

**OATT OPEN ACCESS TRANSMISSION TARIFF - OATT VI. ADMINISTRATION AND STUDY OF NEW SERVICE R - OATT ATTACHMENT Q**

**ATTACHMENT Q**

**PJM CREDIT POLICY**

**IV. RELIABILITY PRICING MODEL AUCTION CREDIT REQUIREMENTS**

Settlement during any Delivery Year of cleared positions resulting or expected to result from any Reliability Pricing Model Auction shall be included as appropriate in Peak Market Activity, and the provisions of this Attachment Q shall apply to any such activity and obligations arising therefrom. In addition, the provisions of this section shall apply to any entity seeking to participate in any RPM Auction, to address credit risks unique to such auctions.

**A. Applicability**

A Market Seller seeking to submit a Sell Offer in any Reliability Pricing Model Auction based on any Capacity Resource for which there is a materially increased risk of non-performance must satisfy the credit requirement specified in section IV.B before submitting such Sell Offer. Credit must be maintained until such risk of non-performance is substantially eliminated, but may be reduced commensurate with the reduction in such risk, as set forth in Section IV.C.

For purposes of this provision, a resource for which there is a materially increased risk of non-performance shall mean: (i) a Planned Generation Capacity Resource; (ii) a Planned Demand Resource or an Energy Efficiency Resource; (iii) a Qualifying Transmission Upgrade; or (iv) an existing or Planned Generation Capacity Resource located outside the PJM Region that at the time it is submitted in a Sell Offer has not secured firm transmission service to the border of the PJM Region sufficient to satisfy the deliverability requirements of the Reliability Assurance Agreement.

**B. Reliability Pricing Model Auction Credit Requirement**

Except as provided for Credit-Limited Offers below, for~~For~~ any resource specified in Section IV.A, the credit requirement shall be the RPM Auction Credit Rate, as provided in Section IV.D, times the megawatts to be offered for sale from such resource in a Reliability Pricing Model Auction. ~~As set forth in Section IV.D, the Auction Credit Requirement shall be determined separately for each Delivery Year.~~ The RPM Auction Credit Requirement for each Market Seller shall be the sum of the credit requirements for all such resources to be offered by such Market Seller in the auction or, as applicable, cleared by such Market Seller from the relevant auctions.

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

A Sell Offer based on a Planned Generation Capacity Resource, Planned Demand Resource, or Energy Efficiency Resource may be submitted as a Credit-Limited Offer. A Market Seller electing this option shall specify a maximum amount of Unforced Capacity, in megawatts, and a maximum credit requirement, in dollars, applicable to the Sell Offer. A Credit-Limited Offer shall clear the RPM Auction in which it is submitted (to the extent it otherwise would clear based on the other offer parameters and the system's need for the offered capacity) only to the extent of the lesser of: (i) the quantity of Unforced Capacity that is the quotient of the division of the specified maximum credit requirement by the Auction Credit Rate resulting from section IV.D.b.; and (ii) the maximum amount of Unforced Capacity specified in the Sell Offer. For a Market Seller electing this alternative, the RPM Auction Credit Requirement applicable prior to the posting of results of the auction shall be the maximum credit requirement specified in its Credit-Limited Offer, and the RPM Auction Credit Requirement subsequent to posting of the results will be the Auction Credit Rate, as provided in Section IV.D.b, c. or d., as applicable, times the amount of Unforced Capacity from such Sell Offer that cleared in the auction. The availability and operational details of Credit-Limited Offers shall be as described in the PJM Manuals.

As set forth in Section IV.D, a Market Seller's Auction Credit Requirement shall be determined separately for each Delivery Year.

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

~~The RPM Auction Credit Requirement for a Market Seller will be reduced for any Delivery Year to the extent less than all of such Market Seller's offers clear in the Base Residual Auction or any Incremental Auction for such Delivery Year. Such reduction shall be proportional to the quantity, in megawatts, that failed to clear in such Delivery Year.~~ As specified in Section IV.D, the RPM Auction Credit Rate ~~also~~ may be reduced under certain circumstances after the auction has closed.

