

Italized wording = revisions submitted on January 11, 2017 for Order 825 compliance
Redline wording = revisions proposed associated with the shortage demand curve changes

Defintions:

Extended Primary Reserve Requirement:

“Extended Primary Reserve Requirement” shall equal the Primary Reserve Requirement in a Reserve Zone or Reserve Sub-zone, plus 190 MW, plus any additional reserves scheduled under emergency conditions necessary to address operational uncertainty. The Extended Primary Reserve Requirement is calculated in accordance with the PJM Manuals.

Extended Synchronized Reserve Requirement:

“Extended Synchronized Reserve Requirement” shall equal the Synchronized Reserve Requirement in a Reserve Zone or Reserve Sub-zone, plus 190 MW, plus any additional reserves scheduled under emergency conditions necessary to address operational uncertainty. The Extended Synchronized Reserve Requirement is calculated in accordance with the PJM Manuals.

2.5 Calculation of Real-time Prices.

(a) The Office of the Interconnection shall determine the least costly means of obtaining energy to serve the next increment of load (taking account of any applicable and available load reductions indicated on PRD Curves properly submitted by any PRD Provider) at each bus in the PJM Region represented in the State Estimator and each Interface Pricing Point between PJM and an adjacent Control Area, based on the system conditions described by the most recent power flow solution produced by the State Estimator program and utilized in the PJM security-constrained economic dispatch algorithm and the energy offers that are the basis for the Day-ahead Energy Market, or that are determined to be eligible for consideration under Section 2.4 in connection with the real-time dispatch, as applicable. This calculation shall be made by applying a real-time joint optimization of energy and reserves, given actual system conditions, a set of energy offers, a set of reserve offers, a set of Reserve Penalty Factors, and any binding transmission constraints that may exist. In performing this calculation, the Office of the Interconnection shall calculate the cost of serving an increment of load at each bus from each resource associated with an eligible energy offer as the sum of the following components of Locational Marginal Price: (1) System Energy Price, which is the price at which the Market Seller has offered to supply an additional increment of energy from a generation resource or decrease an increment of energy being consumed by a Demand Resource, (2) Congestion Price, which is the effect on transmission congestion costs (whether positive or negative) associated with increasing the output of a generation resource or decreasing the consumption by a Demand Resource, based on the effect of increased generation from the resource on transmission line loadings, and (3) Loss Price, which is the effect on transmission loss costs (whether positive or negative) associated with increasing the output of a generation resource or decreasing the consumption by a Demand Resource based on the effect of increased generation from or consumption by the resource on transmission losses. The real-time Locational Marginal Prices at a bus shall be determined through the joint optimization program based on the lowest marginal cost to serve the next increment of load at the bus taking into account the applicable reserve requirements, unit resource constraints, transmission constraints, and marginal loss impact.

(b) If all reserve requirements in every modeled Reserve Zone and Reserve Sub-zone can be met at prices less than or equal to the lowest applicable Reserve Penalty Factor for those reserve requirements, real-time Locational Marginal Prices shall be calculated as described in Section 2.5(a) above and no Reserve Penalty Factor(s) shall apply beyond the normal lost opportunity costs incurred by the reserve requirements. When a reserve requirement cannot be met at a price less than or equal to the lowest applicable Reserve Penalty Factor(s) associated with a Reserve Zone or Reserve Sub-zone, the real-time Locational Marginal Prices shall be calculated by incorporating the applicable Reserve Penalty Factor(s) for the deficient reserve requirement as the lost opportunity cost impact of the deficient reserve requirement, and the components of Locational Marginal Prices referenced in Section 2.5(a) above shall be calculated as described below.

(c) The Office of the Interconnection shall issue day-ahead alerts to PJM Members of the possible need to use emergency procedures during the following Operating Day. Such emergency procedures may be required to alleviate real-time emergency conditions such as a

transmission emergency or potential reserve shortage. The alerts issued by the Office of the Interconnection may include, but are not limited to, the Maximum Emergency Generation Alert, Primary Reserve Alert and/or Voltage Reduction Alert. These alerts shall be issued to keep all affected system personnel informed of the forecasted status of the PJM bulk power system. The Office of the Interconnection shall notify PJM Members of all alerts and the cancellation thereof via the methods described in the PJM Manuals. The alerts shall be issued as soon as practicable to allow PJM Members sufficient time to prepare for such operating conditions. The day-ahead alerts issued by the Office of the Interconnection are for informational purposes only and by themselves will not impact price calculation during the Operating Day.

