

1.7 General.

1.7.1 Market Sellers.

Only Market Sellers shall be eligible to submit offers to the Office of the Interconnection for the sale of electric energy or related services in the PJM Interchange Energy Market. Market Sellers shall comply with the prices, terms, and operating characteristics of all Offer Data submitted to and accepted by the PJM Interchange Energy Market.

1.7.2 Market Buyers.

Only Market Buyers shall be eligible to purchase energy or related services in the PJM Interchange Energy Market. Market Buyers shall comply with all requirements for making purchases from the PJM Interchange Energy Market.

1.7.2A Economic Load Response Participants.

Only Economic Load Response Participants shall be eligible to participate in the Real-time Energy Market and the Day-ahead Energy Market by submitting offers to the Office of the Interconnection to reduce demand.

1.7.3 Agents.

A Market Participant may participate in the PJM Interchange Energy Market through an agent, provided that the Market Participant informs the Office of the Interconnection in advance in writing of the appointment of such agent. A Market Participant participating in the PJM Interchange Energy Market through an agent shall be bound by all of the acts or representations of such agent with respect to transactions in the PJM Interchange Energy Market, and shall ensure that any such agent complies with the requirements of this Agreement.

1.7.4 General Obligations of the Market Participants.

(a) In performing its obligations to the Office of the Interconnection hereunder, each Market Participant shall at all times (i) follow Good Utility Practice, (ii) comply with all applicable laws and regulations, (iii) comply with the applicable principles, guidelines, standards and requirements of FERC, NERC and each Applicable Regional Entity, (iv) comply with the procedures established for operation of the PJM Interchange Energy Market and PJM Region and (v) cooperate with the Office of the Interconnection as necessary for the operation of the PJM Region in a safe, reliable manner consistent with Good Utility Practice.

(b) Market Participants shall undertake all operations in or affecting the PJM Interchange Energy Market and the PJM Region including but not limited to compliance with all Emergency procedures, in accordance with the power and authority of the Office of the Interconnection with respect to the operation of the PJM Interchange Energy Market and the PJM Region as established in this Agreement, and as specified in the Schedules to this Agreement and the PJM Manuals. Failure to comply with the foregoing operational requirements shall subject a Market

Participant to such reasonable charges or other remedies or sanctions for non-compliance as may be established by the PJM Board, including legal or regulatory proceedings as authorized by the PJM Board to enforce the obligations of this Agreement.

(c) The Office of the Interconnection may establish such committees with a representative of each Market Participant, and the Market Participants agree to provide appropriately qualified personnel for such committees, as may be necessary for the Office of the Interconnection and PJMSettlement to perform its obligations hereunder.

(d) All Market Participants shall provide to the Office of the Interconnection the scheduling and other information specified in the Schedules to this Agreement, and such other information as the Office of the Interconnection may reasonably require for the reliable and efficient operation of the PJM Region and PJM Interchange Energy Market, and for compliance with applicable regulatory requirements for posting market and related information. Such information shall be provided as much in advance as possible, but in no event later than the deadlines established by the Schedules to this Agreement, or by the Office of the Interconnection in conformance with such Schedules. Such information shall include, but not be limited to, maintenance and other anticipated outages of generation or transmission facilities, scheduling and related information on bilateral transactions and self-scheduled resources, and implementation of interruption of load, Price Responsive Demand, Demand Resources, and other load reduction measures. The Office of the Interconnection shall abide by appropriate requirements for the non-disclosure and protection of any confidential or proprietary information given to the Office of the Interconnection by a Market Participant. Each Market Participant shall maintain or cause to be maintained compatible information and communications systems, as specified by the Office of the Interconnection, required to transmit scheduling, dispatch, or other time-sensitive information to the Office of the Interconnection in a timely manner. Market Participants that request additional information or communications system access or connections beyond those which are required by the Office of the Interconnection for reliability in the operation of the LLC or the Office of the Interconnection, including but not limited to PJMnet or Internet SCADA connections, shall be solely responsible for the cost of such additional access and connections and for purchasing, leasing, installing and maintaining any associated facilities and equipment, which shall remain the property of the Market Participant.

