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November 2, 2005

VIA COURIER

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426-0001

ORIGINAL

ER06-150-000

Re: **PJM Interconnection, L.L.C. Docket No. ER06- -000**

Dear Ms. Salas:

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d (2000), and the Commission's Regulations, 18 C.F.R. Part 35 (2005), PJM Interconnection, L.L.C. ("PJM") hereby submits for filing the attached revisions to the PJM FERC Electric Tariff, Third Revised Rate Schedule No. 24 and Sixth Revised Volume No. 1 ("Tariff"). These revisions amend the PJM Operating Agreement ("OA") to permit the award and auction of Financial Transmission Rights (FTRs) with multi-month terms. Applicant respectfully requests that the Commission accept the proposed revisions to the Tariff for filing.

I. The Proposed Revisions

PJM's monthly FTR auctions currently offer FTRs with a term of one month covering the following calendar month, and PJM's annual auctions offer FTRs with a term of one year corresponding with the PJM Planning Period.¹ Some Market Participants have indicated that an FTR product covering a period of time greater than one month but less than one year would better serve their business planning needs. In response, PJM has developed new FTR products having terms falling between those of the FTR products currently available. Accordingly, PJM has revised Section 7 of Schedule 1 of the Operating Agreement, and related provisions in the Tariff, in order to include intermediate-term FTRs in future monthly FTR auctions. This filing includes

¹ The PJM Planning Period is defined in OA § 1.37 as "the twelve months beginning June 1 and extending through May 31 of the following year."

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clean tariff sheets showing the proposed revisions as Attachment A and tariff sheets red-lined against the current text as Attachment B.

This filing introduces two new intermediate-term FTR products, both of which will be offered in the PJM monthly FTR auctions. One is a "Balance of Planning Period"² FTR, a product covering a multi-month period equal to the remainder of the Planning Period, starting at the beginning of the calendar month following a monthly FTR auction running through to May 31st. Another is the Planning Period Quarter³ FTR, a product covering any of four, discreet, three-calendar-month periods remaining within the planning period (June through August, September through November, etc...). Initially, PJM will make one of these two products available in the monthly FTR auctions in addition to single-calendar-month-term FTRs. As soon as PJM determines that the periods defined by both products simultaneously can clear in the same monthly auction process within the applicable time frame, PJM plans to offer both products in the same monthly auction.

This filing also clarifies the Tariff provision concerning the frequency and timing of FTR auctions. Certain changes make clear that bid-and-offer periods of three consecutive business days occur within each round of the annual auction. Another change specifies that monthly FTR auctions are held "each" month with bid-and-offer periods of three consecutive business days and with results posted within five business days of the close of the bid and offer period. The filing capitalizes the existing reference to "planning period" to clarify its use as a defined term.⁴

In addition, this filing contains a small number of minor, non-substantive, corrections or clarifications to the text of Section 7 of Schedule 1 of the Operating Agreement and associated provisions in the Tariff.

II. Stakeholder Support

On September 29, 2005, the PJM Members Committee met and endorsed the proposed revisions without opposition. The PJM Electric Markets Committee considered and unanimously endorsed these revisions earlier on July 20, 2005.

² "Balance of Planning Period" is defined in the proposed OA § 1.3.28B as "the entire period of time remaining in the Planning Period following the month that a monthly auction is conducted."

³ "Planning Period Quarter" is defined in the proposed OA § 1.3.28A as "any of the following three month periods in the Planning Period: June, July and August; September, October and November; December, January and February; or, March April and May."

⁴ See OA § 1.37. The proposal includes a similar change at OA Sched. 1 § 7.4.4.

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III. Description of Submittal

This submittal includes an original and six copies of the following:

- This Letter of Transmittal;
- The proposed revisions on clean tariff sheets (Attachment A); and
- The proposed revisions red-lined against the currently effective tariff sheets (Attachment B).

IV. Effective Date

Consistent with the Commission's notice requirements, PJM requests these revisions become effective January 2, 2006.

V. Correspondence

The following individuals are designated for inclusion on the official service list in this proceeding and for receipt of any communications regarding this filing:

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VI. Service

PJM has served a copy of this filing on all PJM Members and on all state utility regulatory commissions in the PJM Region by posting this filing electronically, and requests waiver of the requirement to post by mailing paper copies. Waiver of paper service is consistent with Commission's decision to establish electronic service as the default method of service on service lists maintained by the Commission Secretary for

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Commission proceedings.⁵ While Order No. 653 did not amend the posting requirements, application of its rules to initial tariff filings would be consistent with the Commission's "efforts to reduce the use of paper in compliance with the Government Paperwork Elimination Act."⁶ Applying amended Rule 385.2010(f) to this filing, PJM will post this filing today to the FERC filings section of its internet site, <http://www.pjm.com/documents/ferc.html>, and send an e-mail to all PJM members and all state utility regulatory commissions in the PJM Regions notifying them that the filing is available by following such link.⁷

Respectfully submitted,



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⁵ See Electronic Notification of Commission Issuances, Order No. 653, 110 FERC ¶61,110 (2005).

⁶ *Id.* at P 2, citing 44 U.S.C. § 3504.

⁷ PJM already maintains, updates, and regularly uses e-mail lists for all Members and affected commissions.

Attachment A

Tariff Revisions Clean

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PJM Interconnection, L.L.C.
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Second Revised Sheet No. 28
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1.3.27 PJM Interchange Import.

“PJM Interchange Import” shall mean the following, as determined in accordance with the Schedules to this Agreement: (a) for a Market Participant that is a Network Service User, the amount by which its hourly Equivalent Load exceeds the sum of the hourly outputs of its operating generating resources; or (b) for a Market Participant that is not a Network Service User, the amount of its Spot Market Backup purchases; or (c) the hourly scheduled deliveries of Spot Market Energy to an External Market Buyer; or (d) the hourly scheduled deliveries to an Internal Market Buyer that is not a Network Service User.

1.3.28 PJM Open Access Same-time Information System.

“PJM Open Access Same-time Information System” shall mean the electronic communication system for the collection and dissemination of information about transmission services in the PJM Region, established and operated by the Office of the Interconnection in accordance with FERC standards and requirements.

1.3.28A Planning Period Quarter.

“Planning Period Quarter” shall mean any of the following three month periods in the Planning Period: June, July and August; September, October and November; December, January and February; or, March, April and May.

1.3.28B Planning Period Balance.

“Planning Period Balance” shall mean the entire period of time remaining in the Planning Period following the month that a monthly auction is conducted.

1.3.29 Point-to-Point Transmission Service.

“Point-to-Point Transmission Service” shall mean transmission service provided pursuant to the rates, terms and conditions set forth in Part II of the PJM Tariff.

1.3.30 Ramping Capability.

“Ramping Capability” shall mean the sustained rate of change of generator output, in megawatts per minute.

1.3.30A Real-time Prices.

“Real-time Prices” shall mean the Locational Marginal Prices resulting from the Office of the Interconnection’s dispatch of the PJM Interchange Energy Market in the Operating Day.

1.3.30B Real-time Energy Market.

“Real-time Energy Market” shall mean the purchase or sale of energy and payment of Transmission Congestion Charges for quantity deviations from the Day-ahead Energy Market in the Operating Day.

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1.3.31 Regulation.

“Regulation” shall mean the capability of a specific generating unit with appropriate telecommunications, control and response capability to increase or decrease its output in response to a regulating control signal, in accordance with the specifications in the PJM Manuals.

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7.1.1 Auction Period and Scope of Auctions.

(a) The periods covered by auctions shall be: (1) the one-year period beginning the month after the final round of an annual auction; (2) any single calendar month period remaining in the Planning Period that is within the three, or less, month period immediately following the month that the monthly auction is conducted; (3) any Planning Period Quarter remaining in the Planning Period following the month that the monthly auction is conducted; and (4) the Planning Period Balance. In addition to the period defined in (2) of this subsection, only one of the periods defined in (3) or (4) of this subsection will be included in the monthly auction clearing until the Office of the Interconnection determines that both of the periods defined in (3) and (4) can be solved simultaneously in the same monthly auction process within the timeframe specified in Section 7.3.7. With the exception of FTRs allocated pursuant to section 5.2.2 (e) of this Schedule and the Financial Transmission Rights awarded as a result of the exercise of the conversion option pursuant to section 7.1.1(b) of this Schedule, in the annual auction, the Office of the Interconnection shall offer for sale the entire Financial Transmission Rights capability for the year in four rounds with 25 percent of the capability offered in each round. In the monthly auction, the Office of the Interconnection shall offer for sale in the auction any remaining Financial Transmission Rights capability for the months remaining in the Planning Period after taking into account all of the Financial Transmission Rights already outstanding at the time of the auction. In addition, any holder of a Financial Transmission Right for the period covered by an auction may offer such Financial Transmission Right for sale in such auction. On-Peak, off-peak and 24-hour FTRs will be offered in the annual and monthly auctions. FTRs will be offered as Financial Transmission Right Obligations and Financial Transmission Right Options, provided that such Financial Transmission Right Obligations and Financial Transmission Right Options shall be awarded based only on the residual system capability that remains after the allocation of Financial Transmission Rights pursuant to section 5.2.2(e) and the award of Financial Transmission Rights pursuant to section 7.1.1(b) of this Schedule. Market Participants may bid for and acquire any number of Financial Transmission Rights, provided that all Financial Transmission Rights awarded are simultaneously feasible with each other and with all Financial Transmission Rights outstanding at the time of the auction and not sold into the auction. An ARR holder may self-schedule an FTR on the same path in the Annual FTR auction according to the rules described in the PJM Manuals.

(b) An Auction Revenue Rights holder may convert Auction Revenue Rights to Financial Transmission Rights. Such Financial Transmission Rights must (i) have the same source and sink points as the Auction Revenue Rights; (ii) be a 24-hour product; and (iii) be Financial Transmission Right Obligations. The Auction Revenue Rights holder must inform the Office of the Interconnection in accordance with the procedures established by the Office of the Interconnection that it intends to exercise the conversion option prior to close of round one of the

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annual Financial Transmission Rights auction. Once the conversion option is exercised, it will remain in effect for the entire Financial Transmission Rights auction. The Office of the Interconnection will designate twenty-five percent of the megawatt amount of the Auction Revenue Rights to be converted as price-taker bids in each of the four rounds of the Financial Transmission Rights auction.

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An Auction Revenue Rights holder that converts its Auction Revenue Rights may not designate a price bid for its converted Financial Transmission Rights and will receive a price equal to the clearing price set by other bids in the annual Financial Transmission Right auction. To the extent a market participant seeks to obtain FTRs in the annual auction through such conversion, the FTRs sought will not be included in the calculation of such market participant's credit requirement for such annual FTR auction.

7.1.2 Frequency and Time of Auctions.

Subject to section 7.1.1 of this Schedule, annual Financial Transmission Rights auctions shall offer the entire FTR capability of the PJM system in four rounds with 25 percent of the capability offered in each round. All four rounds of the annual Financial Transmission Rights auction shall occur within the two-month period (April – May) preceding the start of the PJM Planning Period. Each round shall occur over five business days and shall be conducted sequentially. Each round shall begin with the bid and offer period. The bid and offer period for annual Financial Transmission Rights auctions shall be open for three consecutive business days, opening the first day at 12:00 midnight (Eastern Prevailing Time) and closing the third day at 5:00 p.m. (Eastern Prevailing Time). Monthly, Financial Transmission Rights auctions shall be held each month. The bid and offer period for monthly Financial Transmission Rights auctions shall be open for three consecutive business days in the month preceding the first month for which Financial Transmission Rights are being auctioned, opening the first day at 12:00 midnight (Eastern Prevailing Time) and closing the third day at 5:00 PM (Eastern Prevailing Time).

7.1.3 Duration of Financial Transmission Rights.

Each Financial Transmission Right acquired in a Financial Transmission Rights auction shall entitle the holder to credits of Transmission Congestion Charges for the period that was specified in the corresponding auction.

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7.2 Financial Transmission Rights Characteristics.

7.2.1 Reconfiguration of Financial Transmission Rights.

Through an appropriate linear programming model, the Office of the Interconnection shall reconfigure the Financial Transmission Rights offered or otherwise available for sale in any auction to maximize the value to the bidders of the Financial Transmission Rights sold, provided that any Financial Transmission Rights acquired at auction shall be simultaneously feasible in combination with those Financial Transmission Rights outstanding at the time of the auction and not sold in the auction. The linear programming model shall, while respecting transmission constraints and the maximum MW quantities of the bids and offers, select the set of simultaneously feasible Financial Transmission Rights with the highest net total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers.

7.2.2 Specified Receipt and Delivery Points.

Auction bids for annual Financial Transmission Rights Obligations may specify as receipt and delivery points any combination of hubs, Zones, aggregates, generators, and interface buses. Auction bids for annual Financial Transmission Rights Options may specify as receipt and delivery points such combination of hubs, Zones, aggregates, generators, and interface buses as the Office of the Interconnection shall allow from time to time as set forth in its FTR business manual. Auction bids for Financial Transmission Rights submitted in the monthly auctions may specify as receipt and delivery points any combination of hubs, Zones, aggregates, generators, and interface buses for bids that cover any month beyond the next month, including bids that cover Planning Period Quarters or Planning Period Balance. Auction bids for Financial Transmission Rights submitted in the monthly auctions that cover the single calendar month period immediately following the month in which the monthly auction is conducted may specify any combination of receipt and delivery buses represented in the State Estimator model for which the Office of the Interconnection calculates and posts Locational Marginal Prices. Auction bids may specify receipt and delivery points from locations outside of the PJM Region to locations inside such region, from locations within the PJM Region to locations outside such region, or to and from locations within the PJM Region.

7.2.3 Transmission Congestion Charges.

Financial Transmission Rights shall entitle holders thereof to credits only for Transmission Congestion Charges, and shall not confer a right to credits for payments arising from or relating to transmission congestion made to any entity other than the Office of the Interconnection.

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7.3 Auction Procedures.

7.3.1 Role of the Office of the Interconnection.

Financial Transmission Rights auctions shall be conducted by the Office of the Interconnection in accordance with standards and procedures set forth in the PJM Manuals, such standards and procedures to be consistent with the requirements of this Schedule.

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(b) Offers to sell shall identify the specific Financial Transmission Right, by term, megawatt quantity and receipt and delivery points, offered for sale. An offer to sell a specified megawatt quantity of Financial Transmission Rights shall constitute an offer to sell a quantity of Financial Transmission Rights equal to or less than the specified quantity. An offer to sell may not specify a minimum quantity being offered. Each offer may specify a reservation price, below which the offeror does not wish to sell the Financial Transmission Right. Offers submitted by entities holding rights to Financial Transmission Rights shall be subject to such reasonable standards for the verification of the rights of the offeror as may be established by the Office of the Interconnection. Offers shall be subject to such reasonable standards for the creditworthiness of the offeror or for the posting of security for performance as the Office of the Interconnection shall establish.

(c) Bids to purchase shall specify the term, megawatt quantity, price per megawatt, and receipt and delivery points of the Financial Transmission Right that the bidder wishes to purchase. A bid to purchase a specified megawatt quantity of Financial Transmission Rights shall constitute a bid to purchase a quantity of Financial Transmission Rights equal to or less than the specified quantity. A bid to purchase may not specify a minimum quantity that the bidder wishes to purchase. A bid may specify receipt and delivery points in accordance with Section 7.2.2 and may include Financial Transmission Rights for which the associated Transmission Congestion Credits may have negative values. Bids shall be subject to such reasonable standards for the creditworthiness of the bidder or for the posting of security for performance as the Office of the Interconnection shall establish.

(d) Bids and offers shall be specified to the nearest tenth of a megawatt and shall be greater than zero. The Office of the Interconnection may require that a market participant shall not submit in excess of 5000 bids and offers for any single monthly auction, or for any single round of the annual auction, when the Office of the Interconnection determines that such limit is required to avoid or mitigate significant system performance problems related to bid/offer volume. Notice of the need to impose such limit shall be provided prior to the start of the bidding period if possible. Where such notice is provided after the start of the bidding period, market participants shall be required within one day to reduce their bids and offers for such auction below 5000, and the bidding period in such cases shall be extended by one day.

7.3.6 Determination of Winning Bids and Clearing Price.

(a) At the close of each bidding period, the Office of the Interconnection will create a base Financial Transmission Rights power flow model that includes all outstanding Financial Transmission Rights that have been approved and confirmed for any portion of the month for which the auction was conducted and that were not offered for sale in the auction. The base Financial Transmission Rights model also will include estimated uncompensated parallel

from an appropriate linear programming model that, while respecting transmission constraints and the maximum MW quantities of the bids and offers, selects the set of simultaneously feasible Financial Transmission Rights with the highest net total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers. In the event that there are two or more identical bids for the selected Financial Transmission Rights and there are insufficient Financial Transmission Rights to accommodate all of the identical bids, then each such bidder will receive a pro rata share of the Financial Transmission Rights that can be awarded.

(c) Financial Transmission Rights shall be sold at the market-clearing price for Financial Transmission Rights between specified pairs of receipt and delivery points, as determined by the bid value of the marginal Financial Transmission Right that could not be awarded because it would not be simultaneously feasible. The linear programming model shall determine the clearing prices of all Financial Transmission Rights paths based on the bid value of the marginal Financial Transmission Rights, which are those Financial Transmission Rights with the highest bid values that could not be awarded fully because they were not simultaneously feasible, and based on the flow sensitivities of each Financial Transmission Rights path relative to the marginal Financial Transmission Rights paths flow sensitivities on the binding transmission constraints.

7.3.7 Announcement of Winners and Prices.

Within two (2) business days after the close of the bid and offer period for an annual Financial Transmission Rights auction round, and within five (5) business days after the close of the bid and offer period for a monthly Financial Transmission Rights auction, the Office of the Interconnection shall post the winning bidders, the megawatt quantity, the term and the receipt and delivery points for each Financial Transmission Right awarded in the auction and the price at which each Financial Transmission Right was awarded. The Office of the Interconnection shall not disclose the price specified in any bid to purchase or the reservation price specified in any offer to sell.

7.3.8 Auction Settlements.

All buyers and sellers of Financial Transmission Rights between the same points of receipt and delivery shall pay or be paid the market-clearing price, as determined in the auction, for such Financial Transmission Rights.

7.4 Allocation of Auction Revenues.

7.4.1 Eligibility.

(a) Annual and monthly auction revenues, net of payments to entities selling Financial Transmission Rights into the auction, shall be allocated among holders of Auction Revenue Rights in proportion to, but not more than, the Target Allocation of Auction Revenue Rights Credits for the holder.

(b) Auction Revenue Rights Credits will be calculated based upon the clearing price results of the applicable Annual Financial Transmission Rights auction.

7.4.2 Auction Revenue Rights.

(a) On an annual basis by such deadline established by the Office of the Interconnection, the allocation of Auction Revenue Rights shall be performed using a two stage allocation process. In the first stage of the allocation process, each Network Service User may request Auction Revenue Rights from a subset of the historical generation resources that were designated to be delivered to load based on the historical reference year for the Zone, and each Qualifying Transmission Customer (as defined in paragraph (d) of this section) may request Auction Revenue Rights based on the megawatts of firm service provided between the receipt and delivery points as to which the Transmission Customer had Point-to-Point Transmission Service during the historical reference year. The historical reference year for all Zones shall be 1998, except that the reference year shall be 2002 for the Allegheny Power and Rockland Electric Zones, and the Office of the Interconnection shall specify a historical reference year for a new PJM zone corresponding to the year that the zone is integrated into the PJM Interchange Energy Market. For each Zone, the Office of the Interconnection shall determine a set of eligible generation sources based on the historical reference year and assign a pro rata amount of megawatt capability from each resource to each Network Service User in the Zone based on its proportion of peak load in the Zone. Auction Revenue Rights shall be allocated to each Network Service User in a Zone from each historical generation resource in a number of megawatts equal to or less than the amount of the resource that has been assigned to the Network Service User. Each Auction Revenue Right allocated to a Network Service User shall be to the aggregate load buses of such Network Service User in a Zone or, with respect to Non-Zone Network Load, to the border of the PJM Region. In the first stage of the allocation process, the sum of each Network Service User's allocated Auction Revenue Rights for a Zone must be equal to or less than the Network Service User's peak load for that Zone as determined under Section 34.1 of the Tariff. The sum of each Network Service User's Auction Revenue Rights for Non-Zone Network Load must be equal to or less than the Network Service User's transmission responsibility for Non-Zone Network Load as determined under Section 34.1 of the Tariff. The sum of each Qualifying Transmission Customer's Auction Revenue Rights must be equal to or less than the megawatts of firm service provided between the receipt and delivery points as to which the Transmission Customer had Point-to-Point Transmission Service during the historical reference year.

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Superseding Second Revised Sheet No. 408A

(b) In the second stage of the allocation process, the Office of the Interconnection shall conduct an iterative allocation process that consists of four rounds with 25 percent of the remaining system Auction Revenue Rights capability allocated in each round. Each round of this allocation process will be conducted sequentially with Network Service users and Transmission Customers being given the opportunity to view results of each allocation round prior to submission of Auction Revenue Right requests into the subsequent round. In each round, each Network Service User shall designate a subset of buses from which Auction Revenue Rights will be sourced. Valid Auction Revenue Rights source buses include only zones, generators, hubs and external interface buses. The Network Service User shall specify the amount of Auction Revenue Rights requested from each source bus. Each Auction Revenue Right shall be sunk to the aggregate load buses of the Network Service User in a Zone or, with respect to Non-Zone Network Load, to the border of the PJM Region. The sum of each Network Service User's Auction Revenue Rights requests in each allocation round for each Zone must be equal to or less than 25 percent of the difference between the Network Service User's peak load for that Zone as determined under Section 34.1 of the Tariff and its Auction Revenue Right Allocation from the first stage of the allocation process for that Zone. The second-stage allocation to Transmission Customers shall be as set forth in paragraph (d).

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First Revised Sheet No. 409.01
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of megawatts of firm service being provided between the receipt and delivery points as to which the Transmission Customer currently has firm Point-to-Point Transmission Service and its Auction Revenue Right Allocation from the first stage of the allocation process.

(e) PJM Transmission Customers that serve load in the Midwest ISO may participate in stage 1 of the allocation to the extent permitted by, and in accordance with, this section 7.4.2 and other applicable provisions of this Schedule 1. For service from non-historic sources, these customers may participate in stage 2, but in no event can they receive an allocation of ARRs/FTRs from PJM greater than their firm service to loads in MISO.

(f) All Auction Revenue Rights must be simultaneously feasible. If all Auction Revenue Right requests made during the annual allocation process are not feasible then Auction Revenue Rights are prorated and allocated in proportion to the MW level requested and in inverse proportion to the effect on the binding constraints.

7.4.3 Target Allocation of Auction Revenue Right Credits.

A target allocation of Auction Revenue Right Credits for each entity holding an Auction Revenue Right shall be determined for each Auction Revenue Right. After each round of the annual Financial Transmission Right Auction, each Auction Revenue Right shall be divided by four and multiplied by the price differences for the receipt and delivery points associated with the Auction Revenue Right, calculated as the Locational Marginal Price at the delivery points(s) minus the Locational Marginal Price at the receipt point(s), where the price for the receipt and delivery point is determined by the clearing prices of each round of the annual Financial Transmission Right auction. The daily total target allocation for an entity holding the Auction Revenue Rights shall be the sum of the daily target allocations associated with all of the entity's Auction Revenue Rights.

7.4.4 Calculation of Auction Revenue Right Credits.

(a) Each day, the total of all the daily target allocations determined as specified above in section 7.4.3 plus any additional Auction Revenue Rights target allocations applicable for that day shall be compared to the total revenues of all applicable monthly Financial Transmission Rights auction(s) (divided by the number of days in the month) plus the total revenues of the annual Financial Transmission

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Rights auction (divided by the number of days in the Planning Period). If the total of the target allocations is less than the total auction revenues, the Auction Revenue Right Credit for each entity holding an Auction Revenue Right shall be equal to its target allocation. All remaining funds shall be distributed as Excess Congestion Charges pursuant to Section 5.2.5.

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operating generating resources; or (b) for a Market Participant that is not a Network Service User, the amount of its Spot Market Backup sales; or (c) the hourly scheduled deliveries of Spot Market Energy by a Market Seller from an External Resource; or (d) the hourly net metered output of any other Market Seller.

1.3.27 PJM Interchange Import.

"PJM Interchange Import" shall mean the following, as determined in accordance with the Schedules to this Agreement: (a) for a Market Participant that is a Network Service User, the amount by which its hourly Equivalent Load exceeds the sum of the hourly outputs of its operating generating resources; or (b) for a Market Participant that is not a Network Service User, the amount of its Spot Market Backup purchases; or (c) the hourly scheduled deliveries of Spot Market Energy to an External Market Buyer; or (d) the hourly scheduled deliveries to an Internal Market Buyer that is not a Network Service User.

1.3.28 PJM Open Access Same-time Information System.

"PJM Open Access Same-time Information System" shall mean the electronic communication system for the collection and dissemination of information about transmission services in the PJM Region, established and operated by the Office of the Interconnection in accordance with FERC standards and requirements.

1.3.28A Planning Period Quarter.

"Planning Period Quarter" shall mean any of the following three month periods in the Planning Period: June, July and August; September, October and November; December, January and February; or, March, April and May.

1.3.28B Planning Period Balance.

"Planning Period Balance" shall mean the entire period of time remaining in the Planning Period following the month that a monthly auction is conducted.

1.3.29 Point-to-Point Transmission Service.

"Point-to-Point Transmission Service" shall mean transmission service provided pursuant to the rates, terms and conditions set forth in Part II of the PJM Tariff.

1.3.30 Ramping Capability.

"Ramping Capability" shall mean the sustained rate of change of generator output, in megawatts per minute.

1.3.30A Real-time Prices.

"Real-time Prices" shall mean the Locational Marginal Prices resulting from the Office of the Interconnection's dispatch of the PJM Interchange Energy Market in the Operating Day.

1.3.30B Real-time Energy Market.

"Real-time Energy Market" shall mean the purchase or sale of energy and payment of Transmission Congestion Charges for quantity deviations from the Day-ahead Energy Market in the Operating Day.

1.3.31 Regulation.

"Regulation" shall mean the capability of a specific generating unit with appropriate telecommunications, control and response capability to increase or decrease its output in response to a regulating control signal, in accordance with the specifications in the PJM Manuals.

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7.1.1 Auction Period and Scope of Auctions.

(a) The periods covered by auctions shall be: (1) the one-year period beginning the month after the final round of an annual auction; (2) any single calendar month period remaining in the Planning Period that is within the three, or less, month period immediately following the month that the monthly auction is conducted; (3) any Planning Period Quarter remaining in the Planning Period following the month that the monthly auction is conducted; and (4) the Planning Period Balance. In addition to the period defined in (2) of this subsection, only one of the periods defined in (3) or (4) of this subsection will be included in the monthly auction clearing until the Office of the Interconnection determines that both of the periods defined in (3) and (4) can be solved simultaneously in the same monthly auction process within the timeframe specified in Section 7.3.7. With the exception of FTRs allocated pursuant to Section 5.2.2 (e) of this Schedule and the Financial Transmission Rights awarded as a result of the exercise of the conversion option pursuant to Section 7.1.1(b) of this Schedule, in the annual auction, the Office of the Interconnection shall offer for sale the entire Financial Transmission Rights capability for the year in four rounds with 25 percent of the capability offered in each round. In the monthly auction, the Office of the Interconnection shall offer for sale in the auction any remaining Financial Transmission Rights capability for the months remaining in the Planning Period after taking into account all of the Financial Transmission Rights already outstanding at the time of the auction. In addition, any holder of a Financial Transmission Right for the period covered by an auction may offer such Financial Transmission Right for sale in such auction. On-Peak, off-peak and 24-hour FTRs will be offered in the annual and monthly auctions. FTRs will be offered as Financial Transmission Right Obligations and Financial Transmission Right Options, provided that such Financial Transmission Right Obligations and Financial Transmission Right Options shall be awarded based only on the residual system capability that remains after the allocation of Financial Transmission Rights pursuant to Section 5.2.2(e) and the award of Financial Transmission Rights pursuant to Section 7.1.1(b) of this Schedule. Market Participants may bid for and acquire any number of Financial Transmission Rights, provided that all Financial Transmission Rights awarded are simultaneously feasible with each other and with all Financial Transmission Rights outstanding at the time of the auction and not sold into the auction. An ARR holder may self-schedule an FTR on the same path in the Annual FTR auction according to the rules described in the PJM Manuals.

(b) An Auction Revenue Rights holder may convert Auction Revenue Rights to Financial Transmission Rights. Such Financial Transmission Rights must (i) have the same source and sink points as the Auction Revenue Rights; (ii) be a 24-hour product; and (iii) be Financial Transmission Right Obligations. The Auction Revenue Rights holder must inform the Office of the Interconnection in accordance with the procedures established by the Office of the Interconnection that it intends to exercise the conversion option prior to close of round one of the

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annual Financial Transmission Rights auction. Once the conversion option is exercised, it will remain in effect for the entire Financial Transmission Rights auction. The Office of the Interconnection will designate twenty-five percent of the megawatt amount of the Auction Revenue Rights to be converted as price-taker bids in each of the four rounds of the Financial Transmission Rights auction. An Auction Revenue Rights holder that converts its Auction Revenue Rights may not designate a price bid for its converted Financial Transmission Rights and will receive a price equal to the clearing price set by other bids in the annual Financial Transmission Right auction. To the extent a market participant seeks to obtain FTRs in the annual auction through such conversion, the FTRs sought will not be included in the calculation of such market participant's credit requirement for such annual FTR auction.

7.1.2 Frequency and Time of Auctions.

Subject to Section 7.1.1 of this Schedule, annual Financial Transmission Rights auctions shall offer the entire FTR capability of the PJM system in four rounds with 25 percent of the capability offered in each round. All four rounds of the annual Financial Transmission Rights auction shall occur within the two-month period (April – May) preceding the start of the PJM Planning Period. Each round shall occur over five business days and shall be conducted sequentially. Each round shall begin with the bid and offer period. The bid and offer period for annual Financial Transmission Rights auctions shall be open for three consecutive business days, opening the first day at 12:00 midnight (Eastern Prevailing Time) and closing the third day at 5:00 p.m. (Eastern Prevailing Time). Monthly Financial Transmission Rights auctions shall be held each month. The bid and offer period for monthly Financial Transmission Rights auctions shall be open for three consecutive business days in the month preceding the first month for which Financial Transmission Rights are being auctioned, opening the first day at 12:00 midnight (Eastern Prevailing Time) and closing the third day at 5:00 p.m. (Eastern Prevailing Time).

7.1.3 Duration of Financial Transmission Rights.

Each Financial Transmission Right acquired in a Financial Transmission Rights auction shall entitle the holder to credits of Transmission Congestion Charges for the period that was specified in the corresponding auction.

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Each Financial Transmission Right acquired in a Financial Transmission Rights auction shall entitle the holder to credits of Transmission Congestion Charges for the period that was specified in the corresponding auction.

7.2 Financial Transmission Rights Characteristics.

7.2.1 Reconfiguration of Financial Transmission Rights.

Through an appropriate linear programming model, the Office of the Interconnection shall reconfigure the Financial Transmission Rights offered or otherwise available for sale in any auction to maximize the value to the bidders of the Financial Transmission Rights sold, provided that any Financial Transmission Rights acquired at auction shall be simultaneously feasible in combination with those Financial Transmission Rights outstanding at the time of the auction and not sold in the auction. The linear programming model shall, while respecting transmission constraints and the maximum MW quantities of the bids and offers, select the set of simultaneously feasible Financial Transmission Rights with the highest net total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers.

7.2.2 Specified Receipt and Delivery Points.

Auction bids for annual Financial Transmission Rights Obligations may specify as receipt and delivery points any combination of hubs, Zones, aggregates, generators, and interface buses. Auction bids for annual Financial Transmission Rights Options may specify as receipt and delivery points such combination of hubs, Zones, aggregates, generators, and interface buses as the Office of the Interconnection shall allow from time to time as set forth in its FTR business manual. Auction bids for Financial Transmission Rights submitted in the monthly auctions may specify as receipt and delivery points any combination of hubs, Zones, aggregates, generators, and interface buses for bids that cover any month beyond the next month, including bids that cover Planning Period Quarters or the Planning Period Balance. Auction bids for Financial Transmission Rights submitted in the monthly auctions that cover the single calendar month period immediately following the month in which the monthly auction is conducted may specify any combination of receipt and delivery buses represented in the State Estimator model for which the Office of the Interconnection calculates and posts Locational Marginal Prices. Auction bids may specify receipt and delivery points from locations outside of the PJM Region to locations inside such region, from locations within the PJM Region to locations outside such region, or to and from locations within the PJM Region.

7.2.3 Transmission Congestion Charges.

Financial Transmission Rights shall entitle holders thereof to credits only for Transmission Congestion Charges, and shall not confer a right to credits for payments arising from or relating to transmission congestion made to any entity other than the Office of the Interconnection.

7.3 Auction Procedures.

7.3.1 Role of the Office of the Interconnection.

Financial Transmission Rights auctions shall be conducted by the Office of the Interconnection in accordance with standards and procedures set forth in the PJM Manuals, such standards and procedures to be consistent with the requirements of this Schedule.

7.3.2 Notice of Offer.

A holder of a Financial Transmission Right wishing to offer the Financial Transmission Right for sale shall notify the Office of the Interconnection of any Financial Transmission Rights to be offered. Each Financial Transmission Right sold in an auction shall, at the end of the period for which the Financial Transmission Rights were auctioned, revert to the offering holder or the entity to which the offering holder has transferred such Financial Transmission Right, subject to the term of the Financial Transmission Right itself and to the right of such holder or transferee to offer the Financial Transmission Right in the next or any subsequent auction during the term of the Financial Transmission Right.

7.3.3 Pending Applications for Firm Service.

(a) [Reserved.]

(b) Financial Transmission Rights may be assigned to entities requesting Network Transmission Service or Firm Point-to-Point Transmission Service pursuant to Section 5.2.2 (e), only if such Financial Transmission Rights are simultaneously feasible with all outstanding Financial Transmission Rights, including Financial Transmission Rights effective for the then-current auction period. If an assignment of Financial Transmission Rights pursuant to a pending application for Network Transmission Service or Firm Point-to-Point Transmission Service cannot be completed prior to an auction, Financial Transmission Rights attributable to such transmission service shall not be assigned for the then-current auction period. If a Financial Transmission Right cannot be assigned for this reason, the applicant may withdraw its application, or request that the Financial Transmission Right be assigned effective with the start of the next auction period.

7.3.4 On-Peak, Off-Peak and 24-Hour Periods.

On-peak, off-peak and 24-hour FTRs will be offered in the annual and monthly auction. On-Peak Financial Transmission Rights shall cover the periods from 7:00 a.m. up to the hour ending at 11:00 p.m. on Mondays through Fridays, except holidays as defined in the PJM Manuals. Off-Peak Financial Transmission Rights shall cover the periods from 11:00 p.m. up to the hour ending 7:00 a.m. on Mondays through Fridays and all hours on Saturdays, Sundays, and holidays as defined in the PJM Manuals. The 24-hour period shall cover the period from hour ending 1:00 a.m. to the hour ending 12:00 midnight on all days. Each bid shall specify whether it is for an on-peak, off-peak, or 24-hour period.

7.3.5 Offers and Bids.

(a) Offers to sell and bids to purchase Financial Transmission Rights shall be submitted during the period set forth in Section 7.1.2, and shall be in the form specified by the Office of the Interconnection in accordance with the requirements set forth below.

(b) Offers to sell shall identify the specific Financial Transmission Right, by term, megawatt quantity and receipt and delivery points, offered for sale. An offer to sell a specified megawatt quantity of Financial Transmission Rights shall constitute an offer to sell a quantity of Financial Transmission Rights equal to or less than the specified quantity. An offer to sell may

not specify a minimum quantity being offered. Each offer may specify a reservation price, below which the offeror does not wish to sell the Financial Transmission Right. Offers submitted by entities holding rights to Financial Transmission Rights shall be subject to such reasonable standards for the verification of the rights of the offeror as may be established by the Office of the Interconnection. Offers shall be subject to such reasonable standards for the creditworthiness of the offer or for the posting of security for performance as the Office of the Interconnection shall establish.

(c) Bids to purchase shall specify the term, megawatt quantity, price per megawatt, and receipt and delivery points of the Financial Transmission Right that the bidder wishes to purchase. A bid to purchase a specified megawatt quantity of Financial Transmission Rights shall constitute a bid to purchase a quantity of Financial Transmission Rights equal to or less than the specified quantity. A bid to purchase may not specify a minimum quantity that the bidder wishes to purchase. A bid may specify receipt and delivery points in accordance with Section 7.2.2 and may include Financial Transmission Rights for which the associated Transmission Congestion Credits may have negative values. Bids shall be subject to such reasonable standards for the creditworthiness of the bidder or for the posting of security for performance as the Office of the Interconnection shall establish.

(d) Bids and offers shall be specified to the nearest tenth of a megawatt and shall be greater than zero. The Office of the Interconnection may require that a market participant shall not submit in excess of 5000 bids and offers for any single monthly auction, or for any single round of the annual auction, when the Office of the Interconnection determines that such limit is required to avoid or mitigate significant system performance problems related to bid/offer volume. Notice of the need to impose such limit shall be provided prior to the start of the bidding period if possible. Where such notice is provided after the start of the bidding period, market participants shall be required within one day to reduce their bids and offers for such auction below 5000, and the bidding period in such cases shall be extended by one day.

7.3.6 Determination of Winning Bids and Clearing Price.

(a) At the close of the bidding period each month, the Office of the Interconnection will create a base Financial Transmission Rights power flow model that includes all outstanding Financial Transmission Rights that have been approved and confirmed for any portion of the month for which the auction was conducted and that were not offered for sale in the auction. The base Financial Transmission Rights model also will include estimated uncompensated parallel flows into each interface point of the PJM Region and estimated scheduled transmission outages.

(b) In accordance with the requirements of Section 7.4 of this Schedule and subject to all applicable transmission constraints and reliability requirements, the Office of the Interconnection shall determine the simultaneous feasibility of all outstanding Financial Transmission Rights not offered for sale in the auction and of all Financial Transmission Rights that could be awarded in the auction for which bids were submitted. The winning bids shall be determined from an appropriate linear programming model that, while respecting transmission constraints and the maximum MW quantities of the bids and offers, selects the set of simultaneously feasible Financial Transmission Rights with the highest net total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers. In the event that there are two or more identical bids for the selected Financial Transmission Rights and there are insufficient Financial Transmission Rights to accommodate all of the identical bids, then each such bidder will receive a pro rata share of the Financial Transmission Rights that can be awarded.

(c) Financial Transmission Rights shall be sold at the market-clearing price for Financial Transmission Rights between specified pairs of receipt and delivery points, as determined by the bid value of the marginal Financial Transmission Right that could not be awarded because it would not be simultaneously feasible. The linear programming model shall determine the clearing prices of all Financial Transmission Rights paths based on the bid value of the marginal Financial Transmission Rights, which are those Financial Transmission Rights with the highest bid values that could not be awarded fully because they were not simultaneously feasible, and based on the flow sensitivities of each Financial Transmission Rights path relative to the marginal Financial Transmission Rights paths flow sensitivities on the binding transmission constraints.

7.3.7 Announcement of Winners and Prices.

Within two (2) business days after the close of the bid and offer period for an annual Financial Transmission Rights auction round and within five (5) business days after the close of the bid and offer period for a monthly Financial Transmission Rights auction, the Office of the Interconnection shall post the winning bidders, the megawatt quantity, the term and the receipt and delivery points for each Financial Transmission Right awarded in the auction and the price at which each Financial Transmission Right was awarded. The Office of the Interconnection shall not disclose the price specified in any bid to purchase or the reservation price specified in any offer to sell.

7.3.8 Auction Settlements.

All buyers and sellers of Financial Transmission Rights between the same points of receipt and delivery shall pay or be paid the market-clearing price, as determined in the auction, for such Financial Transmission Rights.

7.4 Allocation of Auction Revenues.

7.4.1 Eligibility.

(a) Annual and monthly auction revenues, net of payments to entities selling Financial Transmission Rights into the auction, shall be allocated among holders of Auction Revenue Rights in proportion to, but not more than, the Target Allocation of Auction Revenue Rights Credits for the holder.

(b) Auction Revenue Rights Credits will be calculated based upon the clearing price results of the applicable Annual Financial Transmission Rights auction.

7.4.2 Auction Revenue Rights.

(a) On an annual basis by such deadline established by the Office of the Interconnection, the allocation of Auction Revenue Rights shall be performed using a two stage allocation process. In the first stage of the allocation process, each Network Service User may request Auction Revenue Rights from a subset of the historical generation resources that were designated to be delivered to load based on the historical reference year for the Zone, and each Qualifying Transmission Customer (as defined in paragraph (d) of this section) may request Auction Revenue Rights based on the megawatts of firm service provided between the receipt and delivery points as to which the Transmission Customer had Point-to-Point Transmission Service during the historical reference year. The historical reference year for all Zones shall be 1998, except that the reference year shall be 2002 for the Allegheny Power and Rockland Electric Zones, and the Office of the Interconnection shall specify a historical reference year for a new PJM zone corresponding to the

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year that the zone is integrated into the PJM Interchange Energy Market. For each Zone, the Office of the Interconnection shall determine a set of eligible generation sources based on the historical reference year and assign a pro rata amount of megawatt capability from each resource to each Network Service User in the Zone based on its proportion of peak load in the Zone. Auction Revenue Rights shall be allocated to each Network Service User in a Zone from each historical generation resource in a number of megawatts equal to or less than the amount of the resource that has been assigned to the Network Service User. Each Auction Revenue Right allocated to a Network Service User shall be to the

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aggregate load buses of such Network Service User in a Zone or, with respect to Non-Zone Network Load, to the border of the PJM Region. In the first stage of the allocation process, the sum of each Network Service User's allocated Auction Revenue Rights for a Zone must be equal to or less than the Network Service User's peak load for that Zone as determined under Section 34.1 of the Tariff. The sum of each Network Service User's Auction Revenue Rights for Non-Zone Network Load must be equal to or less than the Network Service User's transmission responsibility for Non-Zone Network Load as determined under Section 34.1 of the Tariff. The sum of each Qualifying Transmission Customer's Auction Revenue Rights must be equal to or less than the megawatts of firm service provided between the receipt and delivery points as to which the Transmission Customer had Point-to-Point Transmission Service during the historical reference year.

(b) In the second stage of the allocation process, the Office of the Interconnection shall conduct an iterative allocation process that consists of four rounds with 25 percent of the remaining system Auction Revenue Rights capability allocated in each round. Each round of this allocation process will be conducted sequentially with Network Service users and Transmission Customers being given the opportunity to view results of each allocation round prior to submission of Auction Revenue Right requests into the subsequent round. In each round, each Network Service User shall designate a subset of buses from which Auction Revenue Rights will be sourced. Valid Auction Revenue Rights source buses include only zones, generators, hubs and external interface buses. The Network Service User shall specify the amount of Auction Revenue Rights requested from each source bus. Each Auction Revenue Right shall be sunk to the aggregate load buses of the Network Service User in a Zone or, with respect to Non-Zone Network Load, to the border of the PJM Region. The sum of each Network Service User's Auction Revenue Rights requests in each allocation round for each Zone must be equal to or less than 25 percent of the difference between the Network Service User's peak load for that Zone as determined under Section 34.1 of the Tariff and its Auction Revenue Right Allocation from the first stage of the allocation process for that Zone. The second-stage allocation to Transmission Customers shall be as set forth in paragraph (d).

(c) On a daily basis within the annual Financial Transmission Rights auction period, a proportionate share of Network Service User's Auction Revenue Rights for each Zone are reallocated as Network Load changes from one Network Service User to another within that Zone.

(d) A Qualifying Transmission Customer shall be any customer with an agreement for Long-Term Point-to-Point Transmission Service, as defined in the PJM Tariff, used to deliver energy from a designated network resource located either outside or within the PJM Region to load located either outside or within the PJM Region, and that was confirmed and in effect during the historical reference year for the zone in which the resource is located. Such an agreement shall allow the Qualifying Transmission Customer to participate in the first stage of the allocation, but only if such agreement has remained in effect continuously following the historical reference year and is to continue in effect for the period addressed by the allocation, either by its term or by renewal or rollover. The megawatts of Auction Revenue Rights the Qualifying Transmission Customer may request in the first stage of the allocation may not exceed the lesser of: (i) the megawatts of firm service between the designated network resource and the load delivery point (or applicable point at the border of the PJM Region for load located outside such region) under contract during the historical reference year; and (ii) the megawatts of firm service presently under contract between

7.4.3 Target Allocation of Auction Revenue Right Credits.

A target allocation of Auction Revenue Right Credits for each entity holding an Auction Revenue Right shall be determined for each Auction Revenue Right. After each round of the annual Financial Transmission Right Auction, each Auction Revenue Right shall be divided by four and multiplied by the price differences for the receipt and delivery points associated with the Auction Revenue Right, calculated as the Locational Marginal Price at the delivery point(s) minus the Locational Marginal Price at the receipt point(s), where the price for the receipt and delivery point is determined by the clearing prices of each round of the annual Financial Transmission Right auction. The daily total target allocation for an entity holding the Auction Revenue Rights shall be the sum of the daily target allocations associated with all of the entity's Auction Revenue Rights.

7.4.4 Calculation of Auction Revenue Right Credits.

(a) Each day, the total of all the daily target allocations determined as specified above in Section 7.4.3 plus any additional Auction Revenue Rights target allocations applicable for that day shall be compared to the total revenues of all applicable monthly Financial Transmission Rights auction(s) (divided by the number of days in the month) plus the total revenues of the annual Financial Transmission Rights auction (divided by the number of days in the Planning Period). If the total of the target allocations is less than the total auction revenues, the Auction Revenue Right Credit for each entity holding an Auction Revenue Right shall be equal to its target allocation. All remaining funds shall be distributed as Excess Congestion Charges pursuant to Section 5.2.5.

(b) If the total of the target allocations is greater than the total auction revenues, each holder of Auction Revenue Rights shall be assigned a share of the total auction revenues in proportion to its Auction Revenue Rights target allocations for Auction Revenue Rights which have a positive Target Allocation value. Auction Revenue Rights which have a negative Target Allocation value are assigned the full Target Allocation value as a negative Auction Revenue Right Credit.

7.5 Simultaneous Feasibility.

The Office of the Interconnection shall make the simultaneous feasibility determinations specified herein using appropriate powerflow models of contingency-constrained dispatch. Such determinations shall take into account outages of both individual generation units and transmission facilities and shall be based on reasonable assumptions about the configuration and availability of transmission capability during the period covered by the auction that are not inconsistent with the determination of the deliverability of Capacity Resources under the Reliability Assurance Agreement or Reliability Assurance Agreement-West. The goal of the simultaneous feasibility determination shall be to ensure that there are sufficient revenues from Transmission Congestion Charges to satisfy all Financial Transmission Rights obligations for the auction period under expected conditions and to ensure that there are sufficient revenues from the annual Financial Transmission Right Auction to satisfy all Auction Revenue Rights obligations.

Attachment B

Tariff Revisions Redline

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1.3.27 PJM Interchange Import.

"PJM Interchange Import" shall mean the following, as determined in accordance with the Schedules to this Agreement: (a) for a Market Participant that is a Network Service User, the amount by which its hourly Equivalent Load exceeds the sum of the hourly outputs of its operating generating resources; or (b) for a Market Participant that is not a Network Service User, the amount of its Spot Market Backup purchases; or (c) the hourly scheduled deliveries of Spot Market Energy to an External Market Buyer; or (d) the hourly scheduled deliveries to an Internal Market Buyer that is not a Network Service User.

1.3.28 PJM Open Access Same-time Information System.

"PJM Open Access Same-time Information System" shall mean the electronic communication system for the collection and dissemination of information about transmission services in the PJM Region, established and operated by the Office of the Interconnection in accordance with FERC standards and requirements.

1.3.28A Planning Period Quarter.

"Planning Period Quarter" shall mean any of the following three month periods in the Planning Period: June, July and August; September, October and November; December, January and February; or, March, April and May.

1.3.28B Planning Period Balance.

"Planning Period Balance" shall mean the entire period of time remaining in the Planning Period following the month that a monthly auction is conducted.

1.3.29 Point-to-Point Transmission Service.

"Point-to-Point Transmission Service" shall mean transmission service provided pursuant to the rates, terms and conditions set forth in Part II of the PJM Tariff.

1.3.30 Ramping Capability.

"Ramping Capability" shall mean the sustained rate of change of generator output, in megawatts per minute.

1.3.30A Real-time Prices.

"Real-time Prices" shall mean the Locational Marginal Prices resulting from the Office of the Interconnection's dispatch of the PJM Interchange Energy Market in the Operating Day.

1.3.30B Real-time Energy Market.

"Real-time Energy Market" shall mean the purchase or sale of energy and payment of Transmission Congestion Charges for quantity deviations from the Day-ahead Energy Market in the Operating Day.

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1.3.31 Regulation.

“Regulation” shall mean the capability of a specific generating unit with appropriate telecommunications, control and response capability to increase or decrease its output in response to a regulating control signal, in accordance with the specifications in the PJM Manuals.

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7.1.1 Auction Period and Scope of Auctions.

(a) The periods covered by auctions shall be: (1) the one-year period beginning the month after the final round of the ~~an~~ annual auction; ~~and~~ (2) the ~~one-any single calendar month period remaining in the Planning Period that is within the three, or less, month period immediately following the date month that~~ the monthly auction is conducted; (3) ~~any Planning Period Quarter remaining in the Planning Period following the month that the monthly auction is conducted;~~ and (4) the Planning Period Balance. In addition to the period defined in (2) of this subsection, only one of the periods defined in (3) or (4) of this subsection will be included in the monthly auction clearing until the Office of the Interconnection determines that both of the periods defined in (3) and (4) can be solved simultaneously in the same monthly auction process within the timeframe specified in Section 7.3.7. With the exception of FTRs allocated pursuant to section 5.2.2 (e) of this Schedule and the Financial Transmission Rights awarded as a result of the exercise of the conversion option pursuant to section 7.1.1(b) of this Schedule, in the annual auction, the Office of the Interconnection shall offer for sale the entire Financial Transmission Rights capability for the year in four rounds with 25 percent of the capability offered in each round. In the monthly auction, the Office of the Interconnection shall offer for sale in the auction any remaining Financial Transmission Rights capability for the months remaining in the Planning Period after taking into account all of the Financial Transmission Rights already outstanding at the time of the auction. In addition, any holder of a Financial Transmission Right for the period covered by an auction may offer such Financial Transmission Right for sale in such auction. On-Peak, off-peak and 24-hour FTRs will be offered in the annual and monthly auctions. FTRs will be offered as Financial Transmission Right Obligations and Financial Transmission Right Options, provided that such Financial Transmission Right Obligations and Financial Transmission Right Options shall be awarded based only on the residual system capability that remains after the allocation of Financial Transmission Rights pursuant to section 5.2.2(e) and the award of Financial Transmission Rights pursuant to section 7.1.1(b) of this Schedule. Market Participants may bid for and acquire any number of Financial Transmission Rights, provided that all Financial Transmission Rights awarded are simultaneously feasible with each other and with all Financial Transmission Rights outstanding at the time of the auction and not sold into the auction. An ARR holder may self-schedule an FTR on the same path in the Annual FTR auction according to the rules described in the PJM Manuals.

(b) An Auction Revenue Rights holder may convert Auction Revenue Rights to Financial Transmission Rights. Such Financial Transmission Rights must (i) have the same source and sink points as the Auction Revenue Rights; (ii) be a 24-hour product; and (iii) be Financial Transmission Right Obligations. The Auction Revenue Rights holder must inform the Office of the Interconnection in accordance with the procedures established by the Office of the Interconnection that it intends to exercise the conversion option prior to close of round one of the

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annual Financial Transmission Rights auction. Once the conversion option is exercised, it will remain in effect for the entire Financial Transmission Rights auction. The Office of the Interconnection will designate twenty-five percent of the megawatt amount of the Auction Revenue Rights to be converted as price-taker bids in each of the four rounds of the Financial Transmission Rights auction.

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An Auction Revenue Rights holder that converts its Auction Revenue Rights may not designate a price bid for its converted Financial Transmission Rights and will receive a price equal to the clearing price set by other bids in the annual Financial Transmission Right auction. To the extent a market participant seeks to obtain FTRs in the annual auction through such conversion, the FTRs sought will not be included in the calculation of such market participant's credit requirement for such annual FTR auction.

7.1.2 Frequency and Time of Auctions.

Subject to section 7.1.1 of this Schedule, annual Financial Transmission Rights auctions shall offer the entire FTR capability of the PJM system in four rounds with 25 percent of the capability offered in each round. All four rounds of the annual Financial Transmission Rights auction shall occur within the two-month period (April – May) preceding the start of the PJM ~~planning~~ Planning period. Each round shall occur over five business days and shall be conducted sequentially. Each round shall begin with the bid and offer period. The bid and offer period for annual Financial Transmission Rights auctions shall be open for three consecutive business days, opening the first day at 12:00 midnight (Eastern Prevailing Time) and closing the third day at 5:00 p.m. (Eastern Prevailing Time). Monthly, Financial Transmission Rights auctions shall be held each month. The bid and offer period for monthly Financial Transmission Rights auctions shall be open for three consecutive business days in the month preceding the first month for which Financial Transmission Rights are being auctioned, opening the first day at 12:00 midnight (Eastern Prevailing Time) on the thirteenth (13th) business day preceding the month for which Financial Transmission Rights are being auctioned and shall close and closing the third day at 5:00 PM (Eastern Prevailing Time) on the tenth (10th) business day preceding the month for which Financial Transmission Rights are being auctioned.

7.1.3 Duration of Financial Transmission Rights.

Each Financial Transmission Right acquired in a Financial Transmission Rights auction shall entitle the holder to credits of Transmission Congestion Charges for the period that was specified in the corresponding auction.

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7.2 Financial Transmission Rights Characteristics.

7.2.1 Reconfiguration of Financial Transmission Rights.

Through an appropriate linear programming model, the Office of the Interconnection shall reconfigure the Financial Transmission Rights offered or otherwise available for sale in any auction to maximize the value to the bidders of the Financial Transmission Rights sold, provided that any Financial Transmission Rights acquired at auction shall be simultaneously feasible in combination with those Financial Transmission Rights outstanding at the time of the auction and not sold in the auction. The linear programming model shall, while respecting transmission constraints and the maximum MW quantities of the bids and offers, select the set of simultaneously feasible Financial Transmission Rights with the highest net total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers.

7.2.2 Specified Receipt and Delivery Points.

Auction bids for annual Financial Transmission Rights Obligations may specify as receipt and delivery points any combination of hubs, Zones, aggregates, generators, and interface busses. Auction bids for annual Financial Transmission Rights Options may specify as receipt and delivery points such combination of hubs, Zones, aggregates, generators, and interface busses as the Office of the Interconnection shall allow from time to time as set forth in its FTR business manual. Auction bids for ~~monthly~~ Financial Transmission Rights submitted in the monthly auctions may specify as receipt and delivery points any combination of hubs, Zones, aggregates, generators, and interface busses for bids that cover any month beyond the next month, including bids that cover Planning Period Quarters or Planning Period Balance. Auction bids for Financial Transmission Rights submitted in the monthly auctions that cover the single calendar month period immediately following the month in which the monthly auction is conducted may specify any combination of receipt and delivery busses represented in the State Estimator model receipt and delivery busses represented in the State Estimator model for which the Office of the Interconnection calculates and posts Locational Marginal Prices. Auction bids may specify receipt and delivery points from locations outside of the PJM Region to locations inside such region, from locations within the PJM Region to locations outside such region, or to and from locations within the PJM Region.

7.2.3 Transmission Congestion Charges.

Financial Transmission Rights shall entitle holders thereof to credits only for Transmission Congestion Charges, and shall not confer a right to credits for payments arising from or relating to transmission congestion made to any entity other than the Office of the Interconnection.

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7.3 Auction Procedures.

7.3.1 Role of the Office of the Interconnection.

Financial Transmission Rights auctions shall be conducted by the Office of the Interconnection in accordance with standards and procedures set forth in the PJM Manuals, such standards and procedures to be consistent with the requirements of this Schedule.

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(b) Offers to sell shall identify the specific Financial Transmission Right, by term, megawatt quantity and receipt and delivery points, offered for sale. An offer to sell a specified megawatt quantity of Financial Transmission Rights shall constitute an offer to sell a quantity of Financial Transmission Rights equal to or less than the specified quantity. An offer to sell may not specify a minimum quantity being offered. Each offer may specify a reservation price, below which the offeror does not wish to sell the Financial Transmission Right. Offers submitted by entities holding rights to Financial Transmission Rights shall be subject to such reasonable standards for the verification of the rights of the offeror as may be established by the Office of the Interconnection. Offers shall be subject to such reasonable standards for the creditworthiness of the offeror or for the posting of security for performance as the Office of the Interconnection shall establish.

(c) Bids to purchase shall specify the term, megawatt quantity, price per megawatt, and receipt and delivery points of the Financial Transmission Right that the bidder wishes to purchase. A bid to purchase a specified megawatt quantity of Financial Transmission Rights shall constitute a bid to purchase a quantity of Financial Transmission Rights equal to or less than the specified quantity. A bid to purchase may not specify a minimum quantity that the bidder wishes to purchase. A bid may specify receipt and delivery points in accordance with Section 7.2.2 and may include Financial Transmission Rights for which the associated Transmission Congestion Credits may have negative values. Bids shall be subject to such reasonable standards for the creditworthiness of the bidder or for the posting of security for performance as the Office of the Interconnection shall establish.

(d) Bids and offers shall be specified to the nearest tenth of a megawatt and shall be greater than zero. The Office of the Interconnection may require that a market participant shall not submit in excess of 5000 bids and offers for any single monthly auction, or for any single round of the annual auction, when the Office of the Interconnection determines that such limit is required to avoid or mitigate significant system performance problems related to bid/offer volume. Notice of the need to impose such limit shall be provided prior to the start of the bidding period if possible. Where such notice is provided after the start of the bidding period, market participants shall be required within one day to reduce their bids and offers for such auction below 5000, and the bidding period in such cases shall be extended by one day.

7.3.6 Determination of Winning Bids and Clearing Price.

(a) At the close of each bidding period, the Office of the Interconnection will create a base Financial Transmission Rights power flow model that includes all outstanding Financial Transmission Rights that have been approved and confirmed for any portion of the month for which the auction was conducted and that were not offered for sale in the auction. The base Financial Transmission Rights model also will include estimated uncompensated parallel

from an appropriate linear programming model that, while respecting transmission constraints and the maximum MW quantities of the bids and offers, selects the set of simultaneously feasible Financial Transmission Rights with the highest net total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers. In the event that there are two or more identical bids for the selected Financial Transmission Rights and there are insufficient Financial Transmission Rights to accommodate all of the identical bids, then each such bidder will receive a pro rata share of the Financial Transmission Rights that can be awarded.

(c) Financial Transmission Rights shall be sold at the market-clearing price for Financial Transmission Rights between specified pairs of receipt and delivery points, as determined by the bid value of the marginal Financial Transmission Right that could not be awarded because it would not be simultaneously feasible. The linear programming model shall determine the clearing prices of all Financial Transmission Rights paths based on the bid value of the marginal Financial Transmission Rights, which are those Financial Transmission Rights with the highest bid values that could not be awarded fully because they were not simultaneously feasible, and based on the flow sensitivities of each Financial Transmission Rights path relative to the marginal Financial Transmission Rights paths flow sensitivities on the binding transmission constraints.

7.3.7 Announcement of Winners and Prices.

Within two (2) business days after the close of a monthly auction or the bid and offer period for an annual Financial Transmission Rights auction round, and within five (5) business days after the close of the bid and offer period for a monthly Financial Transmission Rights auction, the Office of the Interconnection shall post the winning bidders, the megawatt quantity, the term and the receipt and delivery points for each Financial Transmission Right awarded in the auction and the price at which each Financial Transmission Right was awarded. The Office of the Interconnection shall not disclose the price specified in any bid to purchase or the reservation price specified in any offer to sell.

7.3.8 Auction Settlements.

All buyers and sellers of Financial Transmission Rights between the same points of receipt and delivery shall pay or be paid the market-clearing price, as determined in the auction, for such Financial Transmission Rights.

7.4 Allocation of Auction Revenues.

7.4.1 Eligibility.

(a) Annual and monthly auction revenues, net of payments to entities selling Financial Transmission Rights into the auction, shall be allocated among holders of Auction Revenue Rights in proportion to, but not more than, the Target Allocation of Auction Revenue Rights Credits for the holder.

(b) Auction Revenue Rights Credits will be calculated based upon the clearing price results of the applicable Annual Financial Transmission Rights auction.

7.4.2 Auction Revenue Rights.

(a) On an annual basis by such deadline established by the Office of the Interconnection, the allocation of Auction Revenue Rights shall be performed using a two stage allocation process. In the first stage of the allocation process, each Network Service User may request Auction Revenue Rights from a subset of the historical generation resources that were designated to be delivered to load based on the historical reference year for the Zone, and each Qualifying Transmission Customer (as defined in paragraph (d) of this section) may request Auction Revenue Rights based on the megawatts of firm service provided between the receipt and delivery points as to which the Transmission Customer had Point-to-Point Transmission Service during the historical reference year. The historical reference year for all Zones shall be 1998, except that the reference year shall be 2002 for the Allegheny Power and Rockland Electric Zones, and the Office of the Interconnection shall specify a historical reference year for a new PJM zone corresponding to the year that the zone is integrated into the PJM Interchange Energy Market. For each Zone, the Office of the Interconnection shall determine a set of eligible generation sources based on the historical reference year and assign a pro rata amount of megawatt capability from each resource to each Network Service User in the Zone based on its proportion of peak load in the Zone. Auction Revenue Rights shall be allocated to each Network Service User in a Zone from each historical generation resource in a number of megawatts equal to or less than the amount of the resource that has been assigned to the Network Service User. Each Auction Revenue Right allocated to a Network Service User shall be to the aggregate load busses of such Network Service User in a Zone or, with respect to Non-Zone Network Load, to the border of the PJM Region. In the first stage of the allocation process, the sum of each Network Service User's allocated Auction Revenue Rights for a Zone must be equal to or less than the Network Service User's peak load for that Zone as determined under Section 34.1 of the Tariff. The sum of each Network Service User's Auction Revenue Rights for Non-Zone Network Load must be equal to or less than the Network Service User's transmission responsibility for Non-Zone Network Load as determined under Section 34.1 of the Tariff. The sum of each Qualifying Transmission Customer's Auction Revenue Rights must be equal to or less than the megawatts of firm service provided between the receipt and delivery points as to which the Transmission Customer had Point-to-Point Transmission Service during the historical reference year.

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(b) In the second stage of the allocation process, the Office of the Interconnection shall conduct an iterative allocation process that consists of four rounds with 25 percent of the remaining system Auction Revenue Rights capability allocated in each round. Each round of this allocation process will be conducted sequentially with Network Service users and Transmission Customers being given the opportunity to view results of each allocation round prior to submission of Auction Revenue Right requests into the subsequent round. In each round, each Network Service User shall designate a subset of buses from which Auction Revenue Rights will be sourced. Valid Auction Revenue Rights source buses include only zones, generators, hubs and external interface buses. The Network Service User shall specify the amount of Auction Revenue Rights requested from each source bus. Each Auction Revenue Right shall be sunk to the aggregate load buses of the Network Service User in a Zone or, with respect to Non-Zone Network Load, to the border of the PJM Region. The sum of each Network Service User's Auction Revenue Rights requests in each allocation round for each Zone must be equal to or less than 25 percent of the difference between the Network Service User's peak load for that Zone as determined under Section 34.1 of the Tariff and its Auction Revenue Right Allocation from the first stage of the allocation process for that Zone. The second-stage allocation to Transmission Customers shall be as set forth in paragraph (d).

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of megawatts of firm service being provided between the receipt and delivery points as to which the Transmission Customer currently has firm Point-to-Point Transmission Service and its Auction Revenue Right Allocation from the first stage of the allocation process.

(e) PJM Transmission Customers that serve load in the Midwest ISO may participate in stage 1 of the allocation to the extent permitted by, and in accordance with, this section 7.4.2 and other applicable provisions of this Schedule 1. For service from non-historic sources, these customers may participate in stage 2, but in no event can they receive an allocation of ARRs/FTRs from PJM greater than their firm service to loads in MISO.

(f) All Auction Revenue Rights must be simultaneously feasible. If all Auction Revenue Right requests made during the annual allocation process are not feasible then Auction Revenue Rights are prorated and allocated in proportion to the MW level requested and in inverse proportion to the effect on the binding constraints.

7.4.3 Target Allocation of Auction Revenue Right Credits.

A target allocation of Auction Revenue Right Credits for each entity holding an Auction Revenue Right shall be determined for each Auction Revenue Right. After each round of the annual Financial Transmission Right Auction, each Auction Revenue Right shall be divided by four and multiplied by the price differences for the receipt and delivery points associated with the Auction Revenue Right, calculated as the Locational Marginal Price at the delivery points(s) minus the Locational Marginal Price at the receipt point(s), where the price for the receipt and delivery point is determined by the clearing prices of each round of the annual Financial Transmission Right auction. The daily total target allocation for an entity holding the Auction Revenue Rights shall be the sum of the daily target allocations associated with all of the entity's Auction Revenue Rights.

7.4.4 Calculation of Auction Revenue Right Credits.

(a) Each day, the total of all the daily target allocations determined as specified above in section 7.4.3 plus any additional Auction Revenue Rights target allocations applicable for that day shall be compared to the total revenues of the ~~the~~ all applicable monthly Financial Transmission Rights auction(s) (divided by the number of days in the month) plus the total revenues of the annual Financial Transmission.

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Rights auction (divided by the number of days in the ~~planning~~ Planning
~~period~~ Period). If the total of the target allocations is less than the total auction
revenues, the Auction Revenue Right Credit for each entity holding an Auction
Revenue Right shall be equal to its target allocation. All remaining funds shall be
distributed as Excess Congestion Charges pursuant to Section 5.2.5.

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operating generating resources; or (b) for a Market Participant that is not a Network Service User, the amount of its Spot Market Backup sales; or (c) the hourly scheduled deliveries of Spot Market Energy by a Market Seller from an External Resource; or (d) the hourly net metered output of any other Market Seller.

1.3.27 PJM Interchange Import.

"PJM Interchange Import" shall mean the following, as determined in accordance with the Schedules to this Agreement: (a) for a Market Participant that is a Network Service User, the amount by which its hourly Equivalent Load exceeds the sum of the hourly outputs of its operating generating resources; or (b) for a Market Participant that is not a Network Service User, the amount of its Spot Market Backup purchases; or (c) the hourly scheduled deliveries of Spot Market Energy to an External Market Buyer; or (d) the hourly scheduled deliveries to an Internal Market Buyer that is not a Network Service User.

1.3.28 PJM Open Access Same-time Information System.

"PJM Open Access Same-time Information System" shall mean the electronic communication system for the collection and dissemination of information about transmission services in the PJM Region, established and operated by the Office of the Interconnection in accordance with FERC standards and requirements.

1.3.28A Planning Period Quarter.

"Planning Period Quarter" shall mean any of the following three month periods in the Planning Period: June, July and August; September, October and November; December, January and February; or, March, April and May.

1.3.28B Planning Period Balance.

"Planning Period Balance" shall mean the entire period of time remaining in the Planning Period following the month that a monthly auction is conducted.

1.3.29 Point-to-Point Transmission Service.

"Point-to-Point Transmission Service" shall mean transmission service provided pursuant to the rates, terms and conditions set forth in Part II of the PJM Tariff.

1.3.30 Ramping Capability.

"Ramping Capability" shall mean the sustained rate of change of generator output, in megawatts per minute.

1.3.30A Real-time Prices.

"Real-time Prices" shall mean the Locational Marginal Prices resulting from the Office of the Interconnection's dispatch of the PJM Interchange Energy Market in the Operating Day.

1.3.30B Real-time Energy Market.

"Real-time Energy Market" shall mean the purchase or sale of energy and payment of Transmission Congestion Charges for quantity deviations from the Day-ahead Energy Market in the Operating Day.

1.3.31 Regulation.

"Regulation" shall mean the capability of a specific generating unit with appropriate telecommunications, control and response capability to increase or decrease its output in response to a regulating control signal, in accordance with the specifications in the PJM Manuals.

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7.1.1 Auction Period and Scope of Auctions.

(a) The periods covered by auctions shall be: (1) the one-year period beginning the month after the final round of the annual auction; ~~and~~ (2) ~~the any single calendar one-month period remaining in the Planning Period that is within the three, or less, month period immediately following the month following the date that the monthly auction is conducted;~~ (3) any Planning Period Quarter remaining in the Planning Period following the month that the monthly auction is conducted; and (4) the Planning Period Balance. In addition to the period defined in (2) of this subsection, only one of the periods defined in (3) or (4) of this subsection will be included in the monthly auction clearing until the Office of the Interconnection determines that both of the periods defined in (3) and (4) can be solved simultaneously in the same monthly auction process within the timeframe specified in Section 7.3.7. With the exception of FTRs allocated pursuant to Section 5.2.2 (e) of this Schedule and the Financial Transmission Rights awarded as a result of the exercise of the conversion option pursuant to Section 7.1.1(b) of this Schedule, in the annual auction, the Office of the Interconnection shall offer for sale the entire Financial Transmission Rights capability for the year in four rounds with 25 percent of the capability offered in each round. In the monthly auction, the Office of the Interconnection shall offer for sale in the auction any remaining Financial Transmission Rights capability for the months remaining in the Planning Period after taking into account all of the Financial Transmission Rights already outstanding at the time of the auction. In addition, any holder of a Financial Transmission Right for the period covered by an auction may offer such Financial Transmission Right for sale in such auction. On-Peak, off-peak and 24-hour FTRs will be offered in the annual and monthly auctions. FTRs will be offered as Financial Transmission Right Obligations and Financial Transmission Right Options, provided that such Financial Transmission Right Obligations and Financial Transmission Right Options shall be awarded based only on the residual system capability that remains after the allocation of Financial Transmission Rights pursuant to Section 5.2.2(e) and the award of Financial Transmission Rights pursuant to Section 7.1.1(b) of this Schedule. Market Participants may bid for and acquire any number of Financial Transmission Rights, provided that all Financial Transmission Rights awarded are simultaneously feasible with each other and with all Financial Transmission Rights outstanding at the time of the auction and not sold into the auction. An ARR holder may self-schedule an FTR on the same path in the Annual FTR auction according to the rules described in the PJM Manuals.

(b) An Auction Revenue Rights holder may convert Auction Revenue Rights to Financial Transmission Rights. Such Financial Transmission Rights must (i) have the same source and sink points as the Auction Revenue Rights; (ii) be a 24-hour product; and (iii) be Financial Transmission Right Obligations. The Auction Revenue Rights holder must inform the Office of the Interconnection in accordance with the procedures established by the Office of the Interconnection that it intends to exercise the conversion option prior to close of round one of the

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annual Financial Transmission Rights auction. Once the conversion option is exercised, it will remain in effect for the entire Financial Transmission Rights auction. The Office of the Interconnection will designate twenty-five percent of the megawatt amount of the Auction Revenue Rights to be converted as price-taker bids in each of the four rounds of the Financial Transmission Rights auction. An Auction Revenue Rights holder that converts its Auction Revenue Rights may not designate a price bid for its converted Financial Transmission Rights and will receive a price equal to the clearing price set by other bids in the annual Financial Transmission Right auction. To the extent a market participant seeks to obtain FTRs in the annual auction through such conversion, the FTRs sought will not be included in the calculation of such market participant's credit requirement for such annual FTR auction.

7.1.2 Frequency and Time of Auctions.

Subject to Section 7.1.1 of this Schedule, annual Financial Transmission Rights auctions shall offer the entire FTR capability of the PJM system in four rounds with 25 percent of the capability offered in each round. All four rounds of the annual Financial Transmission Rights auction shall occur within the two-month period (April – May) preceding the start of the PJM ~~planning~~ Planning period. Each round shall occur over five business days and shall be conducted sequentially. Each round shall begin with the bid and offer period. The bid and offer period for annual Financial Transmission Rights auctions shall be open for three consecutive business days, opening the first day at 12:00 midnight (Eastern Prevailing Time) and closing the third day at 5:00 p.m. (Eastern Prevailing Time). Monthly Financial Transmission Rights auctions shall be held each month. The bid and offer period for monthly Financial Transmission Rights auctions shall be open for three consecutive at 12:00 midnight (Eastern Prevailing Time) on the thirteenth (13th) business days in the month preceding the first month for which Financial Transmission Rights are being auctioned, opening the first day at 12:00 midnight (Eastern Prevailing Time) and closing the third day at 5:00 p.m. (Eastern Prevailing Time), and shall close at 5:00 PM (Eastern Prevailing Time) on the tenth (10th) business day preceding the month for which Financial Transmission Rights are being auctioned.

7.1.3 Duration of Financial Transmission Rights.

Each Financial Transmission Right acquired in a Financial Transmission Rights auction shall entitle the holder to credits of Transmission Congestion Charges for the period that was specified in the corresponding auction.

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Each Financial Transmission Right acquired in a Financial Transmission Rights auction shall entitle the holder to credits of Transmission Congestion Charges for the period that was specified in the corresponding auction.

7.2 Financial Transmission Rights Characteristics.

7.2.1 Reconfiguration of Financial Transmission Rights.

Through an appropriate linear programming model, the Office of the Interconnection shall reconfigure the Financial Transmission Rights offered or otherwise available for sale in any auction to maximize the value to the bidders of the Financial Transmission Rights sold, provided that any Financial Transmission Rights acquired at auction shall be simultaneously feasible in combination with those Financial Transmission Rights outstanding at the time of the auction and not sold in the auction. The linear programming model shall, while respecting transmission constraints and the maximum MW quantities of the bids and offers, select the set of simultaneously feasible Financial Transmission Rights with the highest net total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers.

7.2.2 Specified Receipt and Delivery Points.

Auction bids for annual Financial Transmission Rights Obligations may specify as receipt and delivery points any combination of hubs, Zones, aggregates, generators, and interface buses. Auction bids for annual Financial Transmission Rights Options may specify as receipt and delivery points such combination of hubs, Zones, aggregates, generators, and interface buses as the Office of the Interconnection shall allow from time to time as set forth in its FTR business manual. Auction bids for Financial Transmission Rights submitted in the monthly auctions may specify as receipt and delivery points any combination of hubs, Zones, aggregates, generators, and interface buses for bids that cover any month beyond the next month, including bids that cover Planning Period Quarters or the Planning Period Balance. Auction bids for monthly Financial Transmission Rights submitted in the monthly auctions that cover the single calendar month period immediately following the month in which the monthly auction is conducted may specify any combination of receipt and delivery buses represented in the State Estimator model for which the Office of the Interconnection calculates and posts Locational Marginal Prices. Auction bids may specify receipt and delivery points from locations outside of the PJM Region to locations inside such region, from locations within the PJM Region to locations outside such region, or to and from locations within the PJM Region.

7.2.3 Transmission Congestion Charges.

Financial Transmission Rights shall entitle holders thereof to credits only for Transmission Congestion Charges, and shall not confer a right to credits for payments arising from or relating to transmission congestion made to any entity other than the Office of the Interconnection.

7.3 Auction Procedures.

7.3.1 Role of the Office of the Interconnection.

Financial Transmission Rights auctions shall be conducted by the Office of the Interconnection in accordance with standards and procedures set forth in the PJM Manuals, such standards and procedures to be consistent with the requirements of this Schedule.

7.3.2 Notice of Offer.

A holder of a Financial Transmission Right wishing to offer the Financial Transmission Right for sale shall notify the Office of the Interconnection of any Financial Transmission Rights to be offered. Each Financial Transmission Right sold in an auction shall, at the end of the period for which the Financial Transmission Rights were auctioned, revert to the offering holder or the entity to which the offering holder has transferred such Financial Transmission Right, subject to the term of the Financial Transmission Right itself and to the right of such holder or transferee to offer the Financial Transmission Right in the next or any subsequent auction during the term of the Financial Transmission Right.

7.3.3 Pending Applications for Firm Service.

(a) [Reserved.]

(b) Financial Transmission Rights may be assigned to entities requesting Network Transmission Service or Firm Point-to-Point Transmission Service pursuant to Section 5.2.2 (e), only if such Financial Transmission Rights are simultaneously feasible with all outstanding Financial Transmission Rights, including Financial Transmission Rights effective for the then-current auction period. If an assignment of Financial Transmission Rights pursuant to a pending application for Network Transmission Service or Firm Point-to-Point Transmission Service cannot be completed prior to an auction, Financial Transmission Rights attributable to such transmission service shall not be assigned for the then-current auction period. If a Financial Transmission Right cannot be assigned for this reason, the applicant may withdraw its application, or request that the Financial Transmission Right be assigned effective with the start of the next auction period.

7.3.4 On-Peak, Off-Peak and 24-Hour Periods.

On-peak, off-peak and 24-hour FTRs will be offered in the annual and monthly auction. On-Peak Financial Transmission Rights shall cover the periods from 7:00 a.m. up to the hour ending at 11:00 p.m. on Mondays through Fridays, except holidays as defined in the PJM Manuals. Off-Peak Financial Transmission Rights shall cover the periods from 11:00 p.m. up to the hour ending 7:00 a.m. on Mondays through Fridays and all hours on Saturdays, Sundays, and holidays as defined in the PJM Manuals. The 24-hour period shall cover the period from hour ending 1:00 a.m. to the hour ending 12:00 midnight on all days. Each bid shall specify whether it is for an on-peak, off-peak, or 24-hour period.

7.3.5 Offers and Bids.

(a) Offers to sell and bids to purchase Financial Transmission Rights shall be submitted during the period set forth in Section 7.1.2, and shall be in the form specified by the Office of the Interconnection in accordance with the requirements set forth below.

(b) Offers to sell shall identify the specific Financial Transmission Right, by term, megawatt quantity and receipt and delivery points, offered for sale. An offer to sell a specified megawatt quantity of Financial Transmission Rights shall constitute an offer to sell a quantity of Financial Transmission Rights equal to or less than the specified quantity. An offer to sell may

not specify a minimum quantity being offered. Each offer may specify a reservation price, below which the offeror does not wish to sell the Financial Transmission Right. Offers submitted by entities holding rights to Financial Transmission Rights shall be subject to such reasonable standards for the verