

Delivery Year	First Incremental Auction Held	Second Incremental Auction Held If Necessary	Third Incremental Auction Held
June 1, 2007 – May 31, 2008	None Held	None Held	None Held
June 1, 2008 – May 31, 2009	None Held	None Held	January, 2008
June 1, 2009 – May 31, 2010	None Held	April, 2008	January, 2009
June 1, 2010 – May 31, 2011	None Held	April, 2009	January, 2010
June 1, 2011 – May 31, 2012	June 2009	April 2010	January 2011

17.3 Transition Period Locational Deliverability Areas

The Office of the Interconnection shall establish Locational Deliverability Areas during the Transition Period in accordance with the following:

2007/2008, 2008/2009, and 2009/2010 Delivery Years

- MAAC Region and APS (the zones listed below for Eastern MAAC, Southwestern MAAC and Western MAAC, plus APS)
- ComEd, AEP, Dayton, Dominion and Duquesne
- Eastern MAAC (PSE&G, JCP&L, PECO, AE, DPL & RECO)
- Southwestern MAAC (PEPCO & BG&E)

2010/2011 and subsequent Delivery Years

- MAAC Region
- ComEd, AEP, Dayton, APS, and Duquesne
- Dominion
- Eastern MAAC
- Southwestern MAAC
- Western MAAC (Penelec, MetEd, PPL)
- Penelec
- ComEd
- AEP
- Dayton
- Duquesne
- APS

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- AE
- BG&E
- DPL
- PECO
- PEPCO
- PSE&G
- JCP&L
- MetEd
- PPL
- PSEG northern region (north of Linden substation); and
- DPL southern region (south of Chesapeake and Delaware Canal).

17.4 Transition Period Variable Resource Requirement Curves

During the Transition Period, the Office of the Interconnection shall post on the PJM internet site the Variable Resource Requirement Curves that will apply for each Delivery Year no later than one month prior to the conduct of the Base Residual Auction for such Delivery Year.

17.5 Market Mitigation

The provisions of Section 6 of this Attachment shall apply to all Reliability Pricing Model Auctions conducted during the Transition Period; provided, however, that during the Transition Period, as to a Capacity Market Seller that owns or controls no more than 10,000 megawatts of Unforced Capacity in the PJM Region, the otherwise applicable Market Seller Offer Cap provided in Section 6 shall be increased by up to the following amounts in the following years for any Sell Offer submitted by such a seller in any Unconstrained LDA Group, with respect to no more than 3,000 megawatts of such Unforced Capacity:

- (a) \$10/MW-day for the 2007-2008 Delivery Year;
- (b) \$10/MW-day for the 2008-2009 Delivery Year; and
- (c) \$7.50/MW-day for the 2009-2010 Delivery Year;

For purposes of this provision, the 10,000 megawatt maximum shall apply separately to a Capacity Market Seller's resources subject to state rate-based regulation and resources that are not subject to state rate-based regulation.

17.6 Performance Assessment

Within six months after the end of the fourth Delivery Year, the Office of the Interconnection shall prepare, provide to Members, and file with FERC an assessment of the performance of the Reliability Pricing Model.

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ATTACHMENT DD-1

Preface: The provisions of this Attachment incorporate into the Tariff for ease of reference the provisions of Schedule 6 of the Reliability Assurance Agreement among Load Serving Entities in the PJM Region. As a result, this Attachment will be modified, subject to FERC approval, so that the terms and conditions set forth herein remain consistent with the corresponding terms and conditions of Schedule 6 of the RAA. Capitalized terms used herein that are not otherwise defined in Attachment DD or elsewhere in this Tariff have the meaning set forth in the RAA.

PROCEDURES FOR DEMAND RESOURCES AND ILR

- A. Parties can partially or wholly offset the amounts payable for the Locational Reliability Charge with Demand Resources or ILR that are operated under the direction of the Office of the Interconnection. FRR Entities may reduce their capacity obligations with Demand Resources that are operated under the direction of the Office of the Interconnection and detailed in such entity's FRR Capacity Plan. Demand Resources qualifying under the criteria set forth below may be offered for sale or designated as Self-Supply in the Base Residual Auction, included in an FRR Capacity Plan, or offered for sale in any Incremental Auction, for any Delivery Year for which such resource qualifies. In addition, resources qualifying under the criteria set forth below may be certified as ILR on behalf of a Party that has not elected the FRR Alternative for a Delivery Year no later than three months prior to the first day of such Delivery Year. Qualified Demand Resources and ILR generally fall in one of three categories, i.e., Guaranteed Load Drop, Firm Service Level, or Direct Load Control, as further specified in section H and the PJM Manuals. Qualified Demand Resources and ILR may be provided by a Demand Resource Provider or ILR Provider (hereinafter, "Provider"), notwithstanding that such Provider is not a Party to this Agreement. Such Providers must satisfy the requirements in section I and the PJM Manuals.
1. A Party must formally notify, in accordance with the requirements of the PJM Manuals and paragraph G of this schedule as applicable, the Office of the Interconnection of the Demand Resource or ILR that it is placing under the direction of the Office of the Interconnection.
 2. A Party must agree to reserve, for interruption at the direction of the Office of the Interconnection, at least 10 interruptions per Planning Period.
 3. The Demand Resource or ILR must be available during the summer period of June through September in the corresponding Delivery Year to be certified, offered for sale or Self-Supplied in an auction, or included as

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Demand Response in an FRR Capacity Plan for the corresponding Delivery Year.

4. A period of no more than 2 hours prior notification must apply to interruptible customers.
5. The initiation of load interruption, upon the request of the Office of the Interconnection, must be within the authority of the dispatchers of the Party. No additional approvals should be required.
6. The initiation of load reduction upon the request of the Office of the Interconnection is considered an emergency action and must be implementable prior to a voltage reduction.
7. A Party must agree to reserve interruptions of at least 6-hour duration. As a minimum, such 6-hour duration for interruptions should be available on weekdays during the 8-hour daily peak window for the appropriate season. There will be no credit given to Parties who choose to provide interruption less than 6 hours and/or exclusive of the above time period.
8. An entity offering for sale, designating for self-supply, or including in any FRR Capacity Plan any Planned Demand Resource must demonstrate, in accordance with standards and procedures set forth in the PJM Manuals, that such resource shall have the capability to provide a reduction in demand, or otherwise control load, on or before the start of the Delivery Year for which such resource is committed. Providers of Planned Demand Resources must provide a timeline including the milestones, which demonstrates to PJM's satisfaction that the Planned Demand Resources will be available for the start of the Delivery Year, 45 days prior to a Base Residual Auction, First Incremental or Second Incremental Auction. PJM may verify the Provider's adherence to the timetable at any time including, but not limited to, 30 days prior to the First or Third Incremental Auctions.
9. Selection of a Demand Resource in an RPM Auction results in commitment of capacity to the PJM Region. Demand Resources that are so committed may choose either to offer into the Day Ahead Energy Market as an economic load response or provide PJM with a standing "minimum dispatch price" to be used solely for payments on energy during a PJM-initiated mandatory response event.

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- B. The Unforced Capacity value of a Demand Resource and ILR will be determined as:

the product of the Nominated Value of the Demand Resource, or the Nominated Value of the ILR, times the DR Factor, times the Forecast Pool Requirement. Nominated Values shall be determined and reviewed in accordance with sections J and K, respectively, and the PJM Manuals. The DR Factor is a factor established by the PJM Board with the advice of the Members Committee to reflect the increase in the peak load carrying capability in the PJM Region due to Demand Resources and ILR. Peak load carrying capability is defined to be the peak load that the PJM Region is able to serve at the loss of load expectation defined in the Reliability Principles and Standards. The DR Factor is the increase in the peak load carrying capability in the PJM Region due to Demand Resources and ILR, divided by the total Nominated Value of Demand Resources and ILR in the PJM Region. The DR Factor will be determined using an analytical program that uses a probabilistic approach to determine reliability. The determination of the DR Factor will consider the reliability of Demand Resources and ILR, the number of interruptions, and the total amount of load reduction.

- C. Demand Resources offered and cleared in a Base Residual or Incremental Auction shall receive the corresponding Capacity Resource Clearing Price as determined in such auction, in accordance with Attachment DD of the PJM Tariff. If Demand Resource data is not available on an individual LDA basis in a Zone with multiple LDAs, then Demand Resources will be paid a Weighted Zonal Resource Clearing Price, determined as follows: (i) for a Zone that includes non-overlapping LDAs, calculated as the weighted average of the Resource Clearing Prices for such LDAs, weighted by the Unforced Capacity of Resources Cleared (including capacity receiving Resource Make Whole Payments) in each such LDA; or (ii) for a Zone that contains a smaller LDA within a larger LDA, calculated treating the smaller LDA and the remaining portion of the larger LDA as if they were separate LDAs, and weight-averaging in the same manner as (i) above.
- D. Certified ILR resources shall receive the Adjusted Zonal Capacity Price, less the amount paid in CTR credits per MW of load in the Zone in which such resource is offered, in accordance with Attachment DD of the PJM Tariff.
- E. The Party, Electric Distributor, Demand Resource Provider, or ILR Provider that establishes a contractual relationship (by contract or tariff rate) with a customer for load reductions is entitled to receive the compensation specified in sections C and D for a committed Demand Resource or certified ILR, notwithstanding that such provider is not the customer's energy supplier.
- F. Any Party hereto shall demonstrate that its Demand Resources or ILR performed during periods when load management procedures were invoked by the Office of

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the Interconnection. The Office of the Interconnection shall adopt and maintain rules and procedures for verifying the performance of such resources, as set forth in section L and the PJM Manuals. In addition, committed Demand Resources and certified ILR that do not comply with the directions of the Office of the Interconnection to reduce load during an emergency shall be subject to the penalty charge set forth in Attachment DD to the PJM Tariff.

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

H. PJM recognizes three types of Demand Resource and ILR:

Direct Load Control (DLC) – Load management that is initiated directly by the Provider’s market operations center or its agent, employing a communication signal to cycle equipment (typically water heaters or central air conditioners). DLC programs are qualified based on load research and customer subscription data. Providers may rely on the results of load research studies identified in the PJM Manuals to set the per-participant load reduction for DLC programs. Each Provider relying on DLC load management must periodically update its DLC switch operability rates, in accordance with the PJM Manuals.

Firm Service Level (FSL) – Load management achieved by a customer reducing its load to a pre-determined level (the Firm Service Level), upon notification from the Provider’s market operations center or its agent.

Guaranteed Load Drop (GLD) – Load management achieved by a customer reducing its load by a pre-determined amount (the Guaranteed Load Drop), upon notification from the Provider’s market operations center or its agent. Typically, the load reduction is achieved through running customer-owned backup generators, or by shutting down process equipment.

For each type of Demand Resource and ILR above, there can be two notification periods:

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Step 1 (Short Lead Time) – Demand Resource or ILR which must be fully implemented in one hour or less from the time the PJM dispatcher notifies the market operations center of a curtailment event.

Step 2 (Long Lead Time) – Demand Resource or ILR which requires more than one hour but no more than two hours, from the time the PJM dispatcher notifies the market operations center of a curtailment event, to be fully implemented.

- I. Each Provider must satisfy (or contract with another LSE, Provider, or EDC to provide) the following requirements:
- A point of contact with appropriate backup to ensure single call notification from PJM and timely execution of the notification process;
 - supplemental status reports, detailing Demand Resources and ILR available, as requested by PJM;
 - Entry of customer-specific Demand Resource and ILR credit information, for planning and verification purposes, into the designated PJM electronic system.
 - Customer-specific compliance and verification information for each PJM-initiated Demand Resource or ILR event, as well as aggregated Provider load drop data for Provider-initiated events, in accordance with established reporting guidelines.
 - Load drop estimates for all Demand Resource or ILR events, prepared in accordance with the PJM Manuals.
- J. The Nominated Value of each Demand Resource or ILR shall be determined consistent with the process for determination of the capacity obligation for the customer.

The Nominated Value for a Firm Service Level customer will be based on the peak load contribution for the customer, as determined by the 5CP methodology utilized to determine other ICAP obligation values. The maximum Demand Resource or ILR load reduction value for a Firm Service Level customer will be equal to Peak Load Contribution – Firm Contract Level adjusted for system losses.

The Nominated Value for a Guaranteed Load Drop customer will be the guaranteed load drop amount, adjusted for system losses, as established by the customer's contract with the Provider. The maximum credit nominated shall not exceed the customer's Peak Load Contribution.

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The Nominated Value for a Direct Load Control program will be based on load research and customer subscription. The maximum value of the program is equal to the approved per-participant load reduction multiplied by the number of active participants, adjusted for system losses. The per-participant impact is to be estimated at long-term average local weather conditions at the time of the summer peak.

Customer-specific Demand Resource or ILR information (EDC account number, peak load, notification period, etc.) will be entered into the designated PJM electronic system to establish credit values. Additional data may be required, as defined in sections K and L.

- K. Nominated Values shall be reviewed based on documentation of customer-specific data and Demand Resource or ILR information, to verify the amount of load management available, and to set a maximum allowable Nominated Value. Data is provided by both the zone EDC and the Provider on templates supplied by PJM, and must include the EDC meter number or other unique customer identifier, Peak Load Contribution (5CP), contract firm service level or guaranteed load drop values, applicable loss factor, zone/area location of the load drop, LSE contact information, number of active participants, etc. Such data must be uploaded and approved prior to submission of a Sell Offer for such resource as a Demand Resource, or certification of such resource as ILR. Providers must provide this information concurrently to host EDCs.

For Firm Service Level and Guaranteed Load Drop customers, the 5CP values, for the zone and affected customers, will be adjusted to reflect an "unrestricted" peak for a zone, based on information provided by the Provider. Load drop levels shall be estimated in accordance with guidelines in the PJM Manuals.

For Direct Load Control programs, the Provider must provide information detailing the number of active participants in each program. Other information on approved DLC programs will be provided by PJM.

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- L. Compliance is the process utilized to review Provider performance during PJM-initiated Demand Resource and ILR events. The process establishes potential under/over compliance values for the Provider. Compliance is event based, i.e., compliance is verified only if an event occurs between June and September.

PJM will establish and communicate reasonable deadlines for the timely submittal of event data to expedite compliance reviews. Compliance reviews will be completed as soon after the event as possible, with the expectation that reviews of a single event will be completed within two months of the end of the month in which the event took place. Providers are responsible for the submittal of compliance information to PJM for each PJM-initiated event during the compliance period. Compliance for Direct Load Control programs will consider only the transmission of the control signal. Providers are required to report the time period (during the Demand Resource and ILR event) that the control signal was actually sent. Compliance is checked on an individual customer basis for FSL, by comparing actual load during the event to the firm service level. Providers must submit actual customer load levels (for the event period) for the compliance report. Compliance is checked on an individual customer basis for GLD, by comparing actual load dropped during the event to the nominated amount of load drop. Providers must submit actual loads and comparison loads for the compliance hours. Comparison loads must be developed from the guidelines in the PJM Manuals, and note which method was employed.

Compliance is averaged over the full hours of a Demand Resource and ILR event, for each customer or DLC program. Demand Resource or ILR customers may not reduce their load below zero (i.e., export energy into the system). No compliance credit will be given for an incremental load drop below zero. Compliance will be totaled over all FSL and GLD customers and DLC programs to determine a net compliance position for the event for each Provider by Zone, separately for each RPM auction in which such Provider offered a Demand Resource that cleared, and for any ILR certified for such Provider. Deficiencies shall be as further determined in accordance with section 11 of Schedule DD to the PJM Tariff.

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November 13, 2003

To the Members of PJM

Pursuant to its undertaking to the Members in December 2002, the PJM Board of Managers has conducted a rigorous analysis of the PJM Market Monitoring Unit.

As you know, the MMU was established in April 1999 after extensive stakeholder participation in PJM Members meetings and FERC proceedings. In the latter half of 2002, the PJM Members raised for discussion a number of issues regarding the operations of the MMU, leading to the Board's agreeing to review and report back to the Members on its evaluation of the scope and function of the Unit.

Attached for your information is the Board of Managers' report on its Review of the Market Monitoring Organization in PJM. At the Members Committee meeting on November 20, 2003, I will make a brief presentation concerning the principal findings and decisions reflected in the Board's review.

I look forward to seeing you on the 20th.

Sincerely,

Phillip G. Harris
President

**PJM BOARD OF MANAGERS
REVIEW OF MARKET MONITORING UNIT ORGANIZATION
PJM INTERCONNECTION, L.L.C.**

A. HISTORY

The Market Monitoring Unit (“MMU”) of PJM Interconnection, L.L.C. (“PJM”) was developed by PJM and its members in 1998 and has been in place since the Federal Energy Regulatory Commission (“FERC” or “Commission”) approved the Market Monitoring Plan (“Plan”) in March 1999.¹ Regulators, both state and federal, generally have viewed the PJM Market Monitoring Unit, and its independence from market participants, favorably.

As originally conceived and as it operates today, the MMU is an internal, independent arm of PJM, reporting to the President and the Board, and engaged, as its principal function, in the monitoring of PJM markets. The MMU does not have sanctioning authority, but rather reports its findings, as appropriate, to the members, PJM management, the Board, and state and federal regulators. It also has certain limited, but important, tools for addressing individual instances of conduct that are not consistent with PJM rules or a competitive marketplace. These include discussions with affected parties, issuance of demand letters, and, with Board approval, filing of regulatory complaints. The MMU currently also participates extensively in the review and development of PJM market rules to ensure their consistency with competitive principles.

Over the four and one-half years that market monitoring has been in place in PJM, FERC from time to time has approved revisions to the Market Monitoring Plan and the manner in which the Market Monitoring Unit functions. Several important FERC orders and directives have further defined the role of the Market Monitoring Unit and the importance of its independence. Market monitoring is one of the core functions that regional transmission organizations (“RTOs”) must possess under FERC’s Order No. 2000.² PJM’s possession of appropriate market monitoring functions was among the factors considered by FERC in initially conditionally approving PJM as an RTO and ultimately, in December 2002, finalizing PJM’s RTO status.³

¹ PJM Interconnection, L.L.C., 86 FERC ¶ 61,247, affirmed, 88 FERC ¶ 61,274 (1999).

² See Regional Transmission Organizations, Order No. 2000, 1996-2000 FERC Stats. & Regs., Regs. Preambles ¶ 31,089 (1999), order on reh’g, Order No. 2000-A, 1996-2000 FERC Stats. & Regs., Regs. Preambles ¶ 31,092 (2000).

³ See PJM Interconnection, L.L.C., 101 FERC ¶ 61,345 (2002).

The PJM members and federal and state regulators appropriately take great interest in the proper functioning of the Market Monitoring Unit. Aside from participating in the adoption of the various amendments to the Market Monitoring Plan submitted to the FERC over the years, in December 2001, the members formed a Market Monitoring Organization Working Group to make recommendations regarding the organization and oversight of market monitoring in PJM.

Principles of good corporate governance dictate periodic review of all functions within an organization. For example, most recently, PJM and the members reviewed and adopted organizational changes concerning the PJM stakeholder process and the functioning of the various PJM committees and working groups.⁴ The Board similarly undertakes continuously such reviews of internal PJM organizational matters.

Because of the critical importance of the market monitoring function to maintaining robust and competitive markets, and the necessary significant focus that both members and regulators give to the market monitoring function, the PJM Board decided to undertake a comprehensive review of market monitoring in PJM. The Competitive Markets Committee of the Board led this undertaking, along with frequent consultations with, and deliberations by, the full Board. Among other things, the Board sought to ensure that the independent MMU's relationships to other organizations, specifically the Office of President, the Board, and regulatory agencies, are optimal. The Board considered the views of the PJM Market Monitor, the views of the PJM members as expressed through the Market Monitoring Organization Working Group, the views of PJM officers and staff, and the views of the FERC as expressed through its orders and rulemakings. The Board also retained external legal/consulting guidance to assist in the review and evaluation of alternatives.

B. PREAMBLE & EXECUTIVE SUMMARY

First and foremost, the proper organization of the MMU function within PJM's business demands that the Market Monitor has the independence required by regulators and market participants. Independence is a key ingredient to the deterrent effect that market monitoring must create. The Board, itself an independent entity, must ensure that the MMU has the proper degree of autonomy from both PJM management and market participants. The Market Monitor must be able to report, independently and objectively, to the FERC. The independence of the MMU must be preserved both in fact and perception with participants and regulators so as to maintain credibility and trust that market outcomes in PJM are fair, efficient, and free from abuses of market power and manipulation.

At the same time, a proper organizational structure must be in place to ensure that the Market Monitor will be able to communicate easily and effectively, and be

⁴ FERC recently approved these improvements to PJM's organization. PJM Interconnection, L.L.C., 104 FERC ¶ 61,328 (2003).

accountable to, both FERC and the independent governing board of the RTO. There needs to be a clear definition of the MMU's reporting duties and functions, such that at all times the MMU keeps both the Board and FERC fully informed. Both FERC and the PJM Board must be able to ensure that the MMU is achieving market monitoring's important goals in a fair, efficient, and sound manner. Similarly, market participants should clearly understand the nature and operation of the monitoring function. The MMU should communicate with market participants in a manner that enables them to receive early warnings of conduct of concern to the Market Monitor, seek clarifications, and be able to desist or reach other understandings with the MMU. Through clear reporting and accountability, the independent Board, and ultimately FERC, must ensure that the Market Monitoring Unit effectively performs its functions and that PJM markets remain robust and competitive. Through its oversight, the Board also must ensure that the Market Monitor has the resources and tools necessary to investigate and effectively perform its role. Reporting lines and accountability should not inhibit the MMU's effectiveness, objectivity, or independence.

The objectives of market monitoring are to: (i) monitor and report on issues relating to the operation of the PJM markets, including matters relating to congestion pricing and the exercise of market power; (ii) evaluate the operation of the PJM markets to detect flaws in market design and in the market rules, standards, procedures and practices as set forth in the OATT and PJM's governing documents; (iii) evaluate proposed enforcement mechanisms that are necessary to assure compliance with market rules; and (iv) ensure that the market monitoring program is conducted in an independent and objective manner and without undue influence from any PJM member. The Board believes that the MMU has performed these objectives to date in an exemplary manner.

The Board and FERC similarly have important roles in these areas. The Board is responsible for ensuring the creation and operation of robust and competitive markets without undue influence by market participants. The FERC must ensure that service is provided at just and reasonable rates, which includes monitoring for market power abuses. Consequently, any organizational structure for the MMU must ensure that there is close collaboration and coordination between and among the MMU, the Board, and FERC.

With these principles in mind, and with particular focus on the importance of MMU independence, the Board reached several conclusions. First, the Board concluded that the MMU should continue to be maintained within PJM rather than re-established as a separate external organization. The Board determined that externalizing the MMU function would not enhance independence, would remove the MMU's quick and easy access to information, skills, and systems within PJM, and would be detrimental to the ability of the MMU to discuss matters confidentially with market participants so as to resolve them without having to resort to formal, public inquiries.

Second, the MMU should continue actively to investigate and assess market participant conduct, but should not prosecute market rule violations or sanction conduct. It should have the necessary tools to investigate, but does not necessarily require additional authority in the nature of subpoena power. The FERC is available to ensure

that any disputes between the MMU and market participants regarding data production are resolved expeditiously. The MMU should keep the Board fully informed about its investigations so that the Board can exercise its duty to ensure efficient market monitoring and the creation and operation of robust and competitive markets. This coordination generally will be through the Competitive Markets Committee of the Board. If and when the Market Monitor is unable to reach resolutions with market participants on matters of concern, the MMU should coordinate with the Board and ultimately bring its complaints to FERC or others, who have statutory enforcement roles. The Competitive Markets Committee of the Board intends to consider, in conjunction with the MMU, formalizing certain internal MMU procedures to provide consistency in investigations.

Third, the MMU also should have a significant role in the formulation of PJM market rules to ensure, at the outset, that the rules best prevent the creation or exercise of market power. However, the MMU also has the critical function of continually monitoring all existing market rules. Therefore, the MMU should not be the responsible PJM party for actually designing and implementing new or revised market rules. That is a function that, under PJM's governing documents, properly should be performed by the management and staff of the RTO, with the advice of the PJM members. Nonetheless, the MMU should have a strong and active advisory role in all such rule formulations.

Fourth, the Board determined that there should be an annual "audit-like" plan that describes the scope of the particular areas that the Board believes require special attention by the MMU in any particular year. The annual plan would supplement the MMU's ongoing monitoring of all markets and the MMU's ability to investigate, as necessary, any matter that the MMU determines is required. The Board believes that the members should have an advisory role, through a special advisory committee established for this purpose, to assist in developing the scope of this annual plan. In this way, the MMU also can assess PJM in its role as market administrator.

C. ROLE AND ORGANIZATIONAL PLACEMENT OF THE MMU

1. Introduction

The Board approached its review of the MMU function by considering questions that can be organized into four areas:

- (1) whether the MMU function should remain part of the existing PJM organization, or instead be constituted separately outside PJM as a so-called "external" market monitor;
- (2) the scope of the MMU's compliance function, and whether such function should focus on identifying and investigating inappropriate participant behavior and referring its findings to enforcement agencies, or additionally include, remedial duties such as enforcement and sanctioning;

- (3) the scope of the MMU's market design assessment function, and whether such function should focus on identifying market design flaws or market structure deficiencies, or additionally include remedial duties, such as leading the effort to devise solutions to market design or structural flaws; and
- (4) whether the MMU's charge includes, or should include, the duty to identify inadequate or incorrect conduct on the part of PJM in discharging its role as administrator of the markets.

The Board's action with respect to the MMU function and its organizational accountabilities is addressed below with respect to each of these four subject areas.

2. Internal Versus External Market Monitor

The MMU should remain part of the PJM organization. FERC's Order No. 2000 permits the market monitor to be either internal or external to the RTO organization.⁵ The most pertinent points that lead to the Board's conclusion that the MMU should be internal are discussed immediately below.

While an appearance of greater MMU independence gives facial appeal to externalizing the MMU, it is not at all clear that *actual* independence is enhanced by placing the function outside the RTO. Particularly, given the MMU's present configuration within PJM, the Board could find no evidence to suggest that the independence of the MMU was compromised simply because the function was housed internally within PJM. As far as the question of independence went, the Board concluded that the sole advantage of externalization would be to create a very superficial appearance of enhanced independence, but with no actual improvement in independence.

The Board further determined that externalization of the MMU function would less readily permit reporting and oversight necessary to ensure a fair and efficient exercise of the MMU's functions. An internal MMU more readily enables the Board to ensure that the MMU coordinates with the independent Board and the FERC such that each can perform its designated roles to provide for a robust and competitive market.

Other important disadvantages to externalization were identified. Most significant among these was the MMU's potential loss of immediate access to the PJM system data and professional opinions of PJM's system operators. The MMU's activities clearly involve the information, skills, and systems that reside within the RTO. It is useful for the staff of the MMU and the other staff of PJM to be able to work closely together and to lean on each other for support as quickly as possible on a daily basis. Experienced real-time system personnel are very likely to sense when abnormal behavior

⁵ See PJM Interconnection, L.L.C., 96 FERC ¶ 61,061, at 61,239 (2001), order on reh'g, 101 FERC ¶ 61,345 (2002) ("Order No. 2000 permits, but does not require, the market monitor to be outside of the RTO") (2001).

takes place on the part of market participants. They can alert the internal market monitoring unit, which may, in turn, quickly examine the situation more closely.

In a similar vein, an external market monitor would not be as familiar with the PJM market participants and their operations within PJM. This disability would inhibit the ability of the MMU to communicate confidentially with a participant about seemingly anomalous conduct. In the Board's view, this channel of communications has proven to be of great value in avoiding unnecessary formal and public inquiries into market participant behavior. An internal MMU also is more cost effective than a separate external MMU organization, keeping the duplication of tools and capabilities to a minimum, and it is positioned to respond to market issues more quickly than an externalized function.⁶

Answers to a number of organizational and administrative questions necessarily follow from leaving the MMU as part of the existing PJM organization. However, one additional organizational question was raised by the Board's decision that the function remains internal to PJM. The Board considered whether there was a basis to form a corporate organization separate from the PJM LLC structure and have that organization report to the PJM Board directly. This concept was rejected as not offering any clear additional advantages to having the MMU report to the PJM President, as is the case with all other PJM divisions, and the Board. Furthermore, any separate corporate organization would bring with it the prospect of additional cost and administrative inconvenience.

From this basis it followed that all MMU staff should remain PJM employees. Day-to-day management and oversight of the function and its staff rests with the head of the unit. As with other functional heads, unit management is performed under the administrative oversight of the President. The Board considered it unrealistic to assume that an internal MMU can operate without reporting to the President, at least on administrative and budgeting issues and indeed on the performance of the MMU and its resource needs. The current FERC-approved market monitoring plan for PJM calls for the MMU to report to the President, the Board, and FERC itself. The Board did not see any reason to change this tripartite reporting structure. In particular, the Board noted that the MMU reports to the President only administratively and as a liaison to the Board, that the MMU has no other reporting obligation to any other PJM management or staff, that any substantive review of MMU activity resides with the Competitive Markets Committee of the Board, and that the MMU has extensive authority to report

⁶ The Board also rejected the possibility of a super-regional external MMU to address monitoring in PJM and its adjoining markets. The Board sees no need to expose PJM to the additional costs that would come from establishing a separate group, and such a separate entity might unnecessarily be biased to take formal actions without adequately pursuing other available means to address market concerns. The level of coordination presently among the PJM MMU and its counterparts in adjoining markets is strong and argues for continued ad hoc coordination.

independently to regulators, as necessary, without inhibition from this tripartite reporting structure.

In particular, the Board noted that FERC, in approving PJM's Market Monitoring Plan, made clear that although the MMU is accountable to the PJM Board and the President, because of the importance of the MMU's independence and objectivity, the MMU may report directly to the Commission at the MMU's discretion.⁷ The FERC also has required the MMU to notify the Commission immediately upon determining that it has identified a significant market problem that may require (a) further investigation, (b) a change in PJM's tariff or market rules, or (c) action by FERC and/or one or more state commissions.⁸ This required direct reporting obligation of the MMU has been incorporated explicitly in the Market Monitoring Plan.⁹ Further, because FERC has the responsibility to ensure that public utilities do not engage in market power abuse and also to ensure that markets are free of design flaws, the Commission receives reports and analyses directly from the MMU at the same time that they are submitted to the RTO (as, for example, the MMU's annual State of the Market Report).¹⁰ Ultimate decision-making authority rests with the independent Board and FERC; the protections noted in this paragraph ensure that both are fully informed at all times.

The Board examined the budget process for the MMU. It recognized that having sufficient resources to discharge its defined responsibilities is critical to preserving the MMU's independence. In approving the Market Monitoring Plan, FERC noted that the President will provide appropriate staffing for the MMU and is obligated to ensure that the MMU has adequate resources, information, and cooperation from PJM to do its job effectively.¹¹ Accordingly, the Board determined that the MMU first should propose a budget to the President for approval. The President, in coordination with the Competitive Markets Committee, would review and approve the budget. The MMU then would have the right to appeal to the Competitive Markets Committee and, ultimately, the full Board, if it did not agree with the decisions relating to the budget.

The Board determined that the President would have authority to hire and fire the manager of the unit, but only with the prior consent of the Board. The Board's consent is critical to ensuring the MMU's independence. As an internal unit, the President will have

⁷ 86 FERC at 61,890 & n.28.

⁸ The New Power Co. v. PJM Interconnection, L.L.C., 98 FERC ¶ 61,208, at 61,759 (2002).

⁹ Plan, § IV.A. The Plan also specifies that the MMU shall consult with government agencies concerning the need for specific investigations or monitoring activities. Id. § IV.B.5.

¹⁰ 96 FERC at 61,239 (citing Cal. Indep. Sys. Operator, Corp., 86 FERC ¶ 61,059 (1999)).

¹¹ 86 FERC ¶ 61,059 (1999).

administrative authority for evaluating MMU performance, approving goals, and determining discretionary incentive compensation, subject to Board oversight. However, the manager of the unit and/or the President could, at their discretion, hire consultants to assist in evaluating MMU performance, as necessary, to further assure MMU independence.

The Market Monitoring Plan is currently part of the PJM approved open access transmission tariff ("OATT").¹² As such, the current Plan gives to the Board authority to make changes to the Plan, with input from the President and the MMU. The Board sees no reason to change this protocol. Nor could it identify any advantage in proposing the Plan as a separate tariff from the overall PJM OATT.

Finally, with regard to the Board's relationship to the MMU, the Board considered whether a separate committee of the Board, or subcommittee of an existing committee, should be organized to oversee MMU activities. The Board identified no good reason to parse out the MMU oversight responsibilities from the Competitive Markets Committee's existing charter. Nor could it identify any good reason to establish a separate subcommittee of the Competitive Markets Committee for this purpose. The charter constituting the Competitive Markets Committee will properly reflect its oversight responsibility regarding MMU functions within PJM.

3. Assessing Participant Conduct (Compliance Function)

Ensuring participants either comply with the PJM market rules or otherwise do not engage in anticompetitive market conduct is an MMU function of utmost importance. The Board considered several critical questions relating to the MMU's performance of this function and the resultant organizational accountabilities.

Where the MMU observes a suboptimal market outcome, one possibility is that such outcome results from improper participant conduct. When it has reason to believe such conduct may be the cause for the problem, the MMU is authorized to request from the relevant participant data to assist the MMU in its investigation. Responses to such requests are presently made voluntarily in most cases.¹³ In the event of a failure to comply with a request, the MMU may initiate proceedings to compel the production of the required information. The Board considered whether to seek changes to the Plan to mandate responses from recipients of MMU data requests. It decided not to seek such

¹² PJM Interconnection L.L.C., FERC Electric Tariff, Sixth Revised Volume No. 1, Attachment M.

¹³ Plan, § VI.B.1. An exception, requiring mandatory compliance with requests, exists for MMU investigations of undue preference between transmission owners and their affiliates. *Id.* § VI.B.3. Most market participants comply voluntarily because, among other things, the public airing of the potential market power issue is of significant concern to them.

changes. The Board noted that the current framework should not limit the effectiveness of the MMU in that, when targeted companies have complained to FERC about the breadth of MMU requests, the Commission has largely sided with the MMU.¹⁴ The Commission has said generally that it will give substantial deference to the market monitor's stated need for information.¹⁵ Finally, the public exposure consequences facing participants that elect not to cooperate with MMU data requests act as a tremendous incentive for participants to communicate appropriately with the MMU.

The Board did believe, however, that in coordination with the MMU, the Competitive Markets Committee should consider formulating guidelines to govern the MMU's conduct of investigations, so as to establish consistency and formality. Those guidelines would become public documents. The Competitive Markets Committee will consider such guidelines in the coming months.¹⁶ In developing such guidelines, the Board intends to examine the desirability of establishing a mechanism for market participants to obtain a written interpretation from PJM (which from time to time may include the market monitoring unit) of its view of the applicability of PJM rules and/or market power concerns to a market participant's planned future conduct. This may be an effective way for a market participant to be able to consider whether to proceed with or modify its anticipated conduct.

The Board considered whether, at the conclusion by the MMU of its investigation into a participant's conduct, the MMU should itself prosecute and perhaps even sanction the participant, or, instead, refer its findings to other existing prosecutorial and enforcement agencies. The Board determined that the MMU's function should continue to be cast as one of "referral" and not "prosecution." The Board does not view the MMU as equipped with the requisite resources or jurisdictional authority to prosecute violations of the PJM OATT or market rules. Moreover, it notes the existence of other agencies

¹⁴ A recent FERC ruling, FirstEnergy Solutions Corp. v. PJM Interconnection, L.L.C., 103 FERC ¶ 61,119 (2003), for example, found reasonable the MMU's obtaining fuel cost information from market participants to carry out its responsibility to monitor overall compliance with PJM's market mitigation measures, notwithstanding that the market monitor was not investigating any specific generator's non-compliance.

¹⁵ Remedying Undue Discrimination through Open Access Transmission Service and Standard Electricity Market Design, Notice of Proposed Rulemaking, IV FERC Stats. & Regs. ¶ 32,563, at P 449 (2002) ("SMD NOPR").

¹⁶ The Board believes that the Competitive Markets Committee of the Board and the MMU, rather than the members, should oversee the development of such guidelines. Stakeholder participation could compromise the independence of the MMU. See 103 FERC at P 41 (holding that stakeholder input before implementing an MMU information gathering process would compromise the necessary independence of the MMU from the very entities that it is designed to monitor).

better positioned to prosecute these matters based on findings referred to them by the MMU. The FERC's Office of Market Oversight and Investigation is principal among such agencies, but the Commodity Futures Trading Commission, U.S. Department of Justice, Federal Trade Commission, and state Attorneys-General also may be appropriate enforcement agents, depending on the infraction alleged.¹⁷

It is evident to the Board that not all matters of tariff and rule compliance should rise to the adversarial level of a demand letter. Given the complexity of the markets, there often is room for reasonable disagreement between market participants and the MMU as to rule or tariff interpretations. In this regard, the Board determined that before issuing a demand letter under section IV.B.3 of the Plan, the MMU should evaluate all opportunities to engage in discussions with those at an appropriately senior level of the relevant organization to seek resolution of the matter. As necessary, the MMU should coordinate with and seek assistance from the President to achieve such resolutions.

In this connection, the conclusion to maintain the MMU as an internal organization within PJM facilitates the desired compliance regimen. By way of an internal MMU, there is established a direct path for confidential communications between the MMU and market participants. The market monitor can immediately contact a market participant to seek an explanation when some apparent shift in behavior is detected or some other indication of the possibility of an abuse of the market appears. The participant may have a valid justification for the action based on its operational requirements, commercial obligations, or some other reason. By rapidly identifying and addressing a particular situation, market participants and all parties may be spared further erosion of both private and public confidence that may follow any more formal investigation.

The Board notes that the existing Plan already contemplates that, in the first instance, the MMU should engage in discussions with market participants and attempt to resolve informally compliance or other issues with market participants.¹⁸ There are numerous alternatives to formal demand letters and subsequent formal complaints with FERC, including market participants voluntarily desisting from questioned conduct, informal settlements of issues between the MMU and market participants, rules clarifications, regulatory filings to clarify or revise rules, and other informal and formal arrangements to resolve disagreements. In practice, the MMU has relied heavily on these alternatives and only rarely has had the need to resort to demand letters or regulatory filings. Through its oversight, the Board intends to encourage the continuation of this sound approach to market monitoring. The Board, or a delegated committee of the

¹⁷ The Plan provides that if the issuance by the MMU of a demand letter does not elicit corrective action, the MMU (with prior Board approval) may file complaints with relevant government entities. Plan, § IV.B.5.

¹⁸ Plan, § IV.B.1.

Board, will continue to approve the filing of any formal complaints with FERC,¹⁹ taking into account alternative available vehicles for addressing questioned market participant conduct and the extent to which they have been, and might continue to be, pursued in individual matters.

None of the foregoing, of course, negates the FERC's requirement that the MMU notify the Commission immediately upon determining that it has identified a significant market problem that may require (a) further investigation, (b) a change in PJM's tariff or market rules, or (c) action by FERC and/or one or more state commissions.²⁰ The MMU's compliance with this directive is critical to FERC's ability to perform its role in overseeing the markets. Any guidelines to govern the MMU's conduct of investigations must incorporate this reporting requirement. Further, the Market Monitor must have substantial deference to decide when the MMU has made a determination within these requirements and when a matter under investigation constitutes a significant market problem such that it is obligated to notify FERC.

Finally, the Board considered whether a member that has issue with actions of the MMU in this context should have recourse directly to the Board or the Competitive Markets Committee. The Board determined not to provide such a channel of "appeal." The Board is not well positioned to arbitrate issues that may arise between the MMU and participants; nor would it seem that such action would be an appropriate exercise of its jurisdiction. Moreover, it is important for the Board not to establish procedures that might undermine, or be perceived as undermining, the independent authority of the MMU. Recourse to the Board for aggrieved members would run just that risk.

4. Assessing Market Design

The Board found it instructive to distinguish carefully the role of market design from market design assessment. The former, the establishment of structure and rules for the various PJM markets, is primarily the function of the organization's Market Services division. The latter, evaluating such structure and rules for flaws that would permit the unintended exercise of market power or anticompetitive conduct, is primarily the MMU's function. It is the Board's view that the remediation of market structure flaws, including those that might be identified by the MMU, is properly a market design function that resides in Market Services. The MMU's role is to advise those charged with designing markets of structural defects or rule problems that create the potential for market abuse or manipulation. Its role then is to assist in formulating solutions through its expert advice, but not to take on primary responsibility for the design of the actual market rules.

Following from this principle, the Board determined that working groups charged with setting rules to solve structural problems, such as design "loopholes" in the rules, be

¹⁹ Plan, § IV.B.5.

²⁰ 98 FERC at 61,759.

led by the Market Services division with close support and consultation from the MMU. Where market power or the potential for market abuse may arise from inadequate design of the rules, the MMU's role will be critically important. The Market Services division should ensure that it and market participants receive early advice from the MMU in the process of developing new or revised market rules. They should fully recognize the expertise of the MMU in assessing market power and the ability of market rules to facilitate the exercise of market power. While the MMU's role will be advisory in this process, the Market Services division and market participants should pay particular heed to the expert advice of the MMU.

The Board also considered whether any portion of market rules development should be led by the MMU. In particular, the Board took note of the FERC's indication that the market monitor would devise some market power mitigation rules that are filed by a newly forming RTO.²¹ The Board concluded that a mature RTO with an established MMU differs from a newly forming RTO. In a mature RTO with an established MMU, the market monitor's principal role must be monitoring the markets and market rules. In an already functioning RTO, the MMU is actively engaged in that process. As such, there should be a clear separation of the market rules development process and the market rules monitoring process. Without such separation, the MMU would be responsible for monitoring and detecting design flaws in the very rules that it established, creating a conflict that could undermine the operation of robust and competitive markets.²² Thus, the Board determined that the separation of market design from market design assessment should apply across all of PJM's market rules.²³

The integrity of the PJM markets depends on the MMU identifying design defects that might result in sub-optimal market outcomes. In order to ensure that all markets

²¹ SMD NOPR at P 427.

²² Similar principles are applied elsewhere in the Board's oversight of PJM's organization. Following the principles of recent legislation, for example, the Board ensures that its external auditors who examine PJM's compliance with its audit controls and other rules are not at the same time assisting in developing those systems. While not by its terms directly applicable to a non-public company such as PJM, the recent Sarbanes-Oxley Act makes it unlawful, among other things, for a public accounting firm that audits a company contemporaneously to design or assist in implementation of financial information systems, perform various management functions, or provide expert services unrelated to the audit. Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204 § 201(a). Similar principles should be applied here.

