

The following are modifications to Schedule 1 of the Operating Agreement. PJM will make corresponding changes to the Tariff, Attachment K-Appendix.

SCHEDULE 1
PJM INTERCHANGE ENERGY MARKET

References to section numbers in this Schedule 1 refer to sections of this Schedule 1, unless otherwise specified.

1. MARKET OPERATIONS

1.3 Definitions.

1.3.33B.01 Synchronized Reserve.

“Synchronized Reserve” shall mean the reserve capability of generation resources that can be converted fully into energy or Demand Resources whose demand can be reduced within ten minutes from the request of the Office of the Interconnection dispatcher, and is provided by equipment that is electrically synchronized to the Transmission System.

1.3.33B.02 Synchronized Reserve Event.

“Synchronized Reserve Event” shall mean a request from the Office of the Interconnection to generation resources and/or Demand Resources able, assigned or self-scheduled to provide Synchronized Reserve in one or more specified Reserve Zones or Reserve Sub-zones, within ten minutes, to increase the energy output or reduce load by the amount of assigned or self-scheduled Synchronized Reserve capability.

1.3.33B.03 System Energy Price.

“System Energy Price” shall mean the energy component of the Locational Marginal Price, which is the price at which the Market Seller has offered to supply an additional increment of energy from a resource, calculated as specified in Section 2 of Schedule 1 of this Agreement.

1.3.33C Target Allocation.

“Target Allocation” shall mean the allocation of Transmission Congestion Credits as set forth in Section 5.2.3 of this Schedule or the allocation of Auction Revenue Rights Credits as set forth in Section 7.4.3 of this Schedule.

1.3.33C.01 Tier 1 Performance Obligation

“Tier 1 Performance Obligation” shall mean the commitment of a Tier 1 Synchronized Reserve resource to respond to a Synchronized Reserve Event. A Tier 1 Performance Obligation is created for a resource anytime the Non-Synchronized Reserve Market Clearing Price is greater than zero and the resource does not elect to opt out of accepting the obligation. The amount of the Tier 1 Performance Obligation is equal to the Tier 1 Synchronized Reserve Estimate.

1.3.33C.02 Tier 1 Synchronized Reserve Actual Estimate

“Tier 1 Synchronized Reserve Actual Estimate” shall mean the lesser of (i) the synchronized reserve ramp rate adjusted by the degree of generator performance, multiplied by 10 minutes or (ii) synchronized reserve maximum megawatts minus the megawatts measured through power meter. Both the synchronized reserve ramp rate and the synchronized reserve maximum megawatts are values obtained from the Office of the Interconnection market software program.

1.3.3C.03 Tier 1 Synchronized Reserve Estimate

“Tier 1 Synchronized Reserve Estimate” shall mean the the amount of megawatts of Tier 1 Synchronized Reserves attributed to a Tier 1 Synchronozed Reserve resource by the real-time security-constrained economic dispatch software program of the Office of the Interconnection.

1.3.33D Tier 1 Synchronized Reserves.

“Tier 1 Synchronozed Reserves” shall mean Synchronized Reserve provided by: (i) generation resources that are subject to the energy dispatch signals and instructions of the Office of the Interconnection and that can reliably increase their current output; or (ii) Demand Resources that reduce their load in response to a Synchronized Reserve Event.

1.3.33E Tier 2 Synchronized Reserves.

“Tier 2 Synchronized Reserves” shall mean Synchronized Reserve provided by: (i) generation resources that are synchronized to the grid but, at the direction of the Office of the Interconnection, are operating at a point that deviates from the Office of the Interconnection economic dispatch signals and instructions; (ii) synchronous condensers that are synchronized to the grid and operating in condensing mode solely for the purpose of providing Synchronized Reserve megawatts in response to a Synchronized Reserve Event; or (iii) Demand Resources that reduce their load in response to a Synchronized Reserve Event.

