

g) Resource Substitution Charge

Each Capacity Market Buyer in the First Incremental Auction or Third Incremental Auction shall pay a Resource Substitution Charge equal to the Capacity Resource Clearing Price resulting from such auction multiplied by the megawatt quantity of Unforced Capacity purchased by such Market Buyer in such auction.

h) Minimum Offer Price Rule for Certain Planned Generation Capacity Resources

(1) Prior to each Base Residual Auction, the Market Monitoring Unit shall develop locational asset-class estimates of competitive, cost-based, real levelized (year one) Cost of New Entry, net of energy and ancillary service revenues (“Net Asset Class Cost of New Entry”). Other than the levelization approach, determination of the Cost of New Entry component of the Net Asset Class Cost of New Entry shall be consistent with the methodology used to determine the Cost of New Entry set forth in Section 5.10(a)(iv)(A) of this Attachment. Notwithstanding the foregoing, the Net Asset Class Cost of New Entry shall be zero for: (i) base load resources, such as nuclear, coal and Integrated Gasification Combined Cycle, that require a period for development greater than three years; (ii) any facility associated with the production of hydroelectric power; (iii) any upgrade or addition to an existing Generation Capacity Resource; or (iv) any Planned Generation Capacity Resource being developed in response to a state regulatory or legislative mandate to resolve a projected capacity shortfall in the Delivery Year affecting that state, as determined pursuant to a state evidentiary proceeding that includes due notice, PJM participation, and an opportunity to be heard.

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

i. Sell Offer affects the Clearing Price;

ii. Sell Offer is less than 80 percent of the applicable Net Asset Class Cost of New Entry or, if there is no applicable Net Asset Class Cost of New Entry, less than 70 percent of the Net Asset Class Cost of New Entry for the Reference Resource effective in such LDA; and

Issued By: Craig Glazer
Vice President, Federal Government Policy
Issued On: September 29, 2006

Effective: June 1, 2007

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

(3) If the Market Monitoring Unit determines that all of the criteria of Section 5.14(h)(2) are met, it shall notify the Capacity Market Seller of this determination. The alternative Sell Offer employed in place of the actual Sell Offer shall be equal to 90 percent of the applicable Net Asset Class Cost of New Entry or, if there is no applicable Net Asset Class Cost of New Entry equal to 80 percent of the Net Asset Class Cost of New Entry for the Reference Resource.

Deleted: Within five business days, or such other period to which the Market Monitoring Unit consents, such Capacity Market Seller may supply the Market Monitoring Unit with specific information about the costs and operational parameters relating to its Sell Offer. If the Capacity Market Seller fails to supply any such information within the specified time, or if the Market Monitoring Unit determines (subject to the procedures in section 6.2(c) of this Attachment) that the information provided, combined with revenues that would be earned in PJM-administered markets as determined by PJM, does not support the offer, the applicable cost-based net Cost of New Entry determined in Section 5.14(h)(1) shall be used to establish an alternative Sell Offer.

Deleted: Upon timely receipt of such information, the Market Monitoring Unit shall determine whether such Sell Offer is consistent with the real levelized (year one) competitive, cost-based, fixed, net cost of new entry were the resource to rely solely on revenues from PJM-administered markets (i.e., were all output from the unit sold in PJM-administered spot markets). The Market Monitoring Unit shall adjust the alternative Sell Offer if appropriate on the basis of the relevant and reliable supporting information available and the application of an objective analysis.

Issued By: Craig Glazer
Vice President, Federal Government Policy

Effective: June 1, 2007

Issued On: January 22, 2007

Filed to comply with order of the Federal Energy Regulatory Commission, Docket No. ER05-1410, EL05-148, issued on December 22, 2006, 117 FERC ¶ 61,331.

~~(4)~~ Including all of the Sell Offers in a single Base Residual Auction that meet the criteria of 5.14(h)~~(3)~~ above, PJM shall first calculate the replacement clearing price and the total quantity of Capacity Resources needed for the LDA. PJM shall then accept Sell Offers to provide Capacity Resources in accordance with the following priority and criteria for allocation: (i) first, all Sell Offers in their entirety designated as self-supply; (ii) then, all Sell Offers of zero, prorating to the extent necessary, and (iii) then all remaining Sell Offers in order of the lowest price, subject to the optimization principles set forth in Section 5.14.

~~(5)~~ Notwithstanding the foregoing, this provision shall terminate when there exists a positive net demand for new resources, as defined in Section 5.10(a)(iv)(B) of this Attachment, calculated over a period of consecutive Delivery Years beginning with the first Delivery Year for which this Attachment is effective and concluding with the last Delivery Year preceding such calculation, in an area comprised of the Unconstrained LDA Group (as defined in section 6.3) in existence during such first Delivery Year. Notwithstanding the foregoing, the Market Monitoring Unit shall reinstate the provisions of this section, solely under conditions in which a

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

Deleted: 5

Deleted: 4

Deleted: 6

Issued By: Craig Glazer
Vice President, Federal Government Policy
Issued On: September 29, 2006

Effective: June 1, 2007

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

5.15 Capacity Transfer Rights

(a) To recognize the value of Import Capability and provide a partial offset to potential Locational Price Adders that may be determined for an LDA (as to any Zone that encompasses two or more LDAs, the term "LDA" as used herein shall refer to such Zone, rather than to the LDAs it encompasses), the Office of the Interconnection shall allocate Capacity Transfer Rights to each LSE serving load in such LDA pro rata based on such LSE's Daily Unforced Capacity Obligation in such LDA. The total megawatts of Capacity Transfer Rights available for allocation shall equal the megawatts of Unforced Capacity imported into such LDA as determined in the Base Residual Auction ("Capacity Imported"), less any Incremental Capacity Transfer Rights into such LDA allocated pursuant to section 5.16 (but not less than zero), and shall be subject to change in subsequent Delivery Years as a result of changes in the quantity of such Capacity Imported into such LDA. Each change in an LSE's Daily Unforced Capacity Obligation during a Delivery Year shall result in a corresponding change in the Capacity Transfer Rights allocated to such LSE.

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

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

Issued By: Craig Glazer
Vice President, Federal Government Policy
Issued On: September 29, 2006

Effective: June 1, 2007

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

- (a) Mitigation for Generation Capacity Resources.
 - i) Existing Generation Resource.

Mitigation will be applied on a unit-specific basis and only if the Sell Offer of Unforced Capacity from a Generation Capacity Resource: (1) is greater than the Market Seller Offer Cap applicable to such resource; and (2) would, absent mitigation, increase the Capacity Resource Clearing Price in the relevant auction. If such conditions are met, such Sell Offer shall be set equal to the Market Seller Offer Cap.

- ii) Planned Generation Capacity Resources

(A) Sell Offers based on Planned Generation Capacity Resources shall be presumed to be competitive and shall not be subject to market power mitigation in the Base Residual Auction or Second Incremental Auction for the first Delivery Year for which such resource qualifies as a Planned Generation Capacity Resource, but may be rejected if found by the PJM Market Monitoring Unit not to be competitive in accordance with the criteria and procedures set forth below. Such resources shall be treated as Existing Generation Capacity Resources in the auctions for any subsequent Delivery Year; provided, however, that such resources may receive certain price assurances for the two Delivery Years immediately following the first Delivery Year of service under certain conditions as set forth in section 5.14 of this Attachment.

(B) Sell Offers based on Planned Generation Capacity Resources submitted for the first year in which such resources qualify as Planned Generation Capacity Resources shall be deemed competitive and not be subject to mitigation if: (1) collectively all such Sell Offers provide Unforced Capacity in an amount equal to or greater than two times the incremental quantity of new entry required to meet the LDA Reliability Requirement; and (2) at least two unaffiliated suppliers have submitted Sell Offers for Planned Generation Capacity Resources in such LDA. Notwithstanding the foregoing, any Capacity Market Seller, together with Affiliates, whose Sell Offers based on Planned Generation Capacity Resources in that LDA are pivotal, shall be subject to mitigation.

Issued By: Craig Glazer
Vice President, Federal Government Policy
Issued On: September 29, 2006

Effective: June 1, 2007

(C) Where the two conditions stated in Paragraph (B) are not met, or the Sell Offer is pivotal, the Market Monitoring Unit shall (1) compare each such Sell Offer to Sell Offers submitted in other LDAs (with due recognition for locational differences) and to the Cost of New Entry for the LDA in which the offer otherwise would clear and other LDAs (with due recognition for locational differences); (2) evaluate potential barriers to new entry on the basis of interviews with potential suppliers and other market participants; and (3) determine (subject to the procedures in section 6.2(c) of this Attachment), based on that analysis, whether to ~~recommend to the Commission whether to reject such Sell Offer as non-competitive. Prior to the conduct of the applicable auction the Commission shall notify a Capacity Market Seller whose Sell Offer is deemed non-competitive and allow such Capacity Market Seller an opportunity to submit a revised Sell Offer. The Office of the Interconnection then shall clear the auction with such revised Sell Offer in place if the Commission determines that such revised offer is competitive.~~

Deleted: Following

Deleted: and before the final determination of clearing prices, in accordance with Section 6.2(b) above, the Market Monitoring Unit

Deleted: s

Deleted: Market Monitoring Unit

Deleted: in accordance with the above criteria

Deleted: If the revised Sell Offer is not deemed competitive, it will be rejected.

(b) Mitigation for Demand Resources

The Market Seller Offer Cap shall not be applied to Sell Offers of Planned Demand Resources. When the Market Structure Test is failed, any Sell Offers of existing Demand Resources shall not be considered in determining the Capacity Resource Clearing Price in any auction for the market for which such test was failed.

6.6 Offer Requirement for Capacity Resources

(a) To avoid application of subsection (d), all Unforced Capacity of all existing Generation Capacity Resources located in the PJM Region shall be offered (which may include submission as Self-Supply) in the Base Residual Auction for each Delivery Year, where Unforced Capacity is determined using an EFORD less than or equal to the EFORD for the 12 months ending on the September 30 that last precedes the submission of such offers.

(b) Notwithstanding the foregoing, to address the risk of a change in EFORD between the auction and the Delivery Year, a Capacity Market Seller may include an EFORD Offer Segment in its Sell Offer(s) pursuant to section 6.7.

(c) Existing generation resources in the PJM Region capable of qualifying as a Generation Capacity Resource may not avoid the rule in subsection (a) by failing to qualify as a Generation Capacity Resource, or by attempting to remove a unit previously qualified as a Generation Capacity Resource from classification as a Capacity Resource, excepting only generation resources that, as shown by appropriate documentation: (i) are reasonably expected to be physically unable to participate in the relevant Delivery Year; (ii) have a financially and physically firm commitment to an external sale of its capacity, or (iii) were interconnected to the Transmission System as Energy Resources and not subsequently converted to a Capacity Resource.

(d) Any existing generation resource located in the PJM Region that is not offered into the Base Residual Auction for a Delivery Year, and that does not meet any of the

Issued By: Craig Glazer
Vice President, Federal Government Policy

Effective: June 1, 2007

Issued On: January 22, 2007

Filed to comply with order of the Federal Energy Regulatory Commission, Docket No. ER05-1410, EL05-148, issued on December 22, 2006, 117 FERC ¶ 61,331.

(b) Except as provided in subsection (c) below, potential participants in any PJM Reliability Pricing Model Auction in any LDA or Unconstrained LDA Group that fails the Preliminary Market Structure Screen (or, if such region fails the screen, potential auction participants in the entire PJM Region) shall, in addition, submit the following data, (all submitted data is subject to verification by the MMU) together with supporting documentation for each item, to the Market Monitoring Unit no later than two months prior to the conduct of such auction:

i. If the Capacity Market Seller intends to submit a non-zero price in its Sell Offer in any such auction, the Capacity Market Seller shall submit a calculation of the Avoidable Cost Rate, EFORD Offer Segment, and Projected PJM Market Revenues, as defined in subsection (d) below, together with detailed supporting documentation.

ii. If the Capacity Market Seller intends to submit a Sell Offer based on opportunity cost, the Capacity Market Seller shall also submit a calculation of Opportunity Cost, as defined in subsection (d), with detailed supporting documentation.

(c) Potential auction participants identified in subsection (b) above need not submit the data specified in that subsection for any Generation Capacity Resource:

i. that is in an Unconstrained LDA Group or, if this is the relevant market, the entire PJM Region, and is in a resource class determined by the Market Monitoring Unit as not likely to include the marginal price-setting resources in such auction; or

ii. for which the potential participant commits that any Sell Offer it submits as to such resource shall not include any price above the level determined from the avoidable cost amounts identified for the relevant resource class by the Market Monitoring Unit and filed with the Commission.

The Market Monitoring Unit shall determine and file with the Commission (subject to the procedures in section 6.2(c) of this Attachment), following stakeholder consultation, the resource classes and corresponding avoidable costs described in this subsection and shall identify such resource classes and avoidable costs in the posting required by section 6.2(a). Nothing herein precludes the Market Monitoring Unit from requesting additional information from any potential auction participant as deemed necessary by the Market Monitoring Unit, including, without limitation, additional cost data on resources in a class that is not otherwise expected to include the marginal price setting resource; and compliance with such request shall be a condition of participation in any auction. Any Sell Offer submitted in any auction that is inconsistent with any commitment made pursuant to this subsection shall be rejected, and the Capacity Market Seller shall be required promptly to resubmit a Sell Offer that complies with such commitments. If the Capacity Market Seller does not timely resubmit its Sell Offer, it shall be deemed to have submitted a Sell Offer that complies with the commitments made under this subsection, with a default price equal to the maximum price for the class of resource identified in the Sell Offer, as previously specified by the Market Monitoring Unit using the information contained in the posting required by section 6.2(a).

Deleted: in its discretion,

Deleted: Notwithstanding the foregoing, if the Capacity Market Seller demonstrates to the satisfaction of the Market Monitoring Unit that a significant change in circumstances warrants submission of a Sell Offer that is inconsistent with a prior commitment under this subsection, then the Market Monitoring Unit shall allow such Sell Offer provided that the Capacity Market Seller promptly notifies the Market Monitoring Unit upon becoming aware of the change in circumstances and provides all information deemed necessary by the Market Monitoring Unit to

Issued By: Craig Glazer
Vice President, Federal Government Policy
Effective: June 1, 2007
Issued On: January 22, 2007
Filed to comply with order of the Federal Energy Regulatory Commission, Docket No. ER05-1410, EL05-148, issued on December 22, 2006, 117 FERC ¶ 61,331.

The obligation imposed under section 6.6(a) shall not be satisfied unless and until the Capacity Market Seller submits (or is deemed to have submitted) a Sell Offer that conforms to its commitments made pursuant to this subsection.

Deleted: support such Sell Offer and that the offer is otherwise consistent with the requirements of this section 6.

(d) In order for costs to qualify for inclusion in the Market Seller Offer Cap, the Capacity Market Seller must provide to PJM relevant cost data concerning each data item specified. If cost data is not available at the time of submission for the time periods specified in section 6.8, costs may be estimated for such period based on the most recent data available, with an explanation of and basis for the estimate used. Based on the data and calculations submitted by the Capacity Market Sellers for each existing generation resource and the formulas specified below, the MMU shall calculate the Market Seller Offer Cap for each such resource, and notify the Capacity Market Seller one month prior to the auction whether such submittal will be accepted, and if not, provide to such seller detailed information as to why such submittal was not accepted. If a Capacity Market Seller fails to submit costs consistent with the above, it shall be required to submit any Sell Offer in such auction as Self-Supply. (All submitted data is subject to verification by the MMU.)

i. **Avoidable Cost Rate:** The Avoidable Cost Rate for an existing generation resource shall be determined using the formula below and applied to the unit's Base Offer Segment.

ii. **Opportunity Cost:** Opportunity Cost shall be the documented price available to an existing generation resource in a market external to PJM. In the event that the total MW of existing generation resources submitting opportunity cost offers in any auction for a Delivery Year exceeds the firm export capability of the PJM system for such Delivery Year, or the capability of external markets to import capacity in such year, PJM will accept such offers on a competitive basis. PJM will construct a supply curve of opportunity cost offers, ordered by opportunity cost, and accept such offers to export starting with the highest opportunity cost, until the maximum level of such exports is reached. The maximum level of such exports is the lesser of PJM's ability to permit firm exports or the ability of the importing area(s) to accept firm imports or imports of capacity, taking account of relevant export limitations by location. If, as a result, an opportunity cost offer is not accepted from an existing generation resource, the Market Seller Offer Cap applicable to Sell Offers relying on such generation resource shall be the Avoidable Cost Rate.

Issued By: Craig Glazer
Vice President, Federal Government Policy
Issued On: September 29, 2006

Effective: June 1, 2007