(e) Subject to the requirements for Economic Load Response Participants in section 1.5A above, each Market Participant shall install and operate, or shall otherwise arrange for, metering and related equipment capable of recording and transmitting all voice and data communications reasonably necessary for the Office of the Interconnection and PJMSettlement to perform the services specified in this Agreement. A Market Participant that elects to be separately billed for its PJM Interchange shall, to the extent necessary, be individually metered in accordance with Section 14 of this Agreement, or shall agree upon an allocation of PJM Interchange between it and the Market Participant through whose meters the unmetered Market Participant's PJM Interchange is delivered. The Office of the Interconnection shall be notified of the allocation by the foregoing Market Participants.

(f) Each Market Participant shall operate, or shall cause to be operated, any generating resources owned or controlled by such Market Participant that are within the PJM Region or

otherwise supplying energy to or through the PJM Region in a manner that is consistent with the standards, requirements or directions of the Office of the Interconnection and that will permit the Office of the Interconnection to perform its obligations under this Agreement; provided, however, no Market Participant shall be required to take any action that is inconsistent with Good Utility Practice or applicable law.

(g) Each Market Participant shall follow the directions of the Office of the Interconnection to take actions to prevent, manage, alleviate or end an Emergency in a manner consistent with this Agreement and the procedures of the PJM Region as specified in the PJM Manuals.

(h) Each Market Participant shall obtain and maintain all permits, licenses or approvals required for the Market Participant to participate in the PJM Interchange Energy Market in the manner contemplated by this Agreement.

(i) Consistent with Section 36.1.1 of the PJM Tariff, to the extent its generating facility is dispatchable, a Market Participant shall submit an Economic Minimum in the Real-time Energy Market that is no greater than the higher of its physical operating minimum or its Capacity Interconnection Rights associated with such generating facility under its Interconnection Service Agreement under Attachment O of the PJM Tariff or a wholesale market participation agreement.

1.7.5 Market Operations Center.

Each Market Participant shall maintain a Market Operations Center, or shall make appropriate arrangements for the performance of such services on its behalf. A Market Operations Center shall meet the performance, equipment, communications, staffing and training standards and requirements specified in this Agreement, and as may be further described in the PJM Manuals, for the scheduling and completion of transactions in the PJM Interchange Energy Market and the maintenance of the reliable operation of the PJM Region, and shall be sufficient to enable (i) a Market Seller or an Economic Load Response Participant to perform all terms and conditions of its offers to the PJM Interchange Energy Market, and (ii) a Market Buyer or an Economic Load Response Participant to conform to the requirements for purchasing from the PJM Interchange Energy Market.

1.7.6 Scheduling and Dispatching.

(a) The Office of the Interconnection shall schedule and dispatch in real-time generation resources and/or Demand Resources economically on the basis of least-cost, security-constrained dispatch and the prices and operating characteristics offered by Market Sellers, continuing until sufficient generation resources and/or Demand Resources are dispatched to serve the PJM Interchange Energy Market energy purchase requirements under normal system conditions of the Market Buyers (taking into account any reductions to such requirements in accordance with PRD Curves properly submitted by PRD Providers), as well as the requirements of the PJM Region for ancillary services provided by generation resources and/or Demand Resources, in accordance with this Agreement. Such scheduling and dispatch shall recognize transmission constraints on coordinated flowgates external to the Transmission System in accordance with Appendix A to

the Joint Operating Agreement between the Midwest Independent Transmission System Operator, Inc. and PJM Interconnection, L.L.C. (PJM Rate Schedule FERC No. 38), the Joint Operating Agreement Among and Between New York Independent System Operator Inc. and PJM Interconnection, L.L.C. (PJM Rate Schedule FERC No. 45), and on other such flowgates that are coordinated in accordance with agreements between the LLC and other entities. Scheduling and dispatch shall be conducted in accordance with this Agreement.

(b) The Office of the Interconnection shall undertake to identify any conflict or incompatibility between the scheduling or other deadlines or specifications applicable to the PJM Interchange Energy Market, and any relevant procedures of another Control Area, or any tariff (including the PJM Tariff). Upon determining that any such conflict or incompatibility exists, the Office of the Interconnection shall propose tariff or procedural changes, and undertake such other efforts as may be appropriate, to resolve any such conflict or incompatibility.

(c) To protect its generation or distribution facilities, or local Transmission Facilities not under the monitoring responsibility and dispatch control of the Office of the Interconnection, an entity may request that the Office of the Interconnection schedule and dispatch generation or reductions in demand to meet a limit on Transmission Facilities different from that which the Office of the Interconnection has determined to be required for reliable operation of the Transmission System. To the extent consistent with its other obligations under this Agreement, the Office of the Interconnection shall schedule and dispatch generation and reductions in demand in accordance with such request. An entity that makes a request pursuant to this section 1.7.6(c) shall be responsible for all generation and other costs resulting from its request that would not have been incurred by operating the Transmission System and scheduling and dispatching generation in the manner that the Office of the Interconnection otherwise has determined to be required for reliable operation of the Transmission System.