1.3.34 Transmission Congestion Charge.

“Transmission Congestion Charge” shall mean a charge attributable to the increased cost of energy delivered at a given load bus when the transmission system serving that load bus is operating under constrained conditions, or as necessary to provide energy for third-party transmission losses in accordance with Section 9.3, which shall be calculated and allocated as specified in Section 5.1 of this Schedule.

1.3.35 Transmission Congestion Credit.

“Transmission Congestion Credit” shall mean the allocated share of total Transmission Congestion Charges credited to each holder of Financial Transmission Rights, calculated and allocated as specified in Section 5.2 of this Schedule.

1.3.36 Transmission Customer.

“Transmission Customer” shall mean an entity using Point-to-Point Transmission Service.

1.3.37 Transmission Forced Outage.

“Transmission Forced Outage” shall mean an immediate removal from service of a transmission facility by reason of an Emergency or threatened Emergency, unanticipated failure, or other

1.7 General.

1.7.11 Emergencies.

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

(b) To the extent load must be shed to alleviate an Emergency in a Control Zone, the Office of the Interconnection shall, to the maximum extent practicable, direct the shedding of load within such Control Zone. The Office of the Interconnection may shed load in one Control Zone to alleviate an Emergency in another Control Zone under its control only as necessary after having first shed load to the maximum extent practicable in the Control Zone experiencing the Emergency and only to the extent that PJM supports other control areas (not under its control) in those situations where load shedding would be necessary, such as to prevent isolation of facilities within the Eastern Interconnection, to prevent voltage collapse, or to restore system frequency following a system collapse; provided, however, that the Office of the Interconnection may not order a manual load dump in a Control Zone solely to address capacity deficiencies in another Control Zone. This subsection shall be implemented consistent with the North American Electric Reliability Council and applicable reliability council standards.

1.7.19A Synchronized Reserve.

(a) Synchronized Reserve can be supplied from non-emergency generation resources and/or Demand Resources located within the metered boundaries of the PJM Region. All on-line non-emergency generation resources providing energy [that can reliably provide Synchronized Reserves](#) are deemed to be available to provide Tier 1 Synchronized Reserve and Tier 2 Synchronized Reserve to the Office of the Interconnection, as applicable to the capacity resource's capability to provide these services. During periods for which the Office of the Interconnection has issued a Primary Reserve Warning, Voltage Reduction Warning or Manual

Load Dump Warning as described in Section 2.5(d) below, all other non-emergency generation capacity resources available to provide energy shall have submitted offers for Tier 2 Synchronized Reserves. Generating Market Buyers, and Market Sellers offering Synchronized Reserve shall comply with applicable standards and requirements for Synchronized Reserve capability and dispatch specified in the PJM Manuals, the Operating Agreement and PJM Tariff.

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

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

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

1.7.19A.01 Non-Synchronized Reserve.

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

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

the Office of the Interconnection's ability to deliver reserves to specific geographic area of the PJM Region where reserves are required.

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

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

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

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

(a) In addition to transactions in the Regulation market, Synchronized Reserve market, Non-Synchronized Reserve market and Day-ahead Scheduling Reserves Market, Market Participants may enter into bilateral contracts for the purchase or sale of Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves to or from each other or any other entity. Such bilateral contracts shall be for the physical transfer of Regulation, Synchronized Reserve, Non-Synchronized Reserve or Day-ahead Scheduling Reserves to or from a Market Participant and shall be reported to and coordinated with the Office of the Interconnection in accordance with this Schedule and pursuant to the LLC's rules relating to its eMarket tools.

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

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

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

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

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

3. ACCOUNTING AND BILLING

3.1 Introduction.

This schedule sets forth the accounting and billing principles and procedures for the purchase and sale of services on the PJM Interchange Energy Market and for the operation of the PJM Region.

3.2 Market Buyers.

3.2.3A Synchronized Reserve.

(a) Each Market Participant that is a Load Serving Entity that is not part of an agreement to share reserves with external entities subject to the requirements in BAL-002 shall have an obligation for hourly Synchronized Reserve equal to its pro rata share of Synchronized Reserve requirements for the hour for each Reserve Zone and Reserve Sub-zone of the PJM Region, based on the Market Buyer's total load (net of operating Behind The Meter Generation, but not to be less than zero) in such Reserve Zone or Reserve Sub-zone for the hour ("Synchronized Reserve Obligation"), less any amount obtained from condensers associated with provision of Reactive Services as described in section 3.2.3B(i) and any amount obtained from condensers associated with post-contingency operations, as described in section 3.2.3C(b). Those entities that participate in an agreement to share reserves with external entities subject to the requirements in BAL-002 shall have their reserve obligations determined based on the stipulations in such agreement. A Market Participant that does not meet its hourly Synchronized Reserve Obligation shall be charged for the Synchronized Reserve dispatched by the Office of the Interconnection to meet such obligation at the Synchronized Reserve Market Clearing Price determined in accordance with subsection (d) of this section, plus the amounts, if any, described in subsections (g), (h) and (i) of this section.

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

i) Tier 1 Synchronized Reserves:

A. During a Synchronized Reserve Event the following rules shall apply:

1. For a Market Participant's Tier 1 Synchronized Reserves resources for which it has not opted-out of the Tier 1 Performance Obligation pursuant to subsection (b-1) below, such credit shall be equal to:

(a) when the Non-Synchronized Reserve Market Clearing Price is equal to \$0: the greater of (x) the cost to respond to the Tier 1 Synchronized Reserve Event if scheduled by the Office of the Interconnection or, if self-scheduled, then only when it is dispatched by the Office of the Interconnection above its Economic Minimum; or (y) the Synchronized Reserve Energy Premium Price minus the hourly Locational Marginal Price for the lesser of: (i) the amount of the Tier 1 Synchronized Reserve Actual Estimate; and (ii) the amount of Synchronized Reserves response up to 110% of the Tier 1 Synchronized Reserve Actual Estimate; or

(b) when Non-Synchronized Reserve Market Clearing Price is greater than \$0: the greater of (x) the cost to respond to the Tier 1 Synchronized Reserve Event if scheduled by the Office of the Interconnection or, if self-scheduled, then only when it is dispatched by the Office of the Interconnection above its Economic Minimum or (y) Synchronized Reserve Market Clearing Price times the Tier 1 Synchronized Reserve Estimate

2. For a Market Participant's Tier 1 Synchronized Reserves resources for which it has opted-out of the Tier 1 Performance Obligation pursuant to subsection (b-1) below, the amount of Tier 1 Synchronized Reserve megawatts eligible for credits shall be equal to:

(a) when the Non-Synchronized Reserve Market Clearing Price is equal to \$0: the greater of: (x) the cost to respond to the Tier 1 Synchronized Reserve Event if scheduled by the Office of the Interconnection or, if self-scheduled, then only when it is dispatched by the Office of the Interconnection above its Economic Minimum; or (y) the Synchronized Reserve Energy Premium Price minus the hourly Locational Marginal Price for the lesser of: (i) the amount of the Tier 1 Synchronized Reserve Actual Estimate; and (ii) the amount of Synchronized Reserves response up to 110% of the Tier 1 Synchronized Reserve Actual Estimate; or

(b) when Non-Synchronized Reserve Market Clearing Price is greater than \$0: the greater of: (x) the cost to respond to the Tier 1 Synchronized Reserve Event if scheduled by the Office of the Interconnection or, if self-scheduled, then only when it is dispatched by the Office of the Interconnection above its Economic Minimum; or (y) Synchronized Reserve Market Clearing Price for the lesser of: (i) the amount of the Tier 1 Synchronized Reserve Actual Estimate; and (ii) the amount of Synchronized Reserves response up to 110% of the Tier 1 Synchronized Reserve Actual Estimate.

B. Outside of a Synchronized Reserve Event the following rules shall apply:

1. For a Market Participant's Tier 1 Synchronized Reserves resources for which it has not opted-out of the Tier 1 Performance

Obligation pursuant to subsection (b-1) below, the amount of Tier 1 Synchronized Reserve megawatts eligible for credits shall be equal to the Tier 1 Synchronized Reserve Estimate. Such credit shall be equal to:

(a) when the Non-Synchronized Reserve Market Clearing Price is equal to \$0: no credits shall be provided

(b) when the Non-Synchronized Reserve Market Clearing Price is greater than \$0: Synchronized Reserve Market Clearing Price

2. For a Market Participant's Tier 1 Synchronized Reserves resources for which it has opted-out of the Tier 1 Performance Obligation pursuant to subsection (b-1) below, no credits shall be provided.

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

ii) Tier 2 Synchronized Reserves.

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

iii) Synchronized Reserves Provided by Demand Resources.

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

(b-1) Tier 1 Performance Obligation and Opt-Out.

Per section 1.7.19A above, all on-line non-emergency generation resources providing energy that can reliably provide Synchronized Reserves are deemed to be available to provide Tier 1 Synchronized Reserve and, as such will have a Tier 1 Performance Obligation whenever the Non-Synchronized Reserve Market Clearing Price for the Reserve Zone or Reserve Sub-zone in which the resource is located is greater than zero. Notwithstanding the foregoing, for any of its Tier 1 Synchronized Reserve resources, a Market Participant can choose to opt-out of its Tier 1 Performance Obligation on an hourly basis as provided for in the PJM Manuals. For the periods of time during which a Market Participant has opted-out of its Tier 1 Performance Obligation for a Tier 1 Synchronized Reserve resource, such resource will be credited for Tier 1 Synchronized Reserves under subsection (b)(1)(B) only when it responds to a Synchronized Reserve Event, and will not be subject to the refunding provisions in subsection (j) below.

(c) The Synchronized Reserve Energy Premium Price is the average of the five-minute Locational Marginal Prices calculated during the Synchronized Reserve Event plus an adder in an amount to be determined periodically by the Office of the Interconnection not less than fifty dollars and not to exceed one hundred dollars per megawatt hour.

(d) The Synchronized Reserve Market Clearing Price shall be determined for each Reserve Zone and Reserve Sub-zone by the Office of the Interconnection for each hour of the operating day. The hourly Synchronized Reserve Market Clearing Price shall be calculated as the average of all 5-minute clearing prices calculated during the operating hour. Each 5-minute clearing price shall be calculated as the marginal cost of serving the next increment of demand for Synchronized Reserve in each Reserve Zone or Reserve Sub-zone, inclusive of Synchronized Reserve offer prices and opportunity costs. When the Synchronized Reserve requirement in a Reserve Zone or Reserve Sub-zone cannot be met, the 5-minute clearing price shall be at least greater than or equal to the Synchronized Reserve Penalty Factor for the Reserve Zone or Reserve Sub-zone, but less than or equal to the sum of the Synchronized Reserve Penalty Factor and the Primary Reserve Penalty Factor for the Reserve Zone or Reserve Sub-zone. If the Office of the Interconnection has initiated in a Reserve Zone or Reserve Sub-zone either a voltage reduction action as described in the PJM Manuals or a manual load dump action as described in the PJM Manuals, the 5-minute clearing price shall be the sum of the Primary Reserve Penalty Factor and the Synchronized Reserve Penalty Factor for that Reserve Zone or Reserve Sub-zone.

The Synchronized Reserve Penalty Factors shall each be phased in as described below:

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

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

(e) In determining the 5-minute Synchronized Reserve clearing price, the estimated unit-specific opportunity cost for a generation resource shall be equal to the sum of (i) the product of (A) the Locational Marginal Price at the generation bus for the generation resource times (B) the megawatts of energy used to provide Synchronized Reserve submitted as part of the Synchronized Reserve offer and (ii) the product of (A) the deviation of the set point of the generation resource that is expected to be required in order to provide Synchronized Reserve from the generation resource's expected output level if it had been dispatched in economic merit order times (B) the difference between the Locational Marginal Price at the generation bus for the generation resource and the offer price for energy from the generation resource (at the megawatt level of the Synchronized Reserve set point for the resource) in the PJM Interchange Energy Market when the Locational Marginal Price at the generation bus is greater than the offer price for energy from the generation resource. The opportunity costs for a Demand Resource shall be zero.

(f) In determining the credit under subsection (b) to a resource selected to provide Tier 2 Synchronized Reserve and that actively follows the Office of the Interconnection's signals and instructions, the unit-specific opportunity cost of a generation resource shall be determined for each hour that the Office of the Interconnection requires a generation resource to provide Tier 2 Synchronized Reserve and shall be equal to the sum of (i) the product of (A) the megawatts of energy used by the resource to provide Synchronized Reserve as submitted as part of the generation resource's Synchronized Reserve offer times (B) the Locational Marginal Price at the generation bus of the generation resource, and (ii) the product of (A) the deviation of the generation resource's output necessary to follow the Office of the Interconnection's signals and instructions from the generation resource's expected output level if it had been dispatched in economic merit order, times (B) the difference between the Locational Marginal Price at the generation bus for the generation resource and the offer price for energy from the generation resource (at the megawatt level of the Synchronized Reserve set point for the generation resource) in the PJM Interchange Energy Market when the Locational Marginal Price at the generation bus is greater than the offer price for energy from the generation resource. The opportunity costs for a Demand Resource shall be zero.

(g) Charges for Tier 1 Synchronized Reserve will be allocated in proportion to the amount of Tier 1 Synchronized Reserve applied to each Synchronized Reserve Obligation. In the event Tier 1 Synchronized Reserve is provided by a Market Seller in excess of that Market Seller's Synchronized Reserve Obligation, the remainder of the Tier 1 Synchronized Reserve that is not utilized to fulfill the Seller's obligation will be allocated proportionately among all other Synchronized Reserve Obligations.

(h) Any amounts credited for Tier 2 Synchronized Reserve in an hour in excess of the Synchronized Reserve Market Clearing Price in that hour shall be allocated and charged to each Market Participant that does not meet its hourly Synchronized Reserve Obligation in proportion to its purchases of Synchronized Reserve in megawatt-hours during that hour.

(i) In the event the Office of the Interconnection needs to assign more Tier 2 Synchronized Reserve during an hour than was estimated as needed at the time the Synchronized Reserve Market Clearing Price was calculated for that hour due to a reduction in available Tier 1 Synchronized Reserve, the costs of the excess Tier 2 Synchronized Reserve shall be allocated and charged to those providers of Tier 1 Synchronized Reserve whose available Tier 1 Synchronized Reserve was reduced from the needed amount estimated during the Synchronized Reserve Market Clearing Price calculation, in proportion to the amount of the reduction in Tier 1 Synchronized Reserve availability.

(j) In the event a generation resource or Demand Resource that either has been attributed Tier 1 Synchronized Reserves by the Office of the Interconnection (and, for purposes of this subsection (j) the Market Participant for such resource has not opted out under subsection (b-1)) or assigned by the Office of the Interconnection or self-scheduled to provide Tier 2 Synchronized Reserve fails to provide the assigned or self-scheduled amount of such reserves~~Tier 2 Synchronized Reserve~~ in response to a Synchronized Reserve Event, the resource will be credited for the Tier 1 Synchronized Reserve capacity or Tier 2 Synchronized Reserve capacity in the amount that actually responded for all hours the resource was ~~assigned or self-scheduled~~attributed Tier 1 Synchronized Reserve or Tier 2 Synchronized Reserve on the Operating Day during which the event occurred. The determination of the amount of Synchronized Reserve credited to a resource shall be on an individual resource basis, not on an aggregate basis.

The resource shall refund payments received for ~~Tier 2~~ Synchronized Reserve it failed to provide. For purposes of determining the amount of the payments to be refunded by a Market Participant, the Office of the Interconnection shall calculate the shortfall of ~~Tier 2~~ Synchronized Reserve on an individual resource basis unless the Market Participant had multiple resources that were ~~assigned or self-scheduled~~attributed to provide ~~Tier 2~~ Synchronized Reserve, in which case the shortfall will be determined on an aggregate basis. For performance determined on an aggregate basis, the response of any resource that provided more ~~Tier 2~~ Synchronized Reserve than it was ~~assigned or self-scheduled~~attributed to provide will be used to offset the performance of other resources that provided less ~~Tier 2~~ Synchronized Reserve than they were ~~assigned or self-scheduled~~attributed to provide during a Synchronized Reserve Event, as calculated in the PJM Manuals. The determination of a Market Participant's aggregate response shall not be

taken into consideration in the determination of the amount of ~~Tier 2~~ Synchronized Reserve credited to each individual resource.