²³ However, the Board determined that any rules that are already under development and design, whether or not the effort is being led by the MMU, should continue to be developed under their current framework so as not to disrupt or delay market rules development that is in progress.

administered by PJM are periodically scrutinized for proactive and preemptive improvement, the Board determined that an annual plan for the MMU should be established. This plan is envisioned to be “audit-like” insofar as it would set a schedule for MMU scrutiny of each of the markets administered by PJM. The annual plan also would serve as an effective vehicle for the MMU to evaluate the performance of PJM staff in discharging its duties in administering the markets. Finally, the annual plan also could have the beneficial consequence of directing the MMU to investigate aspects of the market that it may have overlooked in past monitoring. To assist in formulating the annual plan, an open stakeholder advisory group should be formed with the specific charter of advising on the MMU’s proposed scope of work for the ensuing year. The Board, therefore, is directing the MMU, in consultation with the President and with advice from a specially created membership advisory group, to develop each year an annual plan for approval by the Board.

The annual plan will be supplemental to the ongoing monitoring by the MMU. The MMU already is charged with monitoring all PJM markets, as it deems necessary and appropriate. The purpose of the annual plan will be to ensure that the Board oversees the market monitoring function and the necessity that no aspect of the market is left unreviewed for significant periods. The annual plan vehicle will enable market participants, in an advisory capacity, to bring to the attention of the Competitive Markets Committee matters deserving of further attention by the MMU. However, this special committee will be strictly advisory, as the Board must ensure that market participants cannot unduly influence the activities of the MMU. The role of the committee will be limited to advice regarding the scope of the annual plan, not the manner in which any market monitoring will be conducted. The committee will follow the model of the Audit Advisory Committee, which similarly was established to provide advice (in that case, to the Audit Committee of the Board) on the scope of audits and to communicate any specific or unique audit requirements of PJM members.²⁴ The advisory committee’s mission will include recommending potential improvements or enhancements to the scope of the market monitoring annual plan.²⁵ A draft charter of the proposed advisory committee is attached hereto as Appendix A.

Finally, the MMU occasionally may develop opinions concerning rulemaking in other ISO markets that may impact the workings of the PJM market or establish a precedent with which the MMU disagrees. The Board considered how to ensure that the MMU could express its position on such matters when appropriate. With the approval of the Board, the Plan allows the MMU to make appropriate regulatory filings to address

²⁴ Like the Audit Advisory Committee, the special committee to advise the Competitive Markets Committee regarding the scope of the market monitoring annual plan may be established under section 8.6.3 of the Operating Agreement.

²⁵ As necessary, the Board also may audit the MMU, through internal or external audits. Plan, § VIII (“The activities of the Market Monitoring Unit shall be audited in accordance with procedures adopted from time to time by the Board.”).

such issues.²⁶ The coordination between the MMU and the Competitive Markets Committee described herein should adequately ensure the appropriate participation of the MMU in such matters, when necessary.

5. Assessing PJM in its Role as Market Administrator

The authority of the MMU to assess participant conduct and assess market design is axiomatic. Its authority to assess PJM itself, as administrator of the markets, is perhaps less clear. The Board, having considered the matter, finds that the MMU should have authority to identify instances of error by PJM in performing its job as market administrator.

The Board believes that the above-discussed annual “audit-like” plan for the MMU would serve as an ideal platform to uncover any problems of this nature. Overseeing the efficient and accurate discharge of PJM’s duties as grid operator and market administrator is a responsibility that rests ultimately with the Board. Having the expertise of the MMU tasked to assist the Competitive Markets Committee with some elements of this task is desirable. Moreover, if the MMU identifies systemic or complex problems in this area, the Board could recommend initiating an outside inquiry or audit.

D. CONCLUSION

The Board’s comprehensive review of market monitoring in PJM has established that there are some instances where adjustments are required, while in many other instances the existing Plan is working well. With the exception of continuing any market rules development processes already underway, PJM will commence implementation of the conclusions described in this report. The Board’s continued oversight of market monitoring in PJM similarly will follow the principles addressed in this report. The Board appropriately will inform all market participants and state and federal regulators of the determinations reached by the Board in this review process.

²⁶ Plan, § IV.B.5.



955 Jefferson Avenue
Valley Forge Corporate Center
Norristown, Pennsylvania 19403-2497

Phillip G Harris
Chairman and Chief Executive Officer

May 4, 2007

VIA WEB POSTING

RE: PJM 2007 Annual Meeting Discussions

Dear PJM Members and Stakeholders:

To our members and those others in the PJM community who participated in our recently concluded annual meeting at Nemacolin, allow me to express the appreciation of the PJM Board of Managers. The insight of the Board, both in regards to PJM's strategic direction and, more immediately, in the management of our day-to-day operations, planning and market administration activities has been aided by your candid and, at times, critical comments. We deeply appreciated your participation and continued support for PJM and its mission to promote robust competitive wholesale markets and reliable operations across a large regional system. The Board has taken your comments and ideas to be constructive to fulfilling this mission.

To move forward promptly, the Board has identified the following three immediate initiatives.

MMU Investigation

First, as indicated by Howard Schneider in comments at our general session, the PJM Board has constituted a Special Investigative Committee designed to oversee the continuing investigation of the Market Monitor's allegations of interference with its independence. To assure the maximum objectivity in the investigation, the Board has asked outgoing Board member, Frank Olson, to chair this committee as an outside advisor. Frank has agreed to take on this vital job and important role. Board members Neel Foster (chair of the Board Audit Committee and member of the Finance Committee) and Bill Mayben (our newest Board member who has no previous involvement in this matter) will also serve on this special committee.

Moreover, the Board takes this opportunity to affirm the key points in its statement regarding the Market Monitoring Unit (MMU) read at the May 2, 2007 General Session.

"The MMU's ongoing processes for collecting and maintaining data will not be modified by PJM until these matters are resolved. Access to data by the MMU is not now being denied nor has it been denied to the MMU in the past."

"Markets are being monitored by the MMU and reports are being made to regulatory bodies in the normal course of business by the MMU."

"The MMU's responsibilities are being fulfilled and there is no interference in the day-to-day functioning of the MMU."

"The Board has directed that no staff or structural changes shall be made to the MMU without its approval until these matters are resolved."

Board/Stakeholder Written Communication

Second, while the Board has always accepted member correspondence directed to them, we believe a clear expression of the process in this area will provide assurance that the full Board is provided all member communication directed to them. Therefore, effective immediately, PJM will adopt the following procedure applicable to communication from stakeholders to the PJM Board, either collectively or individually. We request that all written communications to the PJM Board be addressed to the attention of David Anders at PJM. Mr. Anders will immediately and directly forward such communications to the PJM Board and thereafter post such communications promptly to the PJM website, consistent with the organization's rules on *ex parte* communications. Members can thus be assured that their communications to the Board are received by the Board in this fashion.

Liaison Committee

Third, the Board heard in both formal statements and informal dialogue a keen interest on the part of the membership to re-establish the members' liaison committee with the Board. The board has resolved to do so. We would value receiving advice from the members as to how to constitute the liaison committee and suggestions as to how the committee would function. In order to incorporate these thoughts into the on-going strategic planning exercise, PJM hopes such comments can be provided in a time frame consistent with the strategic report schedule. It would be helpful if the Liaison Committee process could commence at the June 14, 2007 Members Committee meeting.

Together with our membership and our State Commissions, the PJM Board looks forward to meeting future challenges through a decision-making and problem-solving environment that is collaborative and productive and one that all stakeholders can agree is inclusive and fair, regardless of the substantive outcome.

Sincerely,

Phillip G. Harris

Phillip G. Harris
On behalf of the PJM Board of Managers



State of New Jersey
BOARD OF PUBLIC UTILITIES
TWO GATEWAY CENTER
NEWARK, NEW JERSEY 07102
(973) 648-2026

RICHARD J. CODEY
ACTING GOVERNOR

March 29, 2005

Dr. Joseph E. Bowring
Market Monitor
PJM Interconnection, L.L.C.
Market Monitoring Unit
Valley Forge Corporate Center
955 Jefferson Avenue
Norristown, PA 19403

**RE: IN THE MATTER OF THE JOINT PETITION OF PUBLIC
SERVICE ELECTRIC AND GAS COMPANY AND EXELON
CORPORATION FOR APPROVAL OF A CHANGE IN
CONTROL OF PUBLIC SERVICE ELECTRIC AND GAS
COMPANY AND RELATED AUTHORIZATIONS
BPU DOCKET NO. EM05020106**

**EXELON CORPORATION AND PUBLIC SERVICE
ENTERPRISE GROUP INCORPORATED
FERC DOCKET NO. EC05-43-000**

Dear Dr. Bowring:

The New Jersey Board of Public Utilities ("NJBP") is currently evaluating the Joint Petition of Public Service Electric and Gas Company ("PSE&G") and Exelon Corporation requesting approval of a change in control of PSE&G pursuant to an Agreement and Plan of Merger between Exelon Corporation and Public Service Enterprise Group Incorporated and other related authorizations in Docket No. EM05020106. The case has been referred to the Office of Administrative Law for hearings and a recommended decision by the Administrative Law Judge, anticipated to be rendered in the second quarter of 2006, with a final decision to be rendered thereafter by the NJBP.

On February 4, 2005, as supplemented on February 9, 2005, Exelon and its subsidiaries that are electric utilities subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") (collectively, "Exelon") and PSEG and its subsidiaries that are electric utilities subject to FERC's jurisdiction (collectively, "PSEG") submitted a filing requesting that FERC approve a

Dr. Joseph E. Bowring

March 29, 2005

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transaction that includes Exelon's acquisition of PSEG and the resulting indirect merger of Exelon's and PSEG's regulated public utilities; and the consolidation of Exelon's and PSEG's unregulated generation companies and corporate restructuring of the subsidiaries of their unregulated generation companies. In that filing, Docket No. EC05-43-000, the Joint Petitioners indicate that the acquisition of PSEG will create market power in the PJM markets and sub-markets, and they propose a plan of mitigation to eliminate the harmful effects of market power on the consumers and energy suppliers in PJM. Comments on the filing are due to be filed by April 11, 2005 with FERC, which will thereafter determine what actions to take, including whether to conduct evidentiary hearings.

Pursuant to the FERC-approved PJM Market Monitoring Plan, Attachment M to the PJM Open Access Transmission Tariff ("Attachment M"), Authorized Government Agencies are to receive copies of reports by the Market Monitoring Unit "on the state of competition within and the efficiency of the PJM market" and "other such reports...as may be requested by such Agencies." Attachment M, First Revised Sheet No. 452, Section VII (A) and (B). As a state utility commission, the NJBPU is an "Authorized Government Agency" as defined in Attachment M, Second Revised Sheet No. 446, Section II (a). Additionally, any "interested entity may at any time submit information to the Market Monitoring Unit concerning any matter relevant to the Market Monitoring Unit's responsibilities under the Plan or may request the Market Monitoring Unit to conduct an investigation or take any other action contemplated by the Plan." Attachment M, Second Revised Sheet No. 451, Section VI(C).

The NJBPU submits that there is a need for a review and report by the Market Monitoring Unit on the state of competition in PJM based on the above-referenced filings in New Jersey and at FERC. The Board currently conducts an annual Basic Generation Service ("BGS") auction process to procure energy supplies for the retail customers of the State's four Electric Distribution Companies ("EDCs"). Reliance on this BGS process requires a continuing confidence in the competitiveness of the PJM markets. The above-referenced filings raise serious questions regarding potential market power and, if not mitigated completely, potential use of that market power to the disadvantage of captive retail customers in New Jersey.

Therefore, the NJBPU respectfully requests that the PJM Market Monitoring Unit initiate a study of the impacts of the Exelon acquisition of PSEG on the state of competition in the PJM markets and sub-markets, and prepare and submit to the NJBPU a full report (subject to appropriate and relevant confidentiality concerns) on that study, including recommendations as to any and all remedial actions that need to be taken to fully mitigate the market power created by the acquisition.

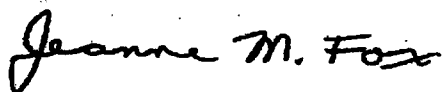
Given the current schedules for considering the Joint Petitions before the NJBPU and FERC, the NJBPU respectfully requests that this study be given the highest priority in your scheduling.

Dr. Joseph E. Bowring
March 29, 2005
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Thank you in advance for acknowledging receipt of this request and for initiating contacts with our staff to discuss the structure and timing of the final report back to the NJBPU.

Sincerely,

NEW JERSEY BOARD OF PUBLIC UTILITIES
BY:



Jeanne M. Fox
President



Frederick F. Butler
Commissioner



Connie O. Hughes
Commissioner



Jack Alter
Commissioner

cc: Phillip, G. Harris, President & Chief Executive Officer, PJM Interconnection, L.L.C.
Administrative Law Judge Richard McGill
BPU Service List



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August 19, 2005

Jeanne M. Fox, Esquire
State of New Jersey
Board of Public Utilities
Two Gateway Center
Newark, New Jersey 07102

Re: In the Matter of the Joint Petition of Public Service Electric and Gas Company and Exelon Corporation for approval of a change in control of Public Service Electric and Gas Company and Related Authorizations. BPU Docket No. EM05020106

Dear President Fox:

Your letter dated July 12, 2005, to Dr. Joseph E. Bowring has been referred to me for reply on behalf of PJM Interconnection and its Market Monitoring Unit.

PJM Interconnection will be pleased to have its Market Monitoring Unit provide an update of its May 24, 2005 "Exelon/PSEG Merger Analysis", incorporating actual market data for the period May 9, 2005 through July 31, 2005, as requested in numbered paragraph 1 of your July 12 letter. The MMU will also provide a separate run of that updated Merger Analysis incorporating proposed generation retirements that have been identified to PJM by Exelon and PSEG and reflected in PJM's Regional Transmission Expansion Plan, as requested in numbered paragraph 3 of your letter.

PJM will not be able to respond to the requests set forth in numbered paragraphs 2 and 4 of your July 12 letter. With respect to your request for an analysis predicated upon the Reliability Pricing Model under consideration by PJM, PJM has not yet filed with FERC a specific RPM design, nor has FERC had the opportunity to consider tariff amendments relating thereto. Therefore, any analysis of the impact of the proposed merger upon an RPM-based capacity market would be premature and speculative.

With respect to your request for an analysis of the impact of the proposed merger upon New Jersey's Basic Generation Service market, the MMU's responsibilities under PJM's Operating Agreement and Tariff do not extend to state-regulated retail service markets. The requested analysis would therefore exceed the proper scope of the MMU's authorized activities.

Jeanne M. Fox, Esquire
August 19, 2005
Page Two

PJM will be pleased to make Dr. Bowring available to appear in the New Jersey merger proceeding to testify with respect to the MMU's May 27 Merger Analysis, its June 16 Supplemental Report and the additional analyses described herein. Dr. Bowring will contact Board Secretary Kristi Izzo to arrange specific dates for his appearance. I would appreciate the opportunity to coordinate with responsible staff counsel the appropriate limitation of Dr. Bowring's testimony.