1.7.7 Pricing.

The price paid for energy bought and sold in the PJM Interchange Energy Market and for demand reductions will reflect the *applicable interval* Locational Marginal Price at each load and generation bus, determined by the Office of the Interconnection in accordance with this Agreement. Transmission Congestion Charges and Transmission Loss Charges, which shall be determined by differences in Congestion Prices and Loss Prices in *the applicable interval*, shall be calculated by the Office of the Interconnection, and collected by PJMSettlement, and the revenues from *there* shall be disbursed by PJMSettlement in accordance with this Schedule.

1.7.7A Wholesale Stored Energy Pricing.

The sale of Wholesale Stored Energy shall be at the wholesale locational marginal price.

1.7.8 Generating Market Buyer Resources.

A Generating Market Buyer may elect to self-schedule its generation resources up to that Generating Market Buyer's Equivalent Load, in accordance with and subject to the procedures

specified in this Schedule, and the accounting and billing requirements specified in Section 3 to this Schedule. PJMSettlement shall not be a contracting party with respect to such self-scheduled or self-supplied transactions.

1.7.9 Delivery to an External Market Buyer.

A purchase of Spot Market Energy by an External Market Buyer shall be delivered to a bus or buses at the electrical boundaries of the PJM Region specified by the Office of the Interconnection, or to load in such area that is not served by Network Transmission Service, using Point-to-Point Transmission Service paid for by the External Market Buyer. Further delivery of such energy shall be the responsibility of the External Market Buyer.

1.7.10 Other Transactions.

(a) Bilateral Transactions.

- (i) In addition to transactions in the PJM Interchange Energy Market, Market Participants may enter into bilateral contracts for the purchase or sale of electric energy to or from each other or any other entity, subject to the obligations of Market Participants to make Generation Capacity Resources available for dispatch by the Office of the Interconnection. Such bilateral contracts shall be for the physical transfer of energy to or from a Market Participant and shall be reported to and coordinated with the Office of the Interconnection in accordance with this Schedule and pursuant to the LLC's rules relating to its InSchedule and ExSchedule tools.
- (ii) For purposes of clarity, with respect to all bilateral contracts for the physical transfer of energy to a Market Participant inside the PJM Region, title to the energy that is the subject of the bilateral contract shall pass to the buyer at the source specified for the bilateral contract, and the further transmission of the energy or further sale of the energy into the PJM Interchange Energy Market shall be transacted by the buyer under the bilateral contract. With respect to all bilateral contracts for the physical transfer of energy to an entity outside the PJM Region, title to the energy shall pass to the buyer at the border of the PJM Region and shall be delivered to the border using transmission service. In no event shall the purchase and sale of energy between Market Participants under a bilateral contract constitute a transaction in the PJM Interchange Energy Market or be construed to define PJMSettlement as a contracting party to any bilateral transactions between Market Participants.
- (iii) Market Participants that are parties to bilateral contracts for the purchase and sale and physical transfer of energy reported to and coordinated with the Office of the Interconnection under this Schedule shall use all reasonable efforts, consistent with Good Utility Practice, to limit the megawatt hours of such reported transactions to amounts reflecting the

expected load and other physical delivery obligations of the buyer under the bilateral contract.

- (iv) All payments and related charges for the energy associated with a bilateral contract shall be arranged between the parties to the bilateral contract and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The LLC, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a bilateral contract reported and coordinated with the Office of the Interconnection under this Schedule.
- (v) A buyer under a bilateral contract shall guarantee and indemnify the LLC, PJMSettlement, and the Members for the costs of any Spot Market Backup used to meet the bilateral contract seller's obligation to deliver energy under the bilateral contract and for which payment is not made to PJMSettlement by the seller under the bilateral contract, as determined by the Office of the Interconnection. Upon any default in obligations to the LLC or PJMSettlement by a Market Participant, the Office of the Interconnection shall (i) not accept any new InSchedule or ExSchedule reporting by the Market Participant and (ii) terminate all of the Market Participant's InSchedules and ExSchedules associated with its bilateral contracts previously reported to the Office of the Interconnection for all days where delivery has not yet occurred. All claims regarding a buyer's default to a seller under a bilateral contract shall be resolved solely between the buyer and the seller. In such circumstances, the seller may instruct the Office of the Interconnection to terminate all of the InSchedules and ExSchedules associated with bilateral contracts between buyer and seller previously reported to the Office of the Interconnection. PJMSettlement shall assign its claims against a seller with respect to a seller's nonpayment for Spot Market Backup to a buyer to the extent that the buyer has made an indemnification payment to PJMSettlement with respect to the seller's nonpayment.
- (vi) Bilateral contracts that do not contemplate the physical transfer of energy to or from a Market Participant are not subject to this Schedule, shall not be reported to and coordinated with the Office of the Interconnection, and shall not in any way constitute a transaction in the PJM Interchange Energy Market.

(b) Market Participants shall have Spot Market Backup with respect to all bilateral transactions that contemplate the physical transfer of energy to or from a Market Participant, that are not Dynamic Transfers pursuant to Section 1.12 and that are curtailed or interrupted for any reason (except for curtailments or interruptions through Load Management for load located within the PJM Region).

(c) To the extent the Office of the Interconnection dispatches a Generating Market Buyer's generation resources, such Generating Market Buyer may elect to net the output of such resources against its hourly Equivalent Load. Such a Generating Market Buyer shall be deemed a buyer from the PJM Interchange Energy Market to the extent of its PJM Interchange Imports, and shall be deemed a seller to the PJM Interchange Energy Market to the extent of its PJM Interchange Exports.

(d) A Market Seller may self-supply Station Power for its generation facility in accordance with the following provisions:

- (i) A Market Seller may self-supply Station Power for its generation facility during any month (1) when the net output of such facility is positive, or (2) when the net output of such facility is negative and the Market Seller during the same month has available at other of its generation facilities positive net output in an amount at least sufficient to offset fully such negative net output. For purposes of this subsection (d), "net output" of a generation facility during any month means the facility's gross energy output, less the Station Power requirements of such facility, during that month. The determination of a generation facility's or a Market Seller's monthly net output under this subsection (d) will apply only to determine whether the Market Seller self-supplied Station Power during the month and will not affect the price of energy sold or consumed by the Market Seller at any bus during any *Real-time Settlement Interval* during the month. For each *Real-time Settlement Interval* when a Market Seller has positive net output and delivers energy into the Transmission System, it will be paid the LMP at its bus for that *Real-time Settlement Interval* hour for all of the energy delivered. Conversely, for each *Real-time Settlement Interval* when a Market Seller has negative net output and has received Station Power from the Transmission System, it will pay the LMP at its bus for that *Real-time Settlement Interval* for all of the energy consumed.
- (ii) Transmission Provider will determine the extent to which each affected Market Seller during the month self-supplied its Station Power requirements or obtained Station Power from third-party providers (including affiliates) and will incorporate that determination in its accounting and billing for the month. In the event that a Market Seller self-supplies Station Power during any month in the manner described in subsection (1) of subsection (d)(i) above, Market Seller will not use, and will not incur any charges for, transmission service. In the event, and to the extent, that a Market Seller self-supplies Station Power during any month in the manner described in subsection (2) of subsection (d)(i) above (hereafter referred to as "remote self-supply of Station Power"), Market Seller shall use and pay for transmission service for the transmission of energy in an amount equal to the facility's negative net output from Market Seller's generation facility(ies) having positive net output. Unless the Market Seller makes other arrangements with Transmission Provider

in advance, such transmission service shall be provided under Part II of the PJM Tariff and shall be charged the hourly rate under Schedule 8 of the PJM Tariff for Non-Firm Point-to-Point Transmission Service with an election to pay congestion charges, provided, however, that no reservation shall be necessary for such transmission service and the terms and charges under Schedules 1, 1A, 2 through 6, 9 and 10 of the PJM Tariff shall not apply to such service. The amount of energy that a Market Seller transmits in conjunction with remote self-supply of Station Power will not be affected by any other sales, purchases, or transmission of capacity or energy by or for such Market Seller under any other provisions of the PJM Tariff.

- (iii) A Market Seller may self-supply Station Power from its generation facilities located outside of the PJM Region during any month only if such generation facilities in fact run during such month and Market Seller separately has reserved transmission service and scheduled delivery of the energy from such resource in advance into the PJM Region.