The amount refunded shall be determined by multiplying the Synchronized Reserve Market Clearing Price by the amount of the shortfall of Tier 1 Synchronized Reserve or Tier 2 Synchronized Reserve, measured in megawatts, for all hours the resource was ~~assigned or self-scheduled~~attributed to provide Tier 1 Synchronized Reserve or Tier 2 Synchronized Reserve for a period of time immediately preceding the Synchronized Reserve Event equal to the lesser of the average number of days between Synchronized Reserve Events, or the number of days since the resource last failed to provide the amount of Tier 1 Synchronized Reserve or Tier 2 Synchronized Reserve it was ~~assigned or self-scheduled~~attributed to provide in response to a Synchronized Reserve Event. The average number of days between Synchronized Reserve Events for purposes of this calculation shall be determined by an annual review of the twenty-four month period ending October 31 of the calendar year in which the review is performed, and shall be rounded down to a whole day value. The Office of the Interconnection shall report the results of its annual review to stakeholders by no later than December 31, and the average number of days between Synchronized Reserve Events shall be effective as of the following January 1. The refunded charges shall be allocated as credits to Market Participants based on its pro rata share of the Synchronized Reserve Obligation megawatts less any Tier 1 Synchronized Reserve applied to its Synchronized Reserve Obligation in the hour(s) of the Synchronized Reserve Event for the Reserve Sub-zone or Reserve Zone, except that Market Participants that incur a refund obligation and also have an applicable Synchronized Reserve Obligation during the hour(s) of the Synchronized Reserve Event shall not be included in the allocation of such refund credits. If the event spans multiple hours, the refund credits will be prorated hourly based on the duration of the event within each clock hour.

(k) The magnitude of response to a Synchronized Reserve Event by a generation resource or a Demand Resource, except for Batch Load Demand Resources covered by section 3.2.3A(l), is the difference between the generation resource's output or the Demand Resource's consumption at the start of the event and its output or consumption 10 minutes after the start of the event. In order to allow for small fluctuations and possible telemetry delays, generation resource output or Demand Resource consumption at the start of the event is defined as the lowest telemetered generator resource output or greatest Demand Resource consumption between one minute prior to and one minute following the start of the event. Similarly, a generation resource's output or a Demand Resource's consumption 10 minutes after the event is defined as the greatest generator resource output or lowest Demand Resource consumption achieved between 9 and 11 minutes after the start of the event. The response actually credited to a generation resource will be reduced by the amount the megawatt output of the generation resource falls below the level achieved after 10 minutes by either the end of the event or after 30 minutes from the start of the event, whichever is shorter. The response actually credited to a Demand Resource will be reduced by the amount the megawatt consumption of the Demand Resource exceeds the level achieved after 10 minutes by either the end of the event or after 30 minutes from the start of the event, whichever is shorter.

(l) The magnitude of response by a Batch Load Demand Resource that is at the stage in its production cycle when its energy consumption is less than the level of megawatts in its offer at

the start of a Synchronized Reserve Event shall be the difference between (i) the Batch Load Demand Resource's consumption at the end of the Synchronized Reserve Event and (ii) the Batch Load Demand Resource's consumption during the minute within the ten minutes after the end of the Synchronized Reserve Event in which the Batch Load Demand Resource's consumption was highest and for which its consumption in all subsequent minutes within the ten minutes was not less than fifty percent of the consumption in such minute; provided that, the magnitude of the response shall be zero if, when the Synchronized Reserve Event commences, the scheduled off-cycle stage of the production cycle is greater than ten minutes.