If you and your staff have any questions regarding PJM's response to your July 12 letter, please let me know.

Sincerely yours,

A handwritten signature in black ink, appearing to read "F. John Hagele". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

F. John Hagele

cc: Mr. Phillip G. Harris
Administrative Law Judge Richard McGill
BPU Service List
Dr. Joseph E. Bowring



State of New Jersey

BOARD OF PUBLIC UTILITIES

TWO GATEWAY CENTER
NEWARK NJ 07102

RICHARD J. CODEY
Acting Governor

JEANNE M. FOX, Esq.
President
Tel: (973) 648-2013

August 30, 2005

Dr. Joseph Bowring
Market Monitor
PJM Interconnection, L.L.C.
Valley Forge Corporate Center
955 Jefferson Avenue
Norristown, PA 19403

RE: IN THE MATTER OF THE JOINT PETITION OF PUBLIC
SERVICE ELECTRIC AND GAS COMPANY AND EXELON
CORPORATION FOR APPROVAL OF A CHANGE IN
CONTROL OF PUBLIC SERVICE ELECTRIC AND GAS
COMPANY AND RELATED AUTHORIZATION
BPU DOCKET NO. EM05020106

Dear Dr. Bowring:

I have received PJM's letter dated August 19, 2005, in response to the N. J. Board of Public Utilities' ("BPU") July 12 request for technical assistance from the PJM Market Monitoring Unit ("MMU") attendant to the above referenced merger proposal. I want to first thank PJM for the offer to augment the MMU Merger Analysis for summer data and planned unit retirements, and to make you available to appear in the N.J. proceeding. This additional analysis coupled with your appearance will go a long way in building the broad evidentiary record the BPU seeks in its consideration of this most important merger petition.

I would, however, like to clarify and reaffirm our request to the MMU to provide analyses in the two areas where there appears to be some difficulty: analyses of the impact of the merger upon the anticipated locational capacity markets and upon N.J.'s Basic Generation Service ("BGS") auction. Regarding the RPM-based capacity markets, it is our understanding that PJM will in the near future file a plan with the FERC to implement such markets. We understand PJM's reluctance to analyze these prospective markets under an assumed design and accordingly modify our request to seek such analysis only after PJM files with the FERC a specific capacity market design proposal. This analysis is crucial to the BPU's consideration of the merger given the state's geographic location within an already concentrated PJM East capacity market.

Our request for an MMU analysis of the potential effects of the merger on the BGS auction, and of the monitoring, intervention and market power mitigation measures potentially available for implementation within the BGS framework, is of even greater importance in our consideration of the merger. Since its inception, the BGS auction has served as an efficient mechanism for the acquisition of default energy supplies for N.J. ratepayers. We have actively promoted the BGS auction to other state utility commissions considering similar approaches. Our concern over BGS is not with the retail side of the auction: rather, the merger bears investigation for its potential effects upon the *wholesale* side of the auction process, where the generation ownership share of a combined Exelon/PSEG entity suggests a potential for the exercise of market power upon the wholesale generation that ultimately finds its way into the "retail auction" via third party bidders and trading entities. I apologize for the fact that our concern for the underlying wholesale transactions was not explicitly detailed in item 4 of our July 12 request, but hope that with this clarification we may achieve the requested MMU analyses of the merger's impact upon the BGS auction and the most effective means of monitoring and intervening in that auction, if necessary.

Finally, the N.J. merger proceeding schedule has recently been extended to provide for evidentiary hearings commencing November 28 and concluding December 14. In my July 12 letter, I had requested that the additional MMU analyses be submitted to the BPU by August 31, a date based upon an original evidentiary hearing schedule commencing October 7. Given the recent schedule changes, I would ask that the requested information be submitted to the BPU by September 23, 2005.

Sincerely,



Jeanne M. Fox
President

cc: Phillip G. Harris, President and Chief Executive Officer, PJM Interconnection, L.L.C.
Audrey Zibelman, Executive Vice President, PJM Interconnection, L.L.C.
F. John Hagele, Vice President and General Counsel, PJM Interconnection, L.L.C.
Administrative Law Judge Richard McGill
BPU Service List



file

State of New Jersey
BOARD OF PUBLIC UTILITIES
TWO GATEWAY CENTER
NEWARK NJ 07102

JON S. CORZINE
Governor

JEANNE M. FOX, Esq.
President
TEL: (973) 648-3013

November 15, 2006

Dr. Joseph E. Bowring
Market Monitor
PJM Interconnection, L.L.C.
Market Monitoring Unit
Valley Forge Corporate Center
955 Jefferson Avenue
Norristown, PA 19403

RE: N.J. Basic Generation Service (BGS) Auction Review

Dear Dr. Bowring:

As you are aware, the vast majority of New Jersey electric customers receive their electric supplies through the annual Basic Generation Service (BGS) auction. The New Jersey Board of Public Utilities ("BPU") annually reviews and approves the results of the BGS auction and solicits comments on the auction process from interested parties. Our recognition of the evolution of the wholesale generation market since the 2002 commencement of the BGS procurement process has led us to conclude that a comprehensive review of the BGS market structure and auction rules is in order. Our goal is to ensure that the BGS auction is structured to maximize its competitiveness to the benefit of N.J. electric customers into the future.

Given the Market Monitoring Unit's earned reputation for impartial analytical work and expertise in monitoring PJM-operated markets, the BPU requests the assistance of the MMU that we believe will contribute significantly to this goal. In particular, the BPU requests the MMU to provide analyses comprising a comprehensive assessment of the state of the BGS auction market and the underlying wholesale market that supports the BGS market, including but not limited to market structure, market power, strategic behavior, potential mitigation measures, current market rules, current BGS auction rules, and to recommend improvements that might serve to enhance the competitiveness of BGS auction. The MMU may utilize the experience of past BGS auctions as part of its analyses as you deem necessary.

In closing, we appreciate in advance the MMU's contribution to our review of the BGS auction. The BPU staff, the auction consultant and auction manager are available to provide any assistance the MMU may require in responding to our request.

Sincerely,

A handwritten signature in cursive script that reads "Jeanne M. Fox".

Jeanne M. Fox
President

cc: Audrey Zibelman, Executive Vice President
and Chief Operating Officer, PJM Interconnection, L.L.C.



State of New Jersey

BOARD OF PUBLIC UTILITIES

TWO GATEWAY CENTER
NEWARK NJ 07102

JON S. CORZINE
Governor

JEANNE M. FOX, Esq.
President
Tel.: (973) 648-2013

May 30, 2007

Dr. Joseph E. Bowring
Market Monitor
PJM Interconnection, L.L.C.
Market Monitoring Unit
Valley Forge Corporate Center
955 Jefferson Avenue
Norristown, PA 19403

RE: N.J. Basic Generation Service (BGS) Auction Review

Dear Dr. Bowring:

As you will recall, by letter dated November 15, 2006, I submitted to you on behalf of the New Jersey Board of Public Utilities (BPU) a request for an MMU investigation into our Basic Generation Service (BGS) auction. The request read, in part, as follows:

In particular, the BPU requests the MMU to provide analyses comprising a comprehensive assessment of the state of the BGS auction market and the underlying wholesale market that supports the BGS market, including but not limited to market structure, market power, strategic behavior, potential mitigation measures, current market rules, current BGS auction rules, and to recommend improvements that might serve to enhance the competitiveness of BGS auction. The MMU may utilize the experience of past BGS auctions as part of its analyses as you deem necessary.

While there were some oral representations by non-MMU PJM representatives to members of my staff to the effect that this work might be done instead by some other element of PJM, in view of this work's critical importance to New Jersey generally and to the BPU's current review of the BGS auction specifically, I would like to reaffirm our request for your examination of the BGS auction and would appreciate a sense of when the MMU might commence such work. I realize that the MMU devoted substantial time and resources to the recently completed 2006 State of the Market Report, in addition to other matters of immediate concern, but hope, despite other distractions, that MMU resources may be directed to begin this vital work. As I indicated in my prior

correspondence, the unique expertise of the MMU in assessing market structure and in monitoring markets makes the participation of your unit indispensable to our review of the BGS auction.

I look forward to hearing from you and again offer any assistance you may require to engage the requested analyses.

Sincerely,

A handwritten signature in black ink that reads "Jeanne M. Fox". The signature is written in a cursive style with a large initial "J" and a stylized "F".

Jeanne M. Fox
President

cc: Audrey Zibelman, Executive Vice President and Chief Operating Officer,
PJM Interconnection, L.L.C.

Bowring, Joseph

From: Gilrain, Mark
Sent: Monday, October 02, 2006 6:41 PM
To: Million, Mark A.; Bowring, Joseph
Subject: RE: Bilateral Transaction Data

I agree with Joe. Under the design as we have it now, we would collect the data.

I just want to touch base with you two regarding two items.

1 - Looking at the changes necessary to get the system up and running along with the volume of data the MMU is requesting, I'm losing confidence that we can collect everything you are asking. This will be one of the topics at our meeting with AREVA later this week.

2 - I sent an e-mail regarding the EFORD segment along with a few questions. I believe Murty replied with his opinion. I NEED an answer from either of you by Wednesday. Otherwise, Murty and I will design the process and include it in the change order given to AREVA. In other words - speak now or forever hold your peace.

-----Original Message-----

From: Million, Mark A.
Sent: Monday, October 02, 2006 12:54 PM
To: Bowring, Joseph; Gilrain, Mark
Subject: Bilateral Transaction Data

In our meeting last week, three new revenue data items were discussed:

- Submitted net revenue
- Approved net revenue
- CONE net revenue

Submitted net revenue is a single net revenue number input by the supplier. Approved net revenue is the number approved by the MMU to use in offsetting avoidable. Is the 8760 detail data for bilateral transactions going to be input into the RPM system, or is it coming straight to the MMU?

Mark Million
Market Monitoring Unit
PJM Interconnection, LLC
mm@pjm.com
610-635-3418

Bowring, Joseph

From: Bowring, Joseph
Sent: Tuesday, October 10, 2006 9:32 AM
To: Gilrain, Mark; Million, Mark A.
Subject: RE: Update MMU/RPM

Mark,
Not quite sure what you mean. The RPM system has to include the market monitoring requirements.
Please set up a meeting when you return.
- Joe

-----Original Message-----

From: Gilrain, Mark
Sent: Saturday, October 07, 2006 8:14 PM
To: Million, Mark A.; Bowring, Joseph
Subject: RE: Update MMU/RPM

Million, thank you for putting this together. While we had some clarifying questions about the document, it proved extremely useful in our discussion with AREVA. In fact, it clearly showed that the RPM project cannot absorb this amount of effort and be completed on time.

Our discussion with AREVA identified all the work necessary to reflect the changes required by the FERC Settlement agreement. I am attempting to determine if we can accomplish this work on time and with the given resource and budget. We will incorporate the Three Pivotal Supplier test as part of the auction clearing process. But, it is clear that the other data gathering and pre-auction calculations request by the MMU cannot be accommodated.

I am out of the office until Wednesday. I will try to set up a meeting with the two of you to discuss this issue. I should be able to take the MMU/RPM requirement document you supplied and make changes to reflect the work that can be accomplished within the RPM project.

I understand that you guys will be concerned about this. I want to work with you over the next week or two and resolve the issue in order to ensure that the RPM system is completed on time along with processes to meet the MMU requirements.

-Mark

-----Original Message-----

From: Million, Mark A.
Sent: Wednesday, October 04, 2006 2:45 PM
To: Gilrain, Mark
Subject: Update MMU/RPM

Updated with Frank's input.

Mark Million
Market Monitoring Unit
PJM Interconnection, LLC
millim@pjm.com
610-635-3418

Bowring, Joseph

From: Bowring, Joseph
Sent: Friday, October 13, 2006 3:43 PM
To: Ott, Andy; Gilrain, Mark; Bresler, Frederick S. (Stu) III
Subject: RE: RPM Project Issue

One of the biggest data items is the avoidable cost data, which is required to calculate offer caps.

-----Original Message-----

From: Ott, Andy
Sent: Friday, October 13, 2006 3:09 PM
To: Gilrain, Mark; Bresler, Frederick S. (Stu) III
Cc: Bowring, Joseph
Subject: RE: RPM Project Issue

I need to understand exactly what the data is and what it is required for

-----Original Message-----

From: Gilrain, Mark
Sent: Friday, October 13, 2006 3:05 PM
To: Ott, Andy; Bresler, Frederick S. (Stu) III
Cc: Bowring, Joseph
Subject: RPM Project Issue

I've discussed the need to move several MMU data collection and calculation requirements out of the RPM system in order to complete the project in time. Joe has agreed to assist in the situation and maintain the RPM data required by the MMU along with some of the MMU required calculations.

However, I feel there are insufficient resources to perform the processing of the RPM data required by the MMU. This processing involves creation of a database to store the data, collecting the data, and loading the data in the database.

We are still in the process of evaluating the AREVA estimates and the changes to the RPM project schedule due to the FERC Settlement Agreement. Therefore, we may identify other areas that require additional resources. Until that time, I wanted to bring the MMU requirement issue to light.

Are we able to obtain additional IT resources to design and develop the process?
Are we able to obtain additional MMU or Market resources to perform this task?
Could this task be performed by Capacity Department resource who's job function is reduced or eliminated due to RPM?
Are there other options?

Bowring, Joseph

From: Bowring, Joseph
Sent: Wednesday, November 22, 2006 1:31 PM
To: Ott, Andy
Subject: Accepted: RPM Avoidable Costs Stakeholder Mtg.

The supplier caucus meeting begins at 2:00
I have another meeting in Wilmington from 12:00 to 2:00

Bowring, Joseph

From: Gilrain, Mark
Sent: Thursday, January 11, 2007 1:04 PM
To: Bowring, Joseph; Million, Mark A.
Cc: Lukach, Jaclynn; Libengood, Amanda
Subject: RPM Mitigation Data

Joe and Million,

We have had several discussion lately regarding the few remaining MMU items for RPM. I want to ask about the cost cap offer data. What data will we need to display in RPM in regards to the Cost Cap Offers?

As I understand it, the new MMU system will collect the avoidable cost data as well as the opportunity cost data. From this the MMU will calculate a cost cap offer for each resource by participant. This data would be passed back to RPM via a csv file (or some other text file format). We anticipate displaying the resources and their cost cap offer owned by the participant.

Do you foresee a need for any additional information regarding cost capped offers to be displayed?