(d) The Office of the Interconnection shall issue a warning of impending operating reserve shortage and other emergency conditions in real-time to inform members of actual capacity shortages or contingencies that may jeopardize the reliable operation of the PJM bulk power system. Such warnings will generally precede any associated action taken to address the shortage conditions. The Office of the Interconnection shall notify PJM Members of the issuance and cancellation of emergency procedures via the methods described in the PJM Manuals. The warnings that the Office of the Interconnection may issue include, but are not limited to, the Primary Reserve Warning, Voltage Reduction Warning, and Manual Load Dump Warning.

The purpose of the Primary Reserve Warning is to warn members that the available Primary Reserve may be less than the Primary Reserve Requirement. If the Primary Reserve shortage condition was *determined* as described in Section 2.2(d) above, the applicable Reserve Penalty Factor is incorporated into the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price and Locational Marginal Price as applicable.

The purpose of the Voltage Reduction Warning is to warn PJM Members that the available Synchronized Reserve may be less than the Synchronized Reserve Requirement and that a voltage reduction may be required. Following the Voltage Reduction Warning, the Office of the Interconnection may issue a Voltage Reduction Action during which it directs PJM Members to initiate a voltage reduction. If the Office of the Interconnection issues a Voltage Reduction Action for the Reserve Zone or Reserve Sub-Zone the Reserve Penalty Factor for the Primary Reserve Requirement and the Reserve Penalty Factor for the Synchronized Reserve Requirement are incorporated in the calculation of the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price and Locational Marginal Price as applicable. The Reserve Penalty Factor for the Primary Reserve Requirement and the Reserve Penalty Factor for the Synchronized Reserve Requirement will continue to be used in the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price and Locational Marginal Price calculation, as applicable, until the Voltage Reduction Action has been terminated.

The purpose of the Manual Load Dump Warning is to warn members that dumping load may be necessary to maintain reliability. Following the Manual Load Dump Warning, the Office of the Interconnection may commence a Manual Load Dump Action during which it directs PJM Members to initiate a manual load dump pursuant to the procedures described in the PJM Manuals. If the Office of the Interconnection issues a Manual Load Dump Action for the Reserve Zone or Reserve Sub-Zone the Reserve Penalty Factor for the Primary Reserve

Requirement and the Reserve Penalty Factor for the Synchronized Reserve Requirement are incorporated in the calculation of the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price and Locational Marginal Price as applicable. The Reserve Penalty Factor for the Primary Reserve Requirement and the Reserve Penalty Factor for the Synchronized Reserve Requirement will continue to be used in the Synchronized Reserve Market Clearing Price, Non-Synchronized Reserve Market Clearing Price and Locational Marginal Price calculation, as applicable, until the Manual Load Dump Action has been terminated.

Shortage pricing will be terminated in a Reserve Zone or Reserve Sub-Zone when demand and reserve requirements can be fully satisfied with generation and demand response resources and any Voltage Reduction Action and/or Manual Load Dump Action taken for that Reserve Zone or Reserve Sub-Zone has also been terminated.

(e) During the Operating Day, the calculation set forth in (a) shall be performed every five minutes, using the Office of the Interconnection's Locational Marginal Price program, producing *the* Real-time Prices based on system conditions during the preceding interval.

3.2.3A Synchronized Reserve.

(a) Each Market Participant that is a Load Serving Entity that is not part of an agreement to share reserves with external entities subject to the requirements in BAL-002 shall have an obligation for hourly Synchronized Reserve equal to its pro rata share of Synchronized Reserve requirements for the hour for each Reserve Zone and Reserve Sub-zone of the PJM Region, based on the Market *Participant's* total load (net of operating Behind The Meter Generation, but not to be less than zero) in such Reserve Zone or Reserve Sub-zone for the hour (“Synchronized Reserve Obligation”), less any amount obtained from condensers associated with provision of Reactive Services as described in section 3.2.3B(i) and any amount obtained from condensers associated with post-contingency operations, as described in section 3.2.3C(b). Those entities that participate in an agreement to share reserves with external entities subject to the requirements in BAL-002 shall have their reserve obligations determined based on the stipulations in such agreement. A Market Participant *with an* hourly Synchronized Reserve Obligation shall be charged *the pro rata share of the sum of the quantity of Synchronized Reserves provided in each Real-time Settlement Interval times the clearing price for all Real-time Settlement Intervals in the hour associated with that obligation.*

(b) A resource supplying Synchronized Reserve at the direction of the Office of the Interconnection, in excess of its hourly Synchronized Reserve Obligation, shall be credited as follows:

i) Credits for Synchronized Reserve provided by generation resources that are then subject to the energy dispatch signals and instructions of the Office of the Interconnection and that increase their current output or Demand Resources that reduce their load in response to a Synchronized Reserve Event (“Tier 1 Synchronized Reserve”) shall be at the Synchronized Energy Premium Price, *as described in 3.2.3A (c)*, with the exception of those *Real-time Settlement Intervals* in which the Non-Synchronized Reserve Market Clearing Price for the applicable Reserve Zone or Reserve Sub-zone is not equal to zero. During such hours, Tier 1 Synchronized Reserve resources shall be compensated at the Synchronized Reserve Market Clearing Price for the applicable Reserve Zone or Reserve Sub-zone for the lesser of the amount of Tier 1 Synchronized Reserve attributed to the resource as calculated by the Office of the Interconnection, or the actual amount of Tier 1 Synchronized Reserve provided should a Synchronized Reserve Event *occur in a Real-time Settlement Interval.*

ii) Credits for Synchronized Reserve provided by generation resources that are synchronized to the grid but, at the direction of the Office of the Interconnection, are operating at a point that deviates from the Office of the Interconnection energy dispatch signals and instructions (“Tier 2 Synchronized Reserve”) shall be the higher of (i) the Synchronized Reserve Market Clearing Price or (ii) the sum of (A) the Synchronized Reserve offer, and (B) the specific opportunity cost of the generation resource supplying the increment of Synchronized Reserve, as determined by the Office of the Interconnection *to a Synchronized Reserve Event in a Real-time Settlement Interval in accordance with procedures specified in the PJM Manuals.*

iii) Credits for Synchronized Reserve provided by Demand Resources that are synchronized to the grid and accept the obligation to reduce load in response to a Synchronized Reserve Event *in a Real-time Settlement Interval* initiated by the Office of the Interconnection shall be the sum of (i) the higher of (A) the Synchronized Reserve offer or (B) the Synchronized Reserve Market Clearing Price and (ii) if a Synchronized Reserve Event is actually initiated by the Office of the Interconnection and the Demand Resource reduced its load in response to the event, the fixed costs associated with achieving the load reduction, as specified in the PJM Manuals.

(c) The Synchronized Reserve Energy Premium Price is an adder in an amount to be determined periodically by the Office of the Interconnection not less than fifty dollars and not to exceed one hundred dollars per megawatt hour.

(d) The Synchronized Reserve Market Clearing Price shall be determined for each Reserve Zone and Reserve Sub-zone by the Office of the Interconnection for each *Real-time Settlement Interval* of the Operating Day. The Synchronized Reserve Market Clearing Price shall be calculated as the 5-minute clearing prices. Each 5-minute clearing price shall be calculated as the marginal cost of serving the next increment of demand for Synchronized Reserve in each Reserve Zone or Reserve Sub-zone, inclusive of Synchronized Reserve offer prices and opportunity costs. When the Synchronized Reserve Requirement or Extended Synchronized Reserve Requirement in a Reserve Zone or Reserve Sub-zone cannot be met, the 5-minute clearing price shall be at least greater than or equal to the applicable Reserve Penalty Factor for the Reserve Zone or Reserve Sub-zone, but less than or equal to the sum of the Reserve Penalty Factors for the Synchronized Reserve Requirement and Primary Reserve Requirement for the Reserve Zone or Reserve Sub-zone. If the Office of the Interconnection has initiated in a Reserve Zone or Reserve Sub-zone either a ~~V~~voltage ~~R~~reduction ~~A~~ction as described in the PJM Manuals or a ~~m~~Manual ~~H~~load ~~d~~Dump ~~a~~ction as described in the PJM Manuals, the 5-minute clearing price shall be the sum of the Reserve Penalty Factors for the Primary Reserve Requirement and the Synchronized Reserve Requirement for that Reserve Zone or Reserve Sub-zone.

~~The Reserve Penalty Factors for the Synchronized Reserve Requirement shall each be phased in as described below:~~

- ~~i. — \$250/MWh for the 2012/2013 Delivery Year;~~
- ~~ii. — \$400/MWh for the 2013/2014 Delivery Year;~~
- ~~iii. — \$550/MWh for the 2014/2015 Delivery Year; and~~
- ~~iv. — \$850/MWh as of the 2015/2016 Delivery Year.~~

The Reserve Penalty Factor for the Synchronized Reserve Requirement shall be \$850/MWh.