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

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

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

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

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

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

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

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

For Delivery Years through the Delivery Year that ends on May 31, 2012, the Auction Credit Rate for any resource for a Delivery Year shall be (the greater of \$20/MW-day or 0.24 times the Capacity Resource Clearing Price in the Base Residual Auction for such Delivery Year for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year.

For Delivery Years beginning with the Delivery Year that commences on June 1, 2012:

a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the Auction Credit Rate shall be (the greater of (i) 0.3 times the Net Cost of New Entry for the PJM

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Region for such Delivery Year, in MW-day or (ii) \$20 per MW-day) times the number of days in such Delivery Year.

b. Subsequent to the posting of the results from a Base Residual Auction, the Auction Credit Rate used for ongoing credit requirements for supply committed in such auction shall be (the greater of \$20/MW-day or 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year; provided, however, that the Auction Credit Rate for Capacity Resources to the extent committed in the Base Residual Auction for the 2012-2013 Delivery Year shall be as determined under the provisions of this Attachment Q in effect at the time of such Base Residual Auction.

c. For any resource not previously committed for a Delivery Year that seeks to participate in an Incremental Auction, the Auction Credit Rate shall be (the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) 0.24 times the Capacity Resource Clearing Price in the Base Residual Auction for such Delivery Year for the Locational Deliverability Area within which the resource is located or (iii) \$20 per MW-day) times the number of days in such Delivery Year.

d. Subsequent to the posting of the results of an Incremental Auction, the Auction Credit Rate used for ongoing credit requirements for supply committed in such auction shall be (the greater of \$20/MW-day or 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located, but no greater than the Auction Credit Rate previously established for such resource's participation in such Incremental Auction pursuant to subsection (c) above) times the number of days in such Delivery Year.

### **E. Additional Form of Unsecured Credit for RPM**

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

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

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

## **VII. DEFINITIONS:**

### **Affiliate**

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

### **Agreements**

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

### **Applicant**

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

### **Breach**

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

### **Business Day**

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

### **Canadian Guaranty**

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

### **Capacity**

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

### **Collateral Call**

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

### **Corporate Guaranty**

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

### **Credit Available for Virtual Bidding**

Credit Available for Virtual Bidding is a Participant's Working Credit Limit, less its Total Net Obligation.

### **Credit-Limited Offer**

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

**Credit Score**

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

**Financial Security**

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

**Foreign Guaranty**

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

**FTR Credit Limit**

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

**FTR Credit Requirement**

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

**FTR Flow Undiversified**

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

**FTR Geographically Undiversified**

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

**FTR Historical Value**

FTR Historical Value – For each FTR for each month, this is the historical weighted average value over three years for the FTR path using the following weightings: 50% - most recent year; 30% - second year; 20% - third year. FTR Historical Values shall be calculated separately for on-peak, off-peak, and 24-hour FTRs for each month of the year. FTR Historical Values shall be adjusted by plus or minus ten percent (10%) for cleared counterflow or normal flow FTRs, respectively, in order to mitigate exposure due to uncertainty and fluctuations in actual FTR value.

**FTR Monthly Credit Requirement Contribution**

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FTR Monthly Credit Requirement Contribution - For each FTR for each month, this is the total FTR cost for the month, prorated on a daily basis, less the FTR Historical Value for the month. For cleared FTRs, this contribution may be negative; prior to clearing, FTRs with negative contribution shall be deemed to have zero contribution.

### **FTR Net Activity**

FTR Net Activity shall mean the aggregate net value of the billing line items for auction revenue rights credits, FTR auction charges, FTR auction credits, and FTR congestion credits, and shall also include day-ahead and balancing/real-time congestion charges up to a maximum net value of the sum of the foregoing auction revenue rights credits, FTR auction charges, FTR auction credits and FTR congestion credits.

### **FTR Portfolio Auction Value**

FTR Portfolio Auction Value shall mean for each Participant (or Participant account), the sum, calculated on a monthly basis, across all FTRs, of the FTR price times the FTR volume in MW. For the purpose of determining portfolio diversification and the associated FTR credit requirement for a load serving Participant, negatively priced FTRs that sink at their load location (as determined from the effective ARR allocation) shall be excluded from this calculation. However, for the purposes of this calculation, the MW quantity of FTRs shall not exceed the peak load of the load serving Participant at each location.

