider shall pay an Emergency Procedure Charge.

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13.2 Emergency Procedure Charge

The Emergency Procedure Charge shall equal 365 multiplied by the Daily Deficiency Rate for such Delivery Year times each megawatt of a Demand Resource or ILR that was not implemented as directed, and each megawatt of a Generation Capacity Resource that was not made available as directed despite being capable of producing energy at the time, and that is deliverable to the PJM Region in the case of a Generation Capacity Resource located outside the PJM Region.

13.3 Allocation of Revenue from Emergency Procedure Charges

The revenue collected from assessment of an Emergency Procedure Charge shall be distributed on a pro-rata basis to all LSEs that were charged a Locational Reliability Charge for the day for which the Emergency Procedure Charge was assessed. The charges shall be allocated on a pro-rata basis to all such LSEs based on their Daily Unforced Capacity Obligation.

14. CONVERSION OF CAPACITY CREDITS FROM PRIOR CAPACITY ADEQUACY REGIME

14.1 Purpose

Capacity Credits shall not be accepted as satisfaction of the Daily Unforced Capacity Obligation of any LSE. Parties to Capacity Credit transactions may agree bilaterally to convert such transactions on a basis that permits them to clear in a Reliability Pricing Model Auction, or may settle such transactions financially as described in section 14.2.

14.2 Settlement

For the 2007/2008 Delivery Year, only Capacity Credits confirmed by the Office of the Interconnection to have been entered into prior to April 1, 2006 will be settled based on the marginal value of system capacity (\$/MW-day) as determined under section 5.14(a) in the Base Residual Auction for such Delivery Year, plus any Locational Price Adder determined in such auction for the Locational Deliverability Area that corresponds to the Mid-Atlantic Region plus the Allegheny Power System Zone. The party that purchased such Capacity Credit shall receive this value multiplied by the megawatt quantity of the Capacity Credit, for the duration of such transaction. The party that sold such Capacity Credit shall be assessed this value, multiplied by the megawatt quantity of the Capacity Credit, for the duration of such transaction. For the 2008/2009 Delivery Year, and thereafter, Capacity Credits will be settled based on the marginal value of system capacity (\$/MW-day) as determined under section 5.14(a) in the Base Residual Auction for such Delivery Year. The party that purchased such Capacity Credit shall receive this value multiplied by the megawatt quantity of the Capacity Credit, for the duration of the transaction. The party that sold such Capacity Credit will be assessed this value multiplied by the megawatt quantity of the Capacity Credit, for the duration of the transaction.

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15. COORDINATION WITH ECONOMIC PLANNING PROCESS

Following each Base Residual Auction, the Office of the Interconnection shall review each LDA that has a Locational Price Adder to determine if Planned Generation Capacity Resources, Planned Demand Resources, or Qualifying Transmission Upgrades submitted Sell Offers that cleared in such auction. If a Locational Price Adder results from the clearing of an LDA for two consecutive Base Residual Auctions, and no such planned resources or upgrades clear in such auctions for such LDA, then the Office of the Interconnection shall evaluate in the RTEP process the costs and benefits of a transmission upgrade that would reduce to zero the Locational Price Adder for such LDA. Such evaluation will compare the cost of the upgrade over ten years against the value of elimination of the Locational Price Adder over such period. If such upgrade is found to be feasible and beneficial, it shall be included in the RTEP as soon as practicable. The annual costs of such upgrade shall be allocated to all LSEs serving load in such LDA, pro rata based on such loads.

16 RELIABILITY BACKSTOP

16.1. Purpose

The Reliability Backstop provides a mechanism to resolve reliability criteria violations caused by: (a) lack of sufficient capacity committed through the Reliability Pricing Model Auctions; or (b) near-term transmission deliverability violations identified after the Base Residual Auction is conducted. These backstop mechanisms are intended to guarantee that sufficient generation, transmission and demand response solutions will be available to preserve system reliability. The backstop mechanisms are based on specific triggers that signal a need for a targeted solution to a reliability problem that was not resolved by the long-term commitment of Capacity Resources through Self-Supply or the Reliability Pricing Model Auctions.

16.2 Investigation of Capacity Shortfall

If the total Unforced Capacity of Capacity Resources committed for a Delivery Year following the Base Residual Auction equates to an installed reserve margin that is more than one percentage point lower than the approved PJM Region Installed Reserve Margin, the Office of the Interconnection shall investigate the cause for the shortage, and recommend corrective action, including, without limitation, adjusting the Cost of New Entry to the extent determined necessary by such investigation, or addressing other barriers to entry identified by such investigation. No Reliability Backstop Auction will be conducted to address such a shortfall unless it occurs in the Base Residual Auctions for three consecutive Delivery Years.

16.3 Triggering Conditions

a) Either of the following two conditions will trigger reliability backstop measures provided in this section, as described below:

i) If the total Unforced Capacity of all Capacity Resources committed through Self-Supply or the Base Residual Auctions for three consecutive Delivery Years, equates to an installed reserve margin that is more than one percentage point lower than the approved PJM Region Installed Reserve Margin, the Office of the Interconnection will declare a capacity shortage and make a filing with FERC for approval to conduct a Reliability Backstop Auction. Upon receipt of such approval, the Office of the Interconnection will conduct a Reliability Backstop Auction in accordance with Section

16.4.

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