The Reserve Penalty Factor for the Extended Synchronized Reserve Requirement shall be \$300/MWh.

By no later than April 30 of each year, the Office of the Interconnection will analyze Market Participants' response to prices exceeding \$1,000/MWh on an annual basis and will provide its analysis to PJM stakeholders. The Office of the Interconnection will also review this analysis to determine whether any changes to the Synchronized Reserve Penalty Factors are warranted for subsequent Delivery Year(s).

3.2.3A.001 Non-Synchronized Reserve.

(a) Each Market Participant that is a Load Serving Entity that is not part of an agreement to share reserves with external entities subject to the requirements in BAL-002 shall have an obligation for hourly Non-Synchronized Reserve equal to its pro rata share of Non-Synchronized Reserve assigned for the hour for each Reserve Zone and Reserve Sub-zone of the PJM Region, based on the Market *Participant's* total load (net of operating Behind The Meter Generation, but not to be less than zero) in such Reserve Zone and Reserve Sub-zone for the hour ("Non-Synchronized Reserve Obligation"). Those entities that participate in an agreement to share reserves with external entities subject to the requirements in BAL-002 shall have their reserve obligations determined based on the stipulations in such agreement. A Market Participant *with an* hourly Non-Synchronized Reserve Obligation shall be charged *the pro rata share of the sum of the quantity of Non-Synchronized Reserves provided in each Real-time Settlement Interval times the clearing price for all Real-time Settlement Intervals in the hour associated with that obligation.*

(b) Credits for Non-Synchronized Reserve provided by generation resources that are not operating for energy at the direction of the Office of the Interconnection specifically for the purpose of providing Non-Synchronized Reserve shall be the higher of (i) the Non-Synchronized Reserve Market Clearing Price or (ii) the specific opportunity cost of the generation resource supplying the increment of Non-Synchronized Reserve, as determined by the Office of the Interconnection in accordance with procedures specified in the PJM Manuals.

(c) The Non-Synchronized Reserve Market Clearing Price shall be determined for each Reserve Zone and Reserve Sub-zone by the Office of the Interconnection for each *Real-time Settlement Interval* of the Operating Day. The Non-Synchronized Reserve Market Clearing Price shall be calculated as the 5-minute clearing price. Each 5-minute clearing price shall be calculated as the marginal cost of procuring sufficient Non-Synchronized Reserves and/or Synchronized Reserves in each Reserve Zone or Reserve Sub-zone inclusive of opportunity costs associated with meeting the Primary Reserve Requirement or Extended Primary Reserve Requirement. When the Primary Reserve Requirement or Extended Primary Reserve Requirement in a Reserve Zone or Reserve Sub-zone cannot be met at a price less than or equal to the applicable Reserve Penalty Factor, the 5-minute clearing price for Non-Synchronized Reserve shall be at least greater than or equal to the applicable Reserve Penalty Factor for the Reserve Zone or Reserve Sub-zone, but less than or equal to the Reserve Penalty Factor for the Primary Reserve Requirement for the Reserve Zone or Reserve Sub-zone. If the Office of the Interconnection has initiated in a Reserve Zone or Reserve Sub-zone either a Voltage Reduction Action as described in the PJM Manuals or a Manual Load Dump action as described in the PJM Manuals, the 5-minute clearing price shall be the Reserve Penalty Factor for the Primary Reserve Requirement for that Reserve Zone or Reserve Sub-zone.

~~The Reserve Penalty Factors for the Primary Reserve Requirement shall each be phased in as described below:~~

- ~~i. \$250/MWh for the 2012/2013 Delivery Year;~~
- ~~ii. \$400/MWh for the 2013/2014 Delivery Year;~~
- ~~iii. \$550/MWh for the 2014/2015 Delivery Year; and~~
- ~~iv. \$850/MWh as of the 2015/2016 Delivery Year.~~

The Reserve Penalty Factor for the Primary Reserve Requirement shall be \$850/MWh.

The Reserve Penalty Factor for the Extended Primary Reserve Requirement shall be \$300/MWh.

By no later than April 30 of each year, the Office of the Interconnection will analyze Market Participants' response to prices exceeding \$1,000/MWh on an annual basis and will provide its analysis to PJM stakeholders. The Office of the Interconnection will also review this analysis to determine whether any changes to the Primary Reserve Penalty Factors are warranted for subsequent Delivery Year(s).