### **Market Participant**

Market Participant shall have the meaning provided in the Operating Agreement.

### **Material**

For these purposes, material is defined in §I.B.3, Material Changes. For the purposes herein, the use of the term "material" is not necessarily synonymous with use of the term by governmental agencies and regulatory bodies.

### **Member**

Member shall have the meaning provided in the Operating Agreement.

### **Net Obligation**

Net Obligation is the amount owed to PJMSettlement and PJM for purchases from the PJM Markets, Transmission Service, (under both Part II and Part III of the O.A.T.T.), and other services pursuant to the Agreements, after applying a deduction for amounts owed to a Participant by PJMSettlement as it pertains to monthly market activity and services. Should other markets be formed such that Participants may incur future Obligations in those markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

### **Net Sell Position**

Net Sell Position is the amount of Net Obligation when Net Obligation is negative.

### **Nodal Reference Price**

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Nodal Reference Price is a probabilistic (97%) maximum price differential historically experienced between day-ahead and real-time market prices at a given location as defined in this policy period. This number is used in Virtual Bid Screening.

### **Obligation**

Obligation is all amounts owed to PJMSettlement for purchases from the PJM Markets, Transmission Service, (under both Part II and Part III of the O.A.T.T.), and other services or obligations pursuant to the Agreements. In addition, aggregate amounts that will be owed to PJMSettlement in the future for Capacity purchases within the PJM Capacity markets will be added to this figure. Should other markets be formed such that Participants may incur future Obligations in those markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

### **Operating Agreement of PJM Interconnection, L.L.C., (“Operating Agreement”)**

The Amended and Restated Operating Agreement of PJM Interconnection, L.L.C., dated as of June 2, 1997, on file with the Federal Energy Regulatory Commission, and as revised from time to time.

### **Participant**

A Participant is a Market Participant and/or Transmission Customer and/or Applicant.

### **Peak Market Activity**

Peak Market Activity is a measure of exposure for which credit is required, involving peak exposures in rolling three-week periods over a year timeframe, with two semi-annual reset points, pursuant to provisions of section II.D of this Credit Policy.

### **PJM Markets**

The PJM Markets are the PJM Interchange Energy Market and the PJM Capacity markets as established by the Operating Agreement. Also any other markets that exist or may be established in the future wherein Participants may incur Obligations to PJMSettlement.

### **PJM Open Access Transmission Tariff (“O.A.T.T.”)**

The Open Access Transmission Tariff of PJM Interconnection, L.L.C., on file with the Federal Energy Regulatory Commission, and as revised from time to time.

### **Reliability Assurance Agreement (“R.A.A.”)**

See the definition of the Reliability Assurance Agreement (“R.A.A.”) in the Operating Agreement.

### **Seller Credit**

A Seller Credit is a form of Unsecured Credit extended to Participants that have a consistent long-term history of selling into PJM Markets, as defined in this document.

### **Tangible Net Worth**



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Tangible Net Worth is all assets (not including any intangible assets such as goodwill) less all liabilities. Any such calculation may be reduced by PJMSettlement upon review of the available financial information.

### **Total Net Obligation**

Total Net Obligation is all unpaid billed Net Obligations plus any unbilled Net Obligation incurred to date, as determined by PJMSettlement on a daily basis, plus any other Obligations owed to PJMSettlement at the time.

### **Total Net Sell Position**

Total Net Sell Position is all unpaid billed Net Sell Positions plus any unbilled Net Sell Positions accrued to date, as determined by PJMSettlement on a daily basis.

### **Transmission Customer**

Transmission Customer is a Transmission Customer is an entity taking service under Part II or Part III of the O.A.T.T.

### **Transmission Service**

Transmission Service is any or all of the transmission services provided by PJM pursuant to Part II or Part III of the O.A.T.T.

### **Uncleared Bid Exposure**

Uncleared Bid Exposure is a measure of exposure from virtual bidding activity relative to a Participant's established credit as defined in this policy. It is used only as a pre-screen to determine whether a Participant's virtual bids should be subject to Virtual Bid Screening.