-Mark

Bowring, Joseph

From: Bowring, Joseph

Sent: Monday, November 13, 2006 5:14 PM

Subject: RPM Stakeholder Meeting / Avoidable Cost Template

Dear Members,

The avoidable cost template that I referenced at the RPM Stakeholder Meeting / Avoidable Cost Workshop was posted earlier today. The template can be found on the PJM website under Market Monitoring/Market Messages/RPM Materials or by using the link below.

<http://www.pjm.com/markets/market-monitor/messages.html>

Thank you,
Joe Bowering
PJM Interconnection, L.L.C.

Bowring, Joseph

From: pjm-mc-bounces+bowrij=pjm.com@lists.pjm.com [filipov@pjm.com] on behalf of filipov@pjm.com
Sent: Wednesday, November 22, 2006 3:23 PM
To: pjm-mc@lists.pjm.com; pjm-mrc@lists.pjm.com; pjm-mic@lists.pjm.com
Subject: [Pjm-mc] RPM Avoidable Costs

Dear Members:

This is to notify you that we have posted a revised template, corresponding instructions and proxy calculations for RPM Avoidable Cost Calculations. Please note that we have included an inflation adjustment in the avoidable cost calculations, as described in the template instructions document. The only revision to the template is a minor adjustment to the CC cost inputs which affects only the CC proxy costs and does not affect the actual template. Please let me know if you have any questions.

The documents are posted to <http://www.pjm.com/markets/market-monitor/messages.html> under the heading "RPM Materials."

Thank you,
Joe Bowring
Market Monitor

Bowring, Joseph

From:

Sent: Monday, November 27, 2006 9:09 AM

To: Bowring, Joseph; Ott, Andy

Subject: Tomorrow's RPM Avoidable Cost Meeting with Supplier Caucus

Joe and Andy,

Just to confirm, will we begin the meeting at the conclusion of the LTFTR meeting at the Double Tree tomorrow? Will the call in number from the LTFTR be available? Or do you want to do it live only? Thanks.

Bowring, Joseph

From: Bowring, Joseph
Sent: Friday, December 01, 2006 9:15 AM
To: Zibelman, Audrey A.
Subject: RPM

Audrey,

With respect to RPM developments:

- We have had bilateral discussions with a number of generators regarding the calculation of avoidable costs. The discussions have been positive and productive.
- We have also had a meeting, also attended by Andy, this week with the supplier caucus on the topic of avoidable cost.
- We have repeated a number of key messages including that:
 - avoidable costs are unit specific;
 - we understand and expect that unit-specific avoidable costs for some units will be much higher than our proxy numbers;
 - proxy numbers are not a standard to which unit specific avoidable costs will be held
 - we will update proxy numbers as we get more relevant data from members
- We added an escalation factor to the avoidable cost template that increases avoidable costs by the operating year
- The escalator is not specifically in the settlement but I believe that it is consistent with the tariff

Please let me know if you have any questions on this, or we can discuss at our meeting this afternoon.

Thanks,
Joe

Bowring, Joseph

From: Bowring, Joseph
Sent: Friday, December 01, 2006 3:21 PM
To: Ott, Andy
Subject: RPM proxies

Just to be clear. I am waiting to hear from you/Audrey before I take the proxy numbers down.
Thanks

Bowring, Joseph

From: Bowring, Joseph
Sent: Tuesday, December 05, 2006 9:13 AM
To: /
Subject: RE: Timing of Posting Historical 6-year average for "Net Revenue"

ok - whatever works.
Thanks for checking.

-----Orig
From: /
Sent: Tuesday, December 05, 2006 9:08 AM
To: Bowring, Joseph
Subject: Re: Timing of Posting Historical 6-year average for "Net Revenue"

I am travelling to / today and will have a meeting with our traders Wednesday to discuss RPM. I will ask if they want to discuss the numbers with you. However, given that (if mitigated) our net revenue will offset our ACR this exercise may not be of any value to / Given other things going on, we probably will not do this exercise. I will ask anyway and get back to you.

----- Original Message -----
From: [bowrij@pjm.com]
Sent: 12/05/2006 05:34 AM
To: /
Subject: RE: Timing of Posting Historical 6-year average for "Net Revenue"

If your folks want to discuss the details of why they believe the estimates are off by 30% for a sample unit, we would like to do that. Our goal is to be accurate and our numbers reflect actual data from actual PJM units - although not an exhaustive sample. It might be a useful exercise for you and for us - there have been certain misunderstandings about avoidable costs and this could be a way to have an explicit discussion.
Thanks,
Joe

-----Or
From: /
Sent: Monday, December 04, 2006 10:57 AM
To: Bowring, Joseph
Subject: RE: Timing of Posting Historical 6-year average for "Net Revenue"

Thanks Joe.

As to the avoidable cost approach, we are putting together our avoidable cost per the spreadsheets you provided. We started with our most cost efficient plant so we can determine if we can use your proxy estimates (which is an option under the tariff) instead of the time intensive data gathering required. By the way, it seems like your proxy estimates are off by at least 30% or so (for our most efficient plant) and will be higher for the less efficient ones (we have not done the analysis on those yet). There are a lot of upset generators out there !!!! Given the revenue of our plants because they-

are , this is not a big deal for us, but seems to be for others, especially the peaker and CC plants. I will let them purse their own battles. But thanks for the offer.

<bowrlj@pjm.com>

12/04/2006 05:32 AM

cc
Subject RE: Timing of Posting Historical 6-year average for "Net Reve

Sorry for the delay. The current goal is to have net revenue data by the end of January. If you would like preliminary data for some selected units to start the process of benchmarking your data, we can try to do that this month.

For the area, the most data, per the settlement, would be 2005 and 2006.

Are you interested in discussing the approach to avoidable costs? We are trying to have bilateral discussions with all generators to improve the chances of everything working smoothly.

- Joe

-----Ori:

From:

Sent: Sunday, December 03, 2006 6:58 PM

To: Bowring, Joseph

Subject: Fw: Timing of Posting Historical 6-year average for "Net Revenue"

Joe:

You have not responded to my below question (I am sure you're busy). Can someone else address the question?

By the way, the reference to 2005 and 2006 below comes from the settlement language:
"If a Generation Capacity Resource did not receive PJM market revenues during the entire relevant time period because the Generation Capacity Resource was not integrated into PJM during the full period, then the Projected PJM Market Revenues shall be calculated using only those whole calendar years within the full period in which such Resource did receive PJM market revenues."

12/03/2006 05:56 PM —

11/29/2006 02:32 PM

To Joe Bowring
cc
Subject Timing of Posting Historical 6-year average for "Net Revenue"

Joe:

Will the data be available at beginning of January? For the 2005 & 2006 per settlement?

area, will it be only for the years

Thanks,

Bowring, Joseph

From: Bowring, Joseph
Sent: Wednesday, December 13, 2006 6:36 AM
To: Paul Flynn (flynn@wrightlaw.com)
Subject: RPM

Paul,
Could you let me know when you are available to discuss some market monitoring RPM issues today. Should be brief. I have been talking with Andy and would like your input.
Thanks,
Joe

Bowring, Joseph

From: PAUL FLYNN [FLYNN@wrightlaw.com]
Sent: Wednesday, December 13, 2006 10:46 AM
To: Bowring, Joseph
Subject: Re: RPM

I'm in the office. You can call me anytime.

Paul M. Flynn
Wright & Talisman, P.C.
1200 G. St., N.W.; Suite 600
Washington, D.C. 20005
202/393-1200
flynn@wrightlaw.com

>>> <bowrij@pjm.com> 12/13/2006 6:36 AM >>>

Paul,

Could you let me know when you are available to discuss some market monitoring RPM issues today. Should be brief. I have been talking with Andy and would like your input. Thanks,
Joe

Bowring, Joseph

From: Hartman, Beverly
Sent: Friday, December 15, 2006 5:35 PM
To: Cawley, Susan; WEB External
Cc: Bowring, Joseph
Subject: RE: Please post to MMU's Market Messages page (acr4)

Your web request has been completed.
The content will be posted at approximately 8:00 p.m. to:

<http://www.pjm.com/markets/market-monitor/messages.html>

Please verify your content at that time.

Thank You,
Beverly Hartman
Ext. 8977

Please e-mail Web External to update or delete this posting. PJM requires that all web content be periodically reviewed and that outdated information be updated or removed from our Web sites. Keeping information up-to-date is the responsibility of the content owner.
Note that the many PJM Web sites have worldwide visibility (miso-pjm.com, pjm.com, etc.). Please consider our confidentiality policies and our obligation to our customers to be impartial in our business practices. Confidential or proprietary information must not be posted on any of PJM's Web sites.

-----Original Message-----

From: Cawley, Susan
Sent: Friday, December 15, 2006 5:24 PM
To: WEB External
C: Bowring, Joseph
Subject: Please post to MMU's Market Messages page (acr4)

Please post the attached spreadsheets (2) and PDF to the Market Monitoring Unit's Market Messages page (<http://www.pjm.com/markets/market-monitor/messages.html>) under the "RPM Materials" heading and list them as follows:

"Default Avoidable Cost Rate Proxy Spreadsheet - CC, 2 on 1 Frame F Simplified v1" - please put this at the bottom of the RPM Materials
"Default Avoidable Cost Rate Proxy Spreadsheet - CC, 2 on 1 Frame F v4" - this replaces the last item on the page which has the same name but has v2 at the end.
"RPM Avoidable Costs Template Instructions Rev1" - this replaces the third item under RPM materials; same name but no revision reference at end.

Thanks.

Susan
(x3464)

-----Original Message-----

From: Racioppi, Frank
Sent: Friday, December 15, 2006 3:47 PM
To: Cawley, Susan

Subject: Posting Spreadsheets

I'm not sure how these should be labeled. We need to check with Joe.
F

Bowring, Joseph

From: Bowring, Joseph
Sent: Monday, December 18, 2006 6:44 AM
To: Million, Mark A.
Subject: RPM

Please let me know if monitoring issues come up - in general, Markets staff should not respond to such questions but should defer them to us. We are happy to have a separate meeting with members if they wish or to respond in writing via the FAQ.

Please also let me know if Andy's modification to the business rules to make retirement the default for the calculation of avoidable costs comes up. It is the MMU position that this is not correct. Avoidable costs are not based on an assumption of retirement but reflect the annual incremental costs of being a capacity resource.

Thanks

Bowring, Joseph

From: Ott, Andy
Sent: Tuesday, December 19, 2006 9:37 AM
To:
Cc: ; Bowring, Joseph
Subject: RE: Meeting with Andy and Joe Wednesday right after the MIC

The dial in number for this meeting is as follows:

Phone Number: 800-351-0959

Meeting ID: 3836

-----Orig
From: ;
Sent: Monday, December 18, 2006 11:01 PM
To: Ott, Andy
C: Bowring, Joseph
Subject: Re: Meeting with Andy and Joe Wednesday right after the MIC

Great! Let's just plan the meeting to start at 3:30 p.m. Can you provide a dial-in number?

----- Original Message -----
From: [ott@pjm.com]
Sent: 12/18/2006 06:39 PM
To:
Cc: < >; <bowrij@pjm.com>
Subject: RE: Meeting with Andy and Joe Wednesday right after the MIC

Joe and I are available after the MIC, except for between 230 PM to 3 PM where Joe has a conf call commitment

-----Orig
From: ;
Sent: Monday, December 18, 2006 2:36 PM
To: Ott, Andy
C: ;
Subject: Meeting with Andy and Joe Wednesday right after the MIC

Andy:

I heard from a bunch of suppliers and they would like to meet with you and Joe right after the MIC on Wednesday to discuss RPM mitigation. So can you please confirm your and Joe's availability?

There is a few suppliers that would participate via dial-in (including myself and a handful of others). Can you also please provide a dial-in number?

Since I will not be physically present at the MIC on Wednesday, [redacted] has kindly agreed to coordinate on that day.

Please let me know as soon as possible if Wednesday after the MIC still works for both you and Joe.

Thanks in advance.

Bowring, Joseph

From: Bowring, Joseph
Sent: Thursday, December 21, 2006 3:39 PM
To: Duane, Vincent P.
Subject: RE: Retraction of Templates (RPM)

See revised version:

Please be advised that materials posted to the PJM website and described in a MC/MRC/MIC majordomo message this morning have been taken down from the PJM website. In light of the comments made at today's FERC open meeting indicating the Commission has conditionally approved the RPM settlement, PJM believes it would benefit all parties to consider the Commission order when it becomes available before proceeding.

-----Original Message-----

From: Duane, Vincent P.
Sent: Thursday, December 21, 2006 3:20 PM
To: Ott, Andy; Bowring, Joseph
Subject: Retraction of Templates (RPM)

How does the following strike you as a retraction.

Dear Members:

Please be advised that materials posted to the PJM website and described in a MC/MRC/MIC majordomo message this morning have been taken down from the PJM website. The templates that were posted address an approach to calculating and reporting costs for purposes of establishing the Avoidable Cost Rate in RPM. In light of the comments made at today's FERC open meeting indicating the Commission has conditionally approved the RPM settlement but with certain conditions potentially affecting mitigation and the role of the PJM Market Monitor in avoided cost calculation, PJM believes it would benefit all parties to consider the Commission order when it becomes available before proceeding with the details of an approach that may not conform to Commission directive.

Joe Bowring
Market Monitor

-----Original Message-----

From: pjm-mrc-bounces+duanev=pjm.com@lists.pjm.com [mailto:pjm-mrc-bounces+duanev=pjm.com@lists.pjm.com]
Sent: Thursday, December 21, 2006 8:21 AM
To: pjm-mc@lists.pjm.com; pjm-mrc@lists.pjm.com; pjm-mic@lists.pjm.com
Subject: [Pjm-mrc] RPM Message to Members

Dear Members:

The MMU has posted the following material to the PJM website. The material can be found at the following link under the "RPM Materials" heading: (<http://www.pjm.com/markets/market-monitor/messages.html>).

"Default Avoidable Cost Rate Proxy Spreadsheet - CC, 2 on 1 Frame F Simplified v1." This is a simplified version of the previously posted (11/22/2006) base template which provides for the input of only aggregate operations, maintenance and administrative labor cost data and does not include the labor cost detail of the base template. A Section 2B Non Avoidable Cost Data has been added for completion by the participant.

"Default Avoidable Cost Rate Proxy Spreadsheet - CC, 2 on 1 Frame F v4." This is the base template with the addition of Section 2B Non Avoidable Cost Data mentioned above. This template retains the detailed non-aggregated inputs for operations, maintenance and administrative labor cost data for those participants who wish to provide the detailed input data.

"RPM Avoidable Costs Template Instructions Rev1." This is an updated version of the template instructions, including instructions on the use of the simplified template.

The use and submission of either template is at the choice of the participant.

Please let me know if you have any questions.

Thanks,
Joe Bowring
Market Monitor

Bowring, Joseph

From: @ Andy
Sent: Thursday, December 21, 2006 4:48PM
To: Duane, Vincent P.; @ Andy; Bowring, Joseph
Subject: Re: Retraction of Templates (RPM)

Joe and Vince

I touched base with Audrey. . She agreed that there is no need to issue this retraction . So please do not continue with it. However she does want PJM to issue new proxy prices based on the business rules . Joe I will call you tomorrow on this one

-----Original Message-----

From: Duane, Vincent P.
To: Ott, Andy; Bowring, Joseph
Sent: Thu Dec 21 15:19:30 2006
Subject: Retraction of Templates (RPM)

How does the following strike you as a retraction.

Dear Members:

Please be advised that materials posted to the PJM website and described in a MC/MRC/MIC majordomo message this morning have been taken down from the PJM website. The templates that were posted address an approach to calculating and reporting costs for purposes of establishing the Avoidable Cost Rate in RPM. In light of the comments made at today's FERC open meeting indicating the Commission has conditionally approved the RPM settlement but with certain conditions potentially affecting mitigation and the role of the PJM Market Monitor in avoided cost calculation, PJM believes it would benefit all parties to consider the Commission order when it becomes available before proceeding with the details of an approach that may not conform to Commission directive.

Joe Bowring
Market Monitor

-----Original Message-----

From: pjm-mrc-bounces+duanev=pjm.com@lists.pjm.com [mailto:pjm-mrc-bounces+duanev=pjm.com@lists.pjm.com]
Sent: Thursday, December 21, 2006 8:21 AM
To: pjm-mc@lists.pjm.com; pjm-mrc@lists.pjm.com; pjm-mic@lists.pjm.com
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"RPM Avoidable Costs Template Instructions Rev1." This is an updated version of the template instructions, including instructions on the use of the simplified template.

The use and submission of either template is at the choice of the participant.

Please let me know if you have any questions.

Thanks,
Joe Bowring
Market Monitor

Bowring, Joseph

From: Zibelman, Audrey A.
Sent: Thursday, December 21, 2006 8:33 AM
To: Bowring, Joseph
Subject: Re: [Pjm-mrc] RPM Message to Members

We can talk later

-----Original Message-----

From: Bowring, Joseph
To: Zibelman, Audrey A.; Ott, Andy
Sent: Thu Dec 21 08:32:29 2006
Subject: RE: [Pjm-mrc] RPM Message to Members

This was the response to members' concern about the complexity of the template. Per my discussions with Andy, we created a simpler version of the template that does not include the detailed labor input data and posted it, along with some clarifications to the base template. The instructions document was modified to reflect these changes. Let me know if you want me to call you or to explain in more detail.

- Joe

-----Original Message-----

From: Zibelman, Audrey A.
Sent: Thursday, December 21, 2006 8:27 AM
To: Ott, Andy; Bowring, Joseph
Subject: Fw: [Pjm-mrc] RPM Message to Members

What is this

-----Original Message-----

From: pjm-mrc-bounces+zibela=pjm.com@lists.pjm.com <pjm-mrc-bounces+zibela=pjm.com@lists.pjm.com>
To: pjm-mc@lists.pjm.com <pjm-mc@lists.pjm.com>; pjm-mrc@lists.pjm.com <pjm-mrc@lists.pjm.com>; pjm-mic@lists.pjm.com <pjm-mic@lists.pjm.com>
Sent: Thu Dec 21 08:21:10 2006
Subject: [Pjm-mrc] RPM Message to Members

Dear Members:

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"RPM Avoidable Costs Template Instructions Rev1." This is an updated version of the template instructions, including instructions on the use of the simplified template.

The use and submission of either template is at the choice of the participant.

Bowring, Joseph

From: Bowring, Joseph
Sent: Thursday, December 21, 2006 8:54 AM
To: Ott, Andy
Subject: FW: [Pjm-mrc] RPM Message to Members

I thought we had agreed on this also. Was I incorrect?

-----Original Message-----

From: Filipovic, Virginia
Sent: Thursday, December 21, 2006 8:50 AM
To: Zibelman, Audrey A.
Cc: Bowring, Joseph; Cawley, Susan; Anders, David
Subject: RE: [Pjm-mrc] RPM Message to Members

Hi Audrey,

I was only requested to send the notice to the MC, MRC, and MIC. Joe Bowring, or his admin Susan Cawley would have been the ones that would have posted it.

Ginny

-----Original Message-----

From: Zibelman, Audrey A.
Sent: Thursday, December 21, 2006 8:30 AM
To: Filipovic, Virginia
Subject: Re: [Pjm-mrc] RPM Message to Members

Why did you post this

-----Original Message-----

From: pjm-mrc-bounces+zibela=pjm.com@lists.pjm.com <pjm-mrc-bounces+zibela=pjm.com@lists.pjm.com>
To: pjm-mc@lists.pjm.com <pjm-mc@lists.pjm.com>; pjm-mrc@lists.pjm.com <pjm-mrc@lists.pjm.com>; pjm-mic@lists.pjm.com <pjm-mic@lists.pjm.com>
Sent: Thu Dec 21 08:21:10 2006
Subject: [Pjm-mrc] RPM Message to Members

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"RPM Avoidable Costs Template Instructions Rev1." This is an updated version of the template instructions, including instructions on the use of the simplified template.

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Please let me know if you have any questions.

Thanks,
Joe Bowring
Market Monitor

Bowring, Joseph

From: Bowring, Joseph
Sent: Thursday, December 21, 2006 9:38 AM
To: Ott, Andy
Subject: RE: [Pjm-mrc] RPM Message to Members

We had discussed it previously and I had told you that I would do this. I understood this to be in response to your request and that the posting was what you had asked me to do. Sorry if I did not tell you on the day it was posted.

-----Original Message-----

From: Ott, Andy
Sent: Thursday, December 21, 2006 9:35 AM
To: Bowring, Joseph
Subject: Re: [Pjm-mrc] RPM Message to Members

Joe the problem is communication . Tha first I heard that you posted this was yesterday when you faid in in the stakegolder meeting. That is not acceptable

-----Original Message-----

From: Bowring, Joseph
To: Ott, Andy
Sent: Thu Dec 21 08:53:53 2006
Subject: FW: [Pjm-mrc] RPM Message to Members

I thought we had agreed on this also. Was I incorrect?

-----Original Message-----

From: Filipovic, Virginia
Sent: Thursday, December 21, 2006 8:50 AM
To: Zibelman, Audrey A.
Cc: Bowring, Joseph; Cawley, Susan; Anders, David
Subject: RE: [Pjm-mrc] RPM Message to Members

Hi Audrey,

I was only requested to send the notice to the MC, MRC, and MIC. Joe Bowring, or his admin Susan Cawley would have been the ones that would have posted it.

Ginny

-----Original Message-----

From: Zibelman, Audrey A.
Sent: Thursday, December 21, 2006 8:30 AM
To: Filipovic, Virginia
Subject: Re: [Pjm-mrc] RPM Message to Members

Why did you post this

-----Original Message-----

From: pjm-mrc-bounces+zibela=pjm.com@lists.pjm.com <pjm-mrc-bounces+zibela=pjm.com@lists.pjm.com>
To: pjm-mc@lists.pjm.com <pjm-mc@lists.pjm.com>; pjm-mrc@lists.pjm.com <pjm-mrc@lists.pjm.com>; pjm-mic@lists.pjm.com <pjm-mic@lists.pjm.com>
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"RPM Avoidable Costs Template Instructions Rev1." This is an updated version of the template instructions, including instructions on the use of the simplified template.

The use and submission of either template is at the choice of the participant.

Please let me know if you have any questions.

Thanks,
Joe Bowring
Market Monitor

Bowring, Joseph

From: Ott, Andy
Sent: Wednesday, December 27, 2006 12:56 PM
To: Bowring, Joseph
Subject: RE: Bilateral contracts

why do you think you need to be the one to calculate this, why don't we just estimate their net revenues based on PJM markets, supply our calculation to them and let them add in the bilateral contract revenues if any. Can you show me in the tariff where it says that you specifically need to do this calculation

-----Original Message-----

From: Bowring, Joseph
Sent: Wednesday, December 27, 2006 12:53 PM
To: Ott, Andy
Subject: RE: Bilateral contracts

The tariff states that bilateral contract revenues must be included in net revenues. (I can get the exact cite if you wish.) The generators are responsible for providing us their bilateral revenues because we do not have that data.

-----Original Message-----

From: Ott, Andy
Sent: Wednesday, December 27, 2006 11:15 AM
To: Bowring, Joseph
Subject: Bilateral contracts

Joe

I received a call from a generator saying that you are going to require them to submit all of their bilateral contracts for energy in the RPM data submissions .
First I do not think this is possible for us to do and second why would you want them ?

Bowring, Joseph

From: Gilrain, Mark
Sent: Thursday, December 28, 2006 2:30 PM
To: Million, Mark A.; Bowring, Joseph
Subject: FW: RPM - Mothball Units

Joe and Million,

Here is the question that I asked at the Stakeholder meeting regarding the Mothballed vs. retired units. I'll leave this one to you guys to answer.

-Mark

-----Original Message-----

From:
Sent: Thursday, December 28, 2006 11:23 AM
To: Gilrain, Mark
Cc: Kirk, :
Subject: Re: RPM - Mothball Units

Yes, Mark, that's the issue I had raised.

Based on the Business Rule, which indicate that the bid caps should reflect the annual costs that would be avoided if the unit were to retire, I would have expected the default values to also be based on a retirement scenario.

Because Joe's calculated default values are significantly lower than what most suppliers are eligible for under a retirement scenario (as most of the labor and fixed O/M and all but the land component of property taxes would be avoidable if the plant retired) PJM should expect most (perhaps all suppliers) to submit unit specific values to obtain the higher caps they are eligible for, effectively undermining the purpose of the default values and requiring PJM to review significantly more submissions than if the default values were calculated appropriately to begin with.

-----Original Message-----

From: Gilrain@nim.com <Gilrain@nim.com>
To: >
Sent: Thu Dec 28 09:10:37 2006
Subject: RPM - Mothball Units

I believe you asked about Mothball units at the end of the RPM Stakeholder meeting on Dec 18. In particular you questioned if Joe needed to re-calculate the default avoidable cost rates for units. I wanted to make sure I understood your question correctly before discussing with Joe.

Please confirm or correct my understanding of your question.

-Mark

Bowring, Joseph

From: Bowring, Joseph
Sent: Sunday, January 07, 2007 2:07 PM
To: Ott, Andy
Subject: RPM question

Andy:

I think this may require Paul's input but am sending this participant question to you recognizing that you have asked me not to address questions directly to Paul.

Question:

If a new entrant is planning a new unit to be on line in 2014 and may be on line in 2013, they face a decision about which auction to enter.

If they initially decide not to enter the 2013 auction because of the risk that they will not be online, but after the base auction is complete, decide that they think they will be complete in 2013, can they enter the incremental auctions for the 2013 operating year?

I think it is a good question. I think it turns on a tariff interpretation. It would probably make sense to put it in the business rules.

thanks,
Joe

Bowring, Joseph

From: Ott, Andy
Sent: Monday, January 22, 2007 6:54 PM
To: Ott, Andy; Bowring, Joseph; 'PAUL FLYNN'
Subject: RE: Please review Tariff citation for RPM stakeholder public posting

Joe, Paul left me a voicemail that your cite is good with him .

-----Original Message-----

From: Ott, Andy
Sent: Monday, January 22, 2007 5:53 PM
To: Bowring, Joseph; 'PAUL FLYNN'
Subject: RE: Please review Tariff citation for RPM stakeholder public posting

Paul see clarification below , Joe you can contact Paul directly on things like this , you just need to copy me to keep me informed

-----Original Message-----

From: Bowring, Joseph
Sent: Monday, January 22, 2007 5:47 PM
To: Ott, Andy
Subject: RE: Please review Tariff citation for RPM stakeholder public posting

I want to use the cite in the email below and not the cite in the attached. The cite in the attached is incorrect.

-----Original Message-----

From: Ott, Andy
Sent: Monday, January 22, 2007 5:40 PM
To: 'PAUL FLYNN'
Cc: Bowring, Joseph
Subject: FW: Please review Tariff citation for RPM stakeholder public posting

Paul

Joe has the following question, is the reference in the attached correct ?

-----Original Message-----

From: Bowring, Joseph
Sent: Monday, January 22, 2007 5:23 PM
To: Ott, Andy
Subject: FW: Please review Tariff citation for RPM stakeholder public posting

Can we ask Paul? or do you know? I have not gotten a response from Vince. First asked him early this AM. He is out of the office. I want to be sure that we are citing correctly.
Thanks

-----Original Message-----

From: Cawley, Susan
Sent: Monday, January 22, 2007 4:32 PM
To: Duane, Vincent P.
Cc: Bowring, Joseph
Subject: Please review Tariff citation for RPM stakeholder public posting

Vince,

Joe asked me to have you review reference to the Attachment DD (Reliability Pricing Model) that will appear in a public posting for RPM Stakeholders regarding new entrant Combustion Turbine net revenue analysis:

Pursuant to Attachment DD, Section 5.10(a)(v)(A, B and C) of the PJM Tariff changes approved by the FERC on December 22, 2006 with an effective date of June 1, 2007, PJM provides the net energy and ancillary services revenue offset data for the PJM Region and each subregion for which the cost of new entry is determined, using the Peak-Hour Dispatch method.

Thank you for your assistance.

Susan

(x 3464)

Bowring, Joseph

From: pjm-mic-bounces+bowrij=pjm.com@lists.pjm.com on behalf of filipov@pjm.com
Sent: Wednesday, January 24, 2007 2:15 PM
To: pjm-mc@lists.pjm.com; pjm-mrc@lists.pjm.com; pjm-mic@lists.pjm.com
Subject: [Pjm-mic] RPM Message to Members

Dear Members:

The MMU has posted "Net Energy and Ancillary Services Revenue Offset for PJM and Subregions" to the PJM website. The document is attached and can also be found at the following link under the "RPM Materials" heading: (<http://www.pjm.com/markets/market-monitor/messages.html>).

This information is provided pursuant to Attachment DD ("Reliability Pricing Model"), Section 5.10 of the PJM Tariff changes approved by the FERC on December 22, 2006 with an effective date of June 1, 2007. The document provides the net energy and ancillary services revenue offset data for the PJM Region and each subregion for which the cost of new entry is determined, using the Peak-Hour Dispatch method.

Please let me know if you have any questions.

Thanks,
Joe Bowring
Market Monitor

Bowring, Joseph

From: pjm-mc-bounces+bowrij=pjm.com@lists.pjm.com on behalf of filipov@pjm.com
Sent: Wednesday, January 24, 2007 2:55 PM
To: pjm-mc@lists.pjm.com; pjm-mrc@lists.pjm.com; pjm-mic@lists.pjm.com
Cc: Million, Mark A.; Stein, Paulette
Subject: [Pjm-mc] MIC, MRC, MC majordomo message

Dear Members,

The PJM RPM Avoidable Cost Rate (ACR) System training is now available. This course was designed for RPM participants who must submit avoidable cost data to PJM's Market Monitoring Unit (MMU).

Please use this link to view the details and register for the course - <http://www.pjm.com/services/courses/c-pjm-rpm-acr.html>

If you have any questions, please contact the PJM Hotline at 610-666-8980 or toll free at 866-400-8980.

Thank you,

Mark Million
PJM Interconnection

From: PJM Post
Sent: Wednesday, June 27, 2007 3:33 PM
To: Employee Distribution
Subject: PJM Post - June 27, 2007 - PJM Kicks Off 10/80 Celebration

ALL-HANDS MEETING

PJM Kicks Off 10/80 Celebration; Employees Receive Updates, Recognition

PJM officially marked the start of the 10/80 celebration today at an all-hands meeting that included updates on a number of key business areas. The 10/80 anniversary celebration in 2007 marks PJM's 10th anniversary as an independent grid operator and 80th year as a power pool.

Referring to the recent public coverage of issues related to PJM's governance and the market monitoring function, Phil Harris, president and CEO, encouraged employees to maintain their focus because challenges have been nothing new to PJM over its 80 years.

"PJM employees have always demonstrated perspective and poise in trying times," Harris said as he described a number of earlier issues that have confronted PJM, such as uncertainty about its future role when the PJM Interconnection Association was formed and the development of the regional planning process and generation interconnection protocols. "Challenges have always made us stronger because we know our work and we strengthen each other.

"Because of your knowledge, attitude, respect and professionalism, PJM not only is demonstrating the value of regional transmission organizations, but carries tremendous worldwide influence among our peers. They want to know what we're doing and want to emulate us."

PJM is at the center of national debates about the industry because of its technical acumen and industry leadership, he added. That will continue as the industry, government and the public make decisions on such issues as expanding transmission and implementing the Smart Grid.

Harris said the blueprint contained in the recently issued Strategic Report is being examined and recommendations already are being implemented.

"Keeping our perspective and poise will help us meet the challenges of PJM's next decade and next 80 years," he concluded.

In discussing the 10/80 celebration, Esrick McCartha, client manager - Member Relations and chairman of the committee that planned this year's anniversary celebration, introduced the other members of the committee - Alan Alesius, Chris Hein, Cynthia Jackson, Jim Kirby, Kirsten Lusska, Molly Lynch, Francine Martin, Dave Miscavage, Tom Moleski, Dave Picarelli, Ken Schuyler and Melissa Schwenk.

As part of the celebration, a video, "A Map of PJM," was shown. The video, an historical presentation and other 10/80 items are available on [PJM Life](#). DVD copies of the video are available by e-mailing [Madeline Bergman](#).

Suzanne Daugherty, vice president, chief financial officer and treasurer, discussed the company's financial performance, explaining that stated rates are achieving their goals of price predictability and accountability for members. Under the rate plan, PJM recovers its administrative costs through fixed rates billed to members based on their activity levels.

"At Finance Committee meetings, there are no debates about the value and costs of PJM," she said, adding that PJM is refunding about \$7 million to members this year and projects it will refund about \$40 million next year.

Daugherty also announced that PJM's latest credit rating soon will be announced, and it will be one of the top 10 ratings in the electricity industry.

Mike Bryson, manager - Dispatch, outlined PJM's preparations for the impact of hot summer weather on the system.

"We're ready for the summer," he said, noting that preparing for higher summer loads involves studies, coordination with neighboring grid organizations and drills that test procedures with the transmission owners.

He said that even though PJM has ample generation reserves, managing transmission constraints and variations in weather across the PJM territory presents particular challenges during the summer months.

Paul McGlynn, manager - Transmission Planning, described load growth, high utilization of the transmission system and generation retirements in eastern PJM as key challenges being addressed in the planning process.

He noted that there are increasing levels of activity in terms of generation interconnection, with baseload coal plants being planned in West Virginia and Pennsylvania, potential nuclear projects being announced and significant wind-development proposals in Illinois, Pennsylvania and Delaware.

Vince Duane, vice president and general counsel, served as the emcee for the meeting.

Harris presented Esprit de Corps awards to 28 employees to conclude the all-hands meeting. The award, a boxed gold and silver belt buckle, is designed to recognize employees who exemplify the PJM spirit in their work and attitude. Receiving the award were:

Al Bramley, Procurement; Joe Carl, Member Training; Cheryl Cloud, Market Settlement Operations; Joan D'Antonio, Regional Operations; Frank DiCicco, Interconnection and Generation Planning; Tracy Domin, Member Relations; Bill Franks, Facilities; Darrell Frogg, Mid-Term Operations Planning; Mike Haag, Facilities; Leanne Harrison, NERC and Regional Coordination; Chris Hein, General Counsel; Steve Hinz, Employee Relations; Tom Keyser, Regional Operations; Jim Lancaster, Facilities; Will Lebus, Facilities; Francine Martin, IT Security; Mark Million, Market Monitoring Unit;

Wenzheng Qui, Interconnection and Generation Planning; John Richardson, Operations Planning; Mark Sims, Transmission Planning; Ed Smith, Facilities; Virginia Snyder, General Counsel; William Souza, Security Management; Jessica Staley, Windows Infrastructure; Jay Stauffer, Facilities; Forrest Strachan, Treasurer; Ken Thomas, Mid-Term Operations Planning; and Don Wallin, Regional Operations.

ALL-HANDS MEETING

Reminder: All-Hands Meeting to Be Held Tomorrow

Please plan to attend the all-hands meeting tomorrow morning in the Service Center parking lot. The meeting will be held from 9:30 to 11:30 a.m. The agenda for the meeting is as follows:

- Finance/Stated Rate
- Summer Outlook
- Transmission Projects
- 10/80 Anniversary Video
- State of PJM
- Esprit de Corps Awards

A buffet lunch will follow the meeting.

Date: Wednesday, June 27

Time: 9:30 a.m.

Location: Service Center parking lot

A live audio and video feed will be available for PJM Western Region employees.

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7 Transcription of

8 meeting of

9 PJM

10 June 27, 2007

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22 ESQUIRE DEPOSITION SERVICES

Four Penn Center, Suite 1210

23 1600 John F. Kennedy Boulevard

Philadelphia, Pennsylvania 19103

24 (215) 988-9191

ESQUIRE DEPOSITION SERVICES

1 MR. DUANE: Good morning,
2 everyone. Good morning. Thank
3 you. For those of you who may not
4 know me my name is Vince Duane.
5 I'm a general counsel at PJM and
6 I've got to say I'm a little
7 surprised that I was asked by the
8 corporate communications folks to
9 introduce and MC this.

10 Usually, you put a lawyer
11 with a microphone in front of a
12 large crowd like this and we're
13 trained to say my "client will
14 have no comment".

15 So, you know, that's our --
16 how we get the reputation of being
17 such delightful
18 conversationalists.

19 But let me tell you a true

20 story that because of this, could

21 be worse, believe it or not, and

22 this is true.

23 Last, I guess it was

24 probably two weeks ago we held our

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1 members committee meeting down in
2 Wilmington and I'm sitting at the
3 podium and through some absolutely
4 terrible miscalculation, somebody
5 gave two lawyers from our
6 membership the opportunity on the
7 agenda to address a topic and gave
8 them some time.

9 And I know these folks. And
10 these two people are just terrific
11 people and they are very capable
12 lawyers, but they proceeded to
13 take this time to explore with the
14 membership all the arcania of the
15 open access tariff as relates to
16 interzonal cross border rate
17 design; so, they, about 20 minutes
18 into what I guess I could only
19 describe as a sort of tag team

20 monotone, I leaned over to the
21 vice chair and I said, tell me, do
22 I sound like this when I address
23 the membership?
24 And she leaned back to me

ESQUIRE DEPOSITION SERVICES

1 and she said if you do, I would
2 take this pen and stab it right
3 through your thigh.

4 So, you can see we're not
5 usually given the mic.

6 But what corporate
7 communications did know is that
8 about 25 years ago I was living in
9 Canada, and in addition to other
10 disreputable pursuits, such as
11 studying political science and
12 philosophy I was a guitarist in a
13 ska band. So I'm accustomed a
14 little bit to being in crowds.

15 For those of you in
16 the audience know are a little
17 more mature or have more elevated
18 tastes or are just simply
19 culturally underinformed, Andy Ott

20 isn't here but I'm looking for him

21 at this point, ska music is a rock

22 and roll meets reggae.

23 So, for the rest of you here

24 who are a condasente of

ESQUIRE DEPOSITION SERVICES

1 underappreciated art force like
2 ska, you're probably saying to
3 yourself there's no way this white
4 guy from Canada who was about to
5 go to law school was ever in front
6 of a crowd of this size playing
7 some form of reggae music and my
8 response would be no comment.

9 Actually, my real response
10 would be Canadian's have a well
11 deserved reputation for tolerance.

12 If you are a
13 semi-professional musician,
14 though, whether you play in front
15 of six people, including your put
16 upon girlfriend or six hundred
17 people, you've always got in the
18 back of your mind the possibility
19 that one day you might be in front

20 of a crowd and you need to have a
21 speech to accept a Grammy or some
22 other such thing.

23 But sadly, I haven't won
24 anything today; but plenty of

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1 others here today have.

2 And that's what this
3 opportunity is all about; it's an
4 opportunity to acknowledge both
5 individual successes and some of
6 our corporate successes.

7 Not everything is perfect.
8 I think most folks are aware that
9 there's a lot of stress facing the
10 PJM institution, both internally
11 and on our larger community right
12 now regarding our market
13 monitoring issues as we work
14 through that question about the
15 structure and the workings of
16 that.

17 And I'm close to
18 that issue and let me just say
19 when you strip away all the

20 rhetoric, what is honestly going
21 on here is an honest,
22 intellectually grounded debate in
23 trying to strike a balance between
24 accountability of that function

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1 and the independence of that
2 function needs and Phil Harris is
3 going to make some more mention of
4 that later on in the program.

5 But that matter is
6 transient and I think if you
7 reflect back on the context and
8 sort of the reason we are here
9 today, you are going to appreciate
10 that.

11 There's been ten
12 years of us operating as an
13 independent grid and 80 years more
14 of history and that's just a
15 remarkable accomplishment. I've
16 only been here four years so I
17 can't take credit for any of it
18 but when I have the privilege to
19 meet and discuss with some of you

20 who have been here for 25 or 30

21 years, I'm honestly quite

22 awestruck.

23 And you have just so

24 much to be proud of with your

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1 accomplishments and everything

2 you've built here.

3 And, you know, that's

4 what we -- why we're here.

5 Let me turn now to

6 just describe to you what agenda

7 we're going to be addressing today

8 and keeping all that in mind.

9 Suzanne Dougherty is going

10 to start by giving us an overview

11 of where we stand financially and

12 how we've been performing under

13 our stated rate. We're then going

14 to turn to Mike Bryson, who's

15 going to give us a summer update

16 from the operations perspective

17 and an outlook on that front and

18 Paul McGlynn is going to provide

19 us an update on transmission

20 projects and the focus that we
21 have right now on insuring a
22 renewal of infrastructure in this
23 industry, particularly on the
24 transmission front.

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1 We're going to then
2 move on to a very special topic
3 and this is really what I was
4 referring to earlier; this is 2007
5 and it marks our tenth year as an
6 independent grid operator and 80th
7 year as a power pool.

8 And Ezra McCartha is going
9 to come up here and explain to us
10 what we can look forward to
11 through the rest of this year in
12 the form of some anniversary
13 celebrations and just an
14 opportunity to celebrate that
15 success.

16 I mentioned Phil Harris; he
17 will be joining us next and he's
18 going to be giving us all, from
19 the CEOs point of view, the state

20 of PJM and the issues that he sees
21 this organization tackling as we
22 move forward.

23 We're going to finish
24 up with some awards, the Aspre

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1 decor awards and finally we're
2 going to move on back here to the
3 tent for what I understand is a
4 Luau buffet, which I think is
5 somewhat appropriate under the
6 temperature circumstances.

7 I am delighted so
8 many of you have come to join us
9 in today's discussion; including
10 our breathern out in the Janette
11 office that may miss out on a luau
12 but they are also in air
13 conditioned comfort, I presume.

14 But thank you for participating
15 over the phone there.

16 Without any further adieu,
17 let me introduce to you Suzanne
18 Dougherty. Thank you.

19 MS. DOUGHERTY: Now, whoever

20 would have thought it would be

21 hard to follow the attorney?

22 The summer outlook, which

23 comes after this, by the way,

24 Mike, where are you, it's hot.

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1 Okay. There's the outlook.

2 From a financial perspective
3 at PJM, there are several items
4 that I want to mention that you
5 all contributed a great deal to
6 PJM achieving.

7 If you recall, when we
8 worked for changing our recovery
9 structure, from a formula rate,
10 that varied to our members every
11 month over time to the stated rate
12 that got implemented June 1st,
13 2006, we stated some specific
14 objectives that we wanted to
15 accomplish with that change in
16 rate structure; those being price
17 predictability to the members.
18 We've achieved that.

19 We also wanted to prove to

20 them that we could be accountable.

21 They didn't have to look at every

22 dollar being spent by every

23 department that we would live

24 within the funds generated by the

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1 stated rate and we definitely
2 have. In fact to the point of
3 some refund this year, about a
4 sent a megawatt hour, just under
5 \$7 million this year and based on
6 the projected spending from all of
7 your groups during 2007 we may
8 have as much as a five cents per
9 mega watt hour refund. Next year
10 about \$40 million.

11 This has all been
12 accomplished while still
13 initiating the construction know
14 of a second control center,
15 implemented RPM, marginal losses,
16 replacing our market settlement
17 system and still operating the
18 largest grid in the world. These
19 are amazing accomplishments and