1.7.11 Emergencies.

(a) The Office of the Interconnection, with the assistance of the Members' dispatchers as it may request, shall be responsible for monitoring the operation of the PJM Region, for declaring the existence of an Emergency, and for directing the operations of Market Participants as necessary to manage, alleviate or end an Emergency. The standards, policies and procedures of the Office of the Interconnection for declaring the existence of an Emergency, including but not limited to a Minimum Generation Emergency, and for managing, alleviating or ending an Emergency, shall apply to all Members on a non-discriminatory basis. Actions by the Office of the Interconnection and the Market Participants shall be carried out in accordance with this Agreement, the NERC Operating Policies, Applicable Regional Entity reliability principles and standards, Good Utility Practice, and the PJM Manuals. A declaration that an Emergency exists or is likely to exist by the Office of the Interconnection shall be binding on all Market Participants until the Office of the Interconnection announces that the actual or threatened Emergency no longer exists. Consistent with existing contracts, all Market Participants shall comply with all directions from the Office of the Interconnection for the purpose of managing, alleviating or ending an Emergency. The Market Participants shall authorize the Office of the Interconnection and PJMSettlement to purchase or sell energy on their behalf to meet an Emergency, and otherwise to implement agreements with other Control Areas interconnected with the PJM Region for the mutual provision of service to meet an Emergency, in accordance with this Agreement.

(b) To the extent load must be shed to alleviate an Emergency in a Control Zone, the Office of the Interconnection shall, to the maximum extent practicable, direct the shedding of load within such Control Zone. The Office of the Interconnection may shed load in one Control Zone to alleviate an Emergency in another Control Zone under its control only as necessary after having first shed load to the maximum extent practicable in the Control Zone experiencing the Emergency and only to the extent that PJM supports other control areas (not under its control) in

those situations where load shedding would be necessary, such as to prevent isolation of facilities within the Eastern Interconnection, to prevent voltage collapse, or to restore system frequency following a system collapse; provided, however, that the Office of the Interconnection may not order a manual load dump in a Control Zone solely to address capacity deficiencies in another Control Zone. This subsection shall be implemented consistent with the North American Electric Reliability Council and applicable reliability council standards.

1.7.12 Fees and Charges.

Each Market Participant, except for Special Members, shall pay all fees and charges of the Office of the Interconnection for operation of the PJM Interchange Energy Market as determined by and allocated to the Market Participant by the Office of the Interconnection, and for additional services they request from the LLC, PJMSettlement or the Office of the Interconnection that are not required for the operation of the LLC or the Office of the Interconnection, in accordance with Schedule 3.

1.7.13 Relationship to the PJM Region.

The PJM Interchange Energy Market operates within and subject to the requirements for the operation of the PJM Region.

1.7.14 PJM Manuals.

The Office of the Interconnection shall be responsible for maintaining, updating, and promulgating the PJM Manuals as they relate to the operation of the PJM Interchange Energy Market. The PJM Manuals, as they relate to the operation of the PJM Interchange Energy Market, shall conform and comply with this Agreement, NERC operating policies, and Applicable Regional Entity reliability principles, guidelines and standards, and shall be designed to facilitate administration of an efficient energy market within industry reliability standards and the physical capabilities of the PJM Region.

1.7.15 Corrective Action.

Consistent with Good Utility Practice, the Office of the Interconnection shall be authorized to direct or coordinate corrective action, whether or not specified in the PJM Manuals, as necessary to alleviate unusual conditions that threaten the integrity or reliability of the PJM Region, or the regional power system.

1.7.16 Recording.

Subject to the requirements of applicable State or federal law, all voice communications with the Office of the Interconnection Control Center may be recorded by the Office of the Interconnection and any Market Participant communicating with the Office of the Interconnection Control Center, and each Market Participant hereby consents to such recording.

1.7.17 Operating Reserves.

(a) The following procedures shall apply to any generation unit subject to the dispatch of the Office of the Interconnection for which construction commenced before July 9, 1996, or any Demand Resource subject to the dispatch of the Office of the Interconnection.

(b) The Office of the Interconnection shall schedule to the Operating Reserve and load-following objectives of the Control Zones of the PJM Region and the PJM Interchange Energy Market in scheduling generation resources and/or Demand Resources pursuant to this Schedule. A table of Operating Reserve objectives for each Control Zone is calculated and published annually in the PJM Manuals. Reserve levels are probabilistically determined based on the season's historical load forecasting error and forced outage rates.

(c) Nuclear generation resources shall not be eligible for Operating Reserve payments unless: 1) the Office of the Interconnection directs such resources to reduce output, in which case, such units shall be compensated in accordance with section 3.2.3(f) of this Schedule; or 2) the resource submits a request for a risk premium to the Market Monitoring Unit under the procedures specified in Section II.B of Attachment M - Appendix. A nuclear generation resource (i) must submit a risk premium consistent with its agreement under such process, or, (ii) if it has not agreed with the Market Monitoring Unit on an appropriate risk premium, may submit its own determination of an appropriate risk premium to the Office of the Interconnection, subject to acceptance by the Office of the Interconnection, with or without prior approval from the Commission.

(d) PJMSettlement shall be the Counterparty to the purchases and sales of Operating Reserve in the PJM Interchange Energy Market.

1.7.18 Regulation.

(a) Regulation to meet the Regulation objective of each Regulation Zone shall be supplied from generation resources and/or demand resources located within the metered electrical boundaries of such Regulation Zone. Generating Market Buyers, and Market Sellers offering Regulation, shall comply with applicable standards and requirements for Regulation capability and dispatch specified in the PJM Manuals.

(b) The Office of the Interconnection shall obtain and maintain for each Regulation Zone an amount of Regulation equal to the Regulation objective for such Regulation Zone as specified in the PJM Manuals.

(c) The Regulation range of a generation unit or demand resource shall be at least twice the amount of Regulation assigned as described in the PJM Manuals.

(d) A resource capable of automatic energy dispatch that is also providing Regulation shall have its energy dispatch range reduced by at least twice the amount of the Regulation provided with consideration of the Regulation limits of that resource, as specified in the PJM Manuals.

(e) Qualified Regulation must satisfy the measurement and verification tests described in the PJM Manuals.

1.7.19 Ramping.

A generator dispatched by the Office of the Interconnection pursuant to a control signal appropriate to increase or decrease the generator's megawatt output level shall be able to change output at the ramping rate specified in the Offer Data submitted to the Office of the Interconnection for that generator.

1.7.19A Synchronized Reserve.

(a) Synchronized Reserve can be supplied from non-emergency generation resources and/or Demand Resources located within the metered boundaries of the PJM Region. All on-line non-emergency generation resources providing energy are deemed to be available to provide Tier 1 Synchronized Reserve and Tier 2 Synchronized Reserve to the Office of the Interconnection, as applicable to the capacity resource's capability to provide these services. During periods for which the Office of the Interconnection has issued a Primary Reserve Warning, Voltage Reduction Warning or Manual Load Dump Warning as described in Section 2.5(d) below, all other non-emergency generation capacity resources available to provide energy shall have submitted offers for Tier 2 Synchronized Reserves. Generating Market Buyers, and Market Sellers offering Synchronized Reserve shall comply with applicable standards and requirements for Synchronized Reserve capability and dispatch specified in the PJM Manuals, the Operating Agreement and PJM Tariff.

(b) The Office of the Interconnection shall obtain and maintain for each Reserve Zone and Reserve Sub-zone an amount of Primary and Synchronized Reserve equal to the respective Primary and Synchronized Reserve objectives for such Reserve Zone and Reserve Sub-zone, as specified in the PJM Manuals. The Office of the Interconnection shall create additional Reserve Zones or Reserve Sub-zones to maintain the required amount of reserves in a specific geographic area of the PJM Region as needed for system reliability. Such needs may arise due to planned and unplanned system events that limit the Office of the Interconnection's ability to deliver reserves to specific geographic area of the PJM Region where reserves are required.

(c) The Synchronized Reserve capability of a generation resource and Demand Resource shall be the increase in energy output or load reduction achievable by the generation resource and Demand Resource within a continuous 10-minute period.

(d) A generation unit capable of automatic energy dispatch that also is providing Synchronized Reserve shall have its energy dispatch range reduced by the amount of the Synchronized Reserve provided. The amount of Synchronized Reserve provided by a generation unit shall serve to redefine the Normal Maximum Generation energy limit of that generation unit in that the amount of Synchronized Reserve provided shall be subtracted from its Normal Maximum Generation energy limit.

1.7.19A.01 Non-Synchronized Reserve.

(a) Non-Synchronized Reserve shall be supplied from generation resources located within the metered boundaries of the PJM Region. Resources, the entire output of which has been designated as emergency energy, and resources that aren't available to provide energy, are not eligible to provide Non-Synchronized Reserve. All other non-emergency generation capacity resources available to provide energy shall also be available to provide Non-Synchronized Reserve, as applicable to the capacity resource's capability to provide these services. Generating Market Buyers and Market Sellers offering Non-Synchronized Reserve shall comply with applicable standards and requirements for Non-Synchronized Reserve capability and dispatch specified in the PJM Manuals, the Operating Agreement and PJM Tariff.

(b) The Office of the Interconnection shall obtain and maintain for each Reserve Zone and Reserve Sub-zone an amount of Non-Synchronized Reserve such that the sum of the Synchronized Reserve and Non-Synchronized Reserve meets the Primary Reserve objective for such Reserve Zone and Reserve Sub-zone, as specified in the PJM Manuals. The Office of the Interconnection shall create additional Reserve Zones or Reserve Sub-zones to maintain the required amount of reserves in a specific geographic area of the PJM Region as needed for system reliability. Such needs may arise due to planned and unplanned system events that limit the Office of the Interconnection's ability to deliver reserves to specific geographic area of the PJM Region where reserves are required.

(c) The Non-Synchronized Reserve capability of a generation resource shall be the increase in energy output achievable by the generation resource within a continuous 10-minute period provided that the resource is not synchronized to the system at the initiation of the response.

(d) The Non-Synchronized Reserve capability of a generation resource shall generally be determined based on the startup and notification time, economic minimum and ramp rate of such resource submitted in the Real-time Energy Market for the Operating Day. If the Generating Market Buyer or Market Seller offering the Non-Synchronized Reserve can demonstrate to the Office of the Interconnection that the Non-Synchronized Reserve capability of a generation resource exceeds its calculated value based on market offer data, the Generating Market Buyer or Market Seller and the Office of the Interconnection may agree on a different capability to be used.

(e) All Non-Synchronized Reserve offers shall be for \$0.00/MWh.

1.7.19B Bilateral Transactions Regarding Regulation, Synchronized Reserve and Day-ahead Scheduling Reserves.

(a) In addition to transactions in the Regulation market, Synchronized Reserve market, Non-Synchronized Reserve market and Day-ahead Scheduling Reserves Market, Market Participants may enter into bilateral contracts for the purchase or sale of Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves to or from each other or any other entity. Such bilateral contracts shall be for the physical transfer of Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves to or from a Market Participant and shall be reported to and coordinated with the Office of the

Interconnection in accordance with this Schedule and pursuant to the LLC's rules relating to its Markets Gateway tools.

(b) For purposes of clarity, with respect to all bilateral contracts for the physical transfer of Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves to a Market Participant in the PJM Region, title to the product that is the subject of the bilateral contract shall pass to the buyer at the source specified for the bilateral contract, and any further transactions associated with such products or further sale of such Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves in the markets for Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves, respectively, shall be transacted by the buyer under the bilateral contract. In no event shall the purchase and sale of Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves between Market Participants under a bilateral contract constitute a transaction in PJM's markets for Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves, or otherwise be construed to define PJMSettlement as a contracting party to any bilateral transactions between Market Participants.

(c) Market Participants that are parties to bilateral contracts for the purchase and sale and physical transfer of Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves reported to and coordinated with the Office of the Interconnection under this Schedule shall use all reasonable efforts, consistent with Good Utility Practice, to limit the amounts of such reported transactions to amounts reflecting the expected requirements for Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves of the buyer pursuant to such bilateral contracts.

(d) All payments and related charges for the Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves associated with a bilateral contract shall be arranged between the parties to the bilateral contract and shall not be billed or settled by the Office of the Interconnection. The LLC, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a bilateral contract reported and coordinated with the Office of the Interconnection under this Schedule.

(e) A buyer under a bilateral contract shall guarantee and indemnify the LLC, PJMSettlement, and the Members for the costs of any purchases by the seller under the bilateral contract in the markets for Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves used to meet the bilateral contract seller's obligation to deliver Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves under the bilateral contract and for which payment is not made to PJMSettlement by the seller under the bilateral contract, as determined by the Office of the Interconnection. Upon any default in obligations to the LLC or PJMSettlement by a Market Participant, the Office of the Interconnection shall (i) not accept any new Markets Gateway reporting by the Market Participant and (ii) terminate all of the Market Participant's reporting of Markets Gateway schedules associated with its bilateral contracts previously reported to the Office of the Interconnection for all days where delivery has not yet occurred. All claims regarding a buyer's default to a seller under a bilateral contract shall be resolved solely between the buyer and the

seller. In such circumstances, the seller may instruct the Office of the Interconnection to terminate all of the reported Markets Gateway schedules associated with bilateral contracts between buyer and seller previously reported to the Office of the Interconnection.

(f) Market Participants shall purchase Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves from PJM's markets for Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves, in quantities sufficient to complete the delivery or receipt obligations of a bilateral contract that has been curtailed or interrupted for any reason, with respect to all bilateral transactions that contemplate the physical transfer of Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves to or from a Market Participant.

1.7.20 Communication and Operating Requirements.

(a) Market Participants. Each Market Participant shall have, or shall arrange to have, its transactions in the PJM Interchange Energy Market subject to control by a Market Operations Center, with staffing and communications systems capable of real-time communication with the Office of the Interconnection during normal and Emergency conditions and of control of the Market Participant's relevant load or facilities sufficient to meet the requirements of the Market Participant's transactions with the PJM Interchange Energy Market, including but not limited to the following requirements as applicable, and as may be further described in the PJM Manuals.

(b) Market Sellers selling from generation resources and/or Demand Resources within the PJM Region shall: report to the Office of the Interconnection sources of energy and Demand Resources available for operation; supply to the Office of the Interconnection all applicable Offer Data; report to the Office of the Interconnection generation resources and Demand Resources that are self-scheduled; with respect to generation resources, report to the Office of the Interconnection bilateral sales transactions to buyers not within the PJM Region; confirm to the Office of the Interconnection bilateral sales to Market Buyers within the PJM Region; respond to the Office of the Interconnection's directives to start, shutdown or change output levels of generation units, or change scheduled voltages or reactive output levels of generation units, or reduce load from Demand Resources; continuously maintain all Offer Data concurrent with on-line operating information; and ensure that, where so equipped, generating equipment and Demand Resources are operated with control equipment functioning as specified in the PJM Manuals.

(c) Market Sellers selling from generation resources outside the PJM Region shall: provide to the Office of the Interconnection all applicable Offer Data, including offers specifying amounts of energy available, hours of availability and prices of energy and other services; respond to Office of the Interconnection directives to schedule delivery or change delivery schedules; and communicate delivery schedules to the Market Seller's Control Area.

(d) Market Participants that are Load Serving Entities or purchasing on behalf of Load Serving Entities shall: respond to Office of the Interconnection directives for load management steps; report to the Office of the Interconnection Generation Capacity Resources to satisfy capacity obligations that are available for pool operation; report to the Office of the

Interconnection all bilateral purchase transactions; respond to other Office of the Interconnection directives such as those required during Emergency operation.

(e) Market Participants that are not Load Serving Entities or purchasing on behalf of Load Serving Entities shall: provide to the Office of the Interconnection requests to purchase specified amounts of energy for each hour of the Operating Day during which it intends to purchase from the PJM Interchange Energy Market, along with Dispatch Rate levels above which it does not desire to purchase; respond to other Office of the Interconnection directives such as those required during Emergency operation.

(f) Economic Load Response Participants are responsible for maintaining demand reduction information, including the amount and price at which demand may be reduced. The Economic Load Response Participant shall provide this information to the Office of the Interconnection by posting it on the Load Response Program Registration link of the PJM website as required by the PJM Manuals. The Economic Load Response Participant shall notify the Office of the Interconnection of a demand reduction concurrent with, or prior to, the beginning of such demand reduction in accordance with the PJM Manuals. In the event that an Economic Load Response Participant chooses to measure load reductions using a Customer Baseline Load, the Economic Load Response Participant shall inform the Office of the Interconnection of a change in its operations or the operations of the end-use customer that would affect a relevant Customer Baseline Load as required by the PJM Manuals.

(g) PRD Providers shall be responsible for automation and supervisory control equipment that satisfy the criteria set forth in the RAA to ensure automated reductions to their Price Responsive Demand in response to price in accordance with their PRD Curves submitted to the Office of the Interconnection.

(h) Market Participants engaging in Coordinated External Transactions shall provide to the Office of the Interconnection the information required to be specified in a CTS Interface Bid, in accordance with the procedures of Section 1.13 of this Schedule 1 of this Agreement.