### **Unsecured Credit**

Unsecured Credit is any credit granted by PJMSettlement to a Participant that is not secured by a form of Financial Security.

### **Unsecured Credit Allowance**

Unsecured Credit Allowance is Unsecured Credit extended by PJMSettlement in an amount determined by PJMSettlement's evaluation of the creditworthiness of a Participant. This is also defined as the amount of credit that a Participant qualifies for based on the strength of its own financial condition without having to provide Financial Security, except that only the Seller Credit form of Unsecured Credit may be utilized to establish a Participant's FTR Credit Limit. See also: "Working Credit Limit."

### **Virtual Bid Screening**

Virtual Bid Screening is the process of reviewing the Virtual Credit Exposure of submitted Day-Ahead market bids, as defined in this policy, against the Credit Available for Virtual Bidding. If the credit required is greater than credit available, then the bids will not be accepted.

### **Virtual Credit Exposure**

Virtual Credit Exposure is the amount of potential credit exposure created by a market participant's bid submitted into the Day-ahead market, as defined in this policy.

**Working Credit Limit**

Working Credit Limit amount is 75% of the Participant's Unsecured Credit Allowance and/or 75% of the Financial Security provided by the Participant to PJMSettlement. The Working Credit Limit establishes the maximum amount of Total Net Obligation that a Participant may have outstanding at any time.

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**2. DEFINITIONS**

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

**2.1 Annual Revenue Rate**

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

**2.2 Avoidable Cost Rate**

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

**2.3 Base Load Generation Resource**

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

**2.4 Base Offer Segment**

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

**2.5 Base Residual Auction**

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

**2.6 Buy Bid**

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

## **2.7 Capacity Credit**

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

## **2.8 Capacity Emergency Transfer Limit**

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

## **2.9 Capacity Emergency Transfer Objective**

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

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

“Capacity Export Transmission Customer” shall mean a customer taking point to point transmission service under Part II of this Tariff to export capacity from a generation resource located in the PJM Region that is delisted from Capacity Resource status as described in section 5.6.6(d).

## **2.10 Capacity Market Buyer**

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

## **2.11 Capacity Market Seller**

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

## **2.12 Capacity Resource**

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

## **2.13 Capacity Resource Clearing Price**

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

## **2.14 Capacity Transfer Right**

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

### **2.14A Conditional Incremental Auction**

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

## **2.15 CONE Area**

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

## **2.16 Cost of New Entry**

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

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

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

## **2.17 Daily Deficiency Rate**

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

## **2.18 Daily Unforced Capacity Obligation**

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

## **2.19 Delivery Year**

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

## **2.20 Demand Resource**

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

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

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

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

“Demand Resource Provider” shall mean a Member that has the capability to reduce load, or that aggregates customers capable of reducing load. A Curtailment Service Provider, as defined in the Operating Agreement, may be a Demand Resource Provider, provided it qualifies its load reduction capability as a Demand Resource.

#### **2.23 EFORD**

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

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

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

#### **2.25 [Reserved]**

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

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

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

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

#### **2.27 First Incremental Auction**

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

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

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

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

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

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

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

### **2.31 Generation Capacity Resource**

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

### **2.32 ILR Forecast**

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

### **2.33 ILR Provider**

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

### **2.34 Incremental Auction**

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

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

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

### **2.35 Incremental Capacity Transfer Right**

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

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

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

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

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

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

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

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

“Locational Deliverability Area Reliability Requirement” shall mean the projected internal capacity in the Locational Deliverability Area plus the Capacity Emergency Transfer Objective for the Delivery Year, as determined by the Office of the Interconnection in connection with



preparation of the Regional Transmission Expansion Plan, less the minimum internal resources required for all FRR Entities in such Locational Deliverability Area.

#### **2.40 Locational Price Adder**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **2.45 Opportunity Cost**

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

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

“Peak-Hour Dispatch” shall mean, for purposes of calculating the Energy and Ancillary Services Revenue Offset under section 5 of this Attachment, an assumption, as more fully set forth in the PJM Manuals, that the Reference Resource is dispatched in four distinct blocks of four hours of continuous output for each block from the peak-hour period beginning with the hour ending 0800 EPT through to the hour ending 2300 EPT for any day when the average real-time LMP for the area for which the Net Cost of New Entry is being determined is greater than, or equal to, the cost to generate (including the cost for a complete start and shutdown cycle) for at least two hours during each four-hour block, where such blocks shall be assumed to be dispatched independently; provided that, if there are not at least two economic hours in any given four-hour block, then the Reference Resource shall be assumed not to be dispatched for such block.

#### **2.47 Peak Season**

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

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

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

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

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

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

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

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

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

### **2.51 Planning Period**

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

### **2.52 PJM Region**

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

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

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

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

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

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

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

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

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

## **2.57 Qualifying Transmission Upgrade**

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

## **2.58 Reference Resource**

“Reference Resource” shall mean a combustion turbine generating station, configured with two General Electric Frame 7FA turbines with inlet air cooling to 50 degrees, Selective Catalytic Reduction technology, dual fuel capability, and a heat rate of 10,500 Mmbtu/ MWh.

## **2.59 Reliability Assurance Agreement**

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

## **2.60 Reliability Pricing Model Auction**

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

## **2.61 Resource Substitution Charge**

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

## **2.61A Scheduled Incremental Auctions**

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

## **2.62 Second Incremental Auction**

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

## **2.63 Sell Offer**

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

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

## **2.65 Self-Supply**

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

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

“Short-Term Resource Procurement Target” shall mean, as to the PJM Region, for purposes of the Base Residual Auction, 2.5% of the PJM Region Reliability Requirement determined for such Base Residual Auction, for purposes of the First Incremental Auction, 2% of the of the PJM Region Reliability Requirement as calculated at the time of the Base Residual Auction; and, for purposes of the Second Incremental Auction, 1.5% of the of the PJM Region Reliability Requirement as calculated at the time of the Base Residual Auction; and, as to any Zone, an allocation of the PJM Region Short-Term Resource Procurement Target based on the Preliminary Zonal Forecast Peak Load, reduced by the amount of load served under the FRR Alternative. For any LDA, the LDA Short-Term Resource Procurement Target shall be the sum of the Short-Term Resource Procurement Targets of all Zones in the LDA.

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

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

## **2.66 Third Incremental Auction**

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

## **2.67 Transition Adder**

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

## **2.68 Transition Period**

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

## **2.69 Unforced Capacity**

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

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

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

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

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

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

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

## **2.70 Variable Resource Requirement Curve**

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

## **2.71 Zonal Capacity Price**

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

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Resource Clearing Prices for such LDAs, weighted by the Unforced Capacity of Capacity Resources cleared in each such LDA.

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**5.6 Sell Offers**

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

**5.6.1 Specifications**

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

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

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

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

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

c) EFORD of each Generation Capacity Resource offered.

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

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

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

d) The Nominated Demand Resource Value for each Demand Resource offered and the Nominated Energy Efficiency Value for each Energy Efficiency Resource offered. The



Office of the Interconnection shall, in both cases, convert such value to an Unforced Capacity basis by multiplying such value by the DR Factor times the Forecast Pool Requirement. Demand Resources shall specify the LDA in which the Demand Resource is located, including the location of such resource within any Zone that includes more than one LDA as identified on Schedule 10.1 of the RAA.

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

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

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

### **5.6.3 [reserved]**

### **5.6.4 Qualifying Transmission Upgrades**

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

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

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

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

(a) The Office of the Interconnection shall determine the maximum quantity of megawatts of Unforced Capacity each Market Seller may offer in any Base Residual Auction or Incremental Auction, through verification of the availability of megawatts of Unforced Capacity

from: (i) Capacity Resources owned by or under contract to the Market Seller, including Capacity Resources obtained through bilateral contract; (ii) the results of prior Reliability Pricing Model Auctions, if any, for such Delivery Year; and (iii) such other information as may be available to the Office of the Interconnection. The Office of the Interconnection shall reject Sell Offers or portions of Sell Offers for Capacity Resources determined by it not to be available for sale.

(b) The Office of the Interconnection shall determine the maximum amount of Capacity Resources available for sale in a Base Residual Auction or Incremental Auction as of the beginning of the period during which Buy Bids and Sell Offers are accepted for each market, as applicable, in accordance with the time schedule set forth in the PJM Manuals. To enable the Office of the Interconnection to make this determination, no bilateral transactions for Capacity Resources applicable to the period covered by an auction will be processed from the beginning of the period for submission of Sell Offers and Buy Bids, as appropriate, for that auction until completion of the clearing determination for that market. Processing of such bilateral transactions will reconvene once clearing for that auction is completed.

(c) In order for a bilateral transaction for the purchase and sale of a Capacity Resource to be processed by the Office of the Interconnection, both parties to the transaction must notify the Office of the Interconnection of the transfer of the Capacity Resource from the seller to the buyer in accordance with procedures established by the Office of the Interconnection and set forth in the PJM Manuals.

(d) A Generation Capacity Resource located in the PJM Region shall not be removed (delisted) from PJM Capacity Resource status to the extent the resource is committed to service of PJM loads as a result of an RPM Auction, FRR Capacity Plan, or by designation as a replacement resource under this Attachment DD. To the extent not so committed, a Generation Capacity Resource (including any portion thereof not so committed or for any time period not so committed) located in the PJM Region may be removed from PJM Capacity Resource status if the Market Seller shows that the resource has a financially and physically firm commitment to an external sale of its capacity, consistent with section 6.6 and in accordance with the procedure set forth in section II.C of Attachment M - Appendix. Such commitment shall be evidenced by a unit-specific bilateral transaction for service to load located outside the PJM Region, by a demonstration that such resource is identified on a unit-specific basis as a network resource under the transmission tariff for the control area applicable to such external load, or by an equivalent demonstration of a financially and physically firm commitment to an external sale. The Market Seller additionally shall identify the megawatt amount, export zone, and time period (in days) of the export. Nothing herein shall require a Market Seller to offer its resource into an RPM auction prior to delisting, subject to satisfaction of section 6.6. Delisting of a resource (or portion thereof) shall not be reflected in a Preliminary Market Structure Screen unless the associated unit-specific bilateral transaction is approved pursuant to subsection (c) above, the designation of such resource (or portion thereof) as a network resource for the external load is demonstrated to the Office of the Interconnection, or equivalent evidence of a firm external sale is provided prior to the deadline for Capacity Market Sellers to submit data for such Preliminary Market Structure Screen. Delisting of a resource shall not be reflected in the determination of available capacity pursuant to subsection (b) above unless the associated unit-specific bilateral

transaction is approved, the designation of such resource (or portion thereof) as a network resource for the external load is demonstrated to the Office of the Interconnection, or equivalent evidence of a firm external sale is provided prior to the deadline established by that subsection. If a material change with respect to any of the prerequisites for the application of section 5.6.6(d) to the Generation Capacity Resource occurs, the potential Capacity Resource Owner shall immediately notify the Market Monitoring Unit.

(e) A Capacity Market Seller that seeks to delist a Generation Capacity Resource from PJM Capacity Resource status pursuant to section 5.6.6(d) above shall submit such request to the Market Monitoring Unit for evaluation. A potential Capacity Market Seller may only delist the Generation Capacity Resource if (i) the Market Monitoring Unit has determined that the Generation Capacity Resource meets the applicable criteria set forth in this section 5.6.6, or, (ii) the potential Capacity Market Seller and the Market Monitoring Unit cannot come to agreement on whether a Generation Capacity Resource should be delisted, the potential Capacity Market Seller has submitted its request to delist the resource to the Office of the Interconnection, and the Office of the Interconnection has determined that the Generation Capacity Resource meets the applicable criteria set forth in this section 5.6.6.

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**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, for Delivery Years through May 31, 2012, the Forecast RTO ILR Obligation and, for Delivery Years thereafter, minus the Short-Term Resource Procurement Target.

The optimization algorithm shall be applied to calculate the overall clearing result to minimize the cost of satisfying the reliability requirements across the PJM Region, regardless of whether the quantity clearing the Base Residual Auction is above or below the applicable target quantity, while respecting all applicable requirements and constraints, including any restrictions specified in any Credit-Limited Offers. Where the supply curve formed by the Sell Offers submitted in an auction falls entirely below the Variable Resource Requirement Curve, the auction shall clear at the price-capacity point on the Variable Resource Requirement Curve corresponding to the total Unforced Capacity provided by all such Sell Offers. Where the supply curve consists only of Sell Offers located entirely below the Variable Resource Requirement Curve and Sell Offers located entirely above the Variable Resource Requirement Curve, the auction shall clear at the price-capacity point on the Variable Resource Requirement Curve corresponding to the total Unforced Capacity provided by all Sell Offers located entirely below the Variable Resource Requirement Curve. In determining the lowest-cost overall clearing result that satisfies all applicable constraints and requirements, the optimization may select from among multiple possible alternative clearing results that satisfy such requirements, including, for example (without limitation by such example), accepting a lower-priced Sell Offer that intersects the Variable Resource Requirement Curve and that specifies a minimum capacity block, accepting a higher-priced Sell Offer that intersects the Variable Resource Requirement Curve and that contains no minimum-block limitations, or rejecting both of the above alternatives and clearing the auction at the higher-priced point on the Variable Resource Requirement Curve that corresponds to the Unforced Capacity provided by all Sell Offers located entirely below the Variable Resource Requirement Curve.

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

b) Scheduled Incremental Auctions

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

- The PJM Region Reliability Requirement, less the Forecast RTO ILR Obligation or Short-term Resource Procurement Target, as applicable;
- Updated LDA Reliability Requirements taking into account any updated Capacity Emergency Transfer Objectives;

the Capacity Emergency Transfer Limit used in the Base Residual Auction, or any updated value resulting from a Conditional Incremental Auction;

- For each LDA, such LDA's updated Reliability Requirement, less the Forecast LDA ILR Obligation or Short-Term Resource Procurement Target, as applicable;
- A demand curve consisting of the Buy Bids submitted in such auction and, if indicated for use in such auction in accordance with the provisions below, the Updated VRR Curve Increment;
- The Sell Offers submitted in such auction; and
- The Unforced Capacity previously committed for such Delivery Year.

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

(ii) When the requirement to seek additional resource commitments in a Scheduled Incremental Auction is triggered by section 5.4(c)(1) of this Attachment, and the conditions stated in section 5.4(c)(2) do not apply, the Office of the Interconnection shall employ in the clearing of such auction a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in a megawatt quantity equal to (A) the Short-Term Resource Procurement Target Applicable Share for such auction plus (B) the difference between the updated PJM Region Reliability Requirement or updated LDA Reliability Requirement and, respectively, the PJM Region Reliability Requirement, or LDA Reliability Requirement, utilized

in the most recent prior auction conducted for such Delivery Year plus any amount required by section 5.4(c)(2)(ii).

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

(iv) If none of the tests for adjustment of capacity procurement in subsections (i), (ii), or (iii) is satisfied for the PJM Region or an LDA in a Scheduled Incremental Auction, the Office of the Interconnection shall employ in the clearing of such auction for the region or such LDA a portion of the Updated VRR Curve Increment extending right from the left-most point on that curve in megawatt quantity equal to the Short-Term Resource Procurement Target Applicable Share. If more than one of the tests for adjustment of capacity procurement in subsections (i), (ii), or (iii) is satisfied for the PJM Region or an LDA in a Scheduled Incremental Auction, the Office of the Interconnection shall not seek to procure the Short-Term Resource Procurement Target Applicable Share more than once for such region or area for such auction.

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

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

(vii) The optimization algorithm shall calculate the overall clearing result to minimize the cost to satisfy the Unforced Capacity Obligation of the PJM Region to account for the updated PJM Peak Load Forecast and the cost of committing replacement capacity in

response to the Buy Bids submitted, while satisfying or honoring such reliability requirements and constraints, in the same manner as set forth in subsection (a) above.

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

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

c) Conditional Incremental Auction

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

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

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

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

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

#### (d) Equal-priced Sell Offers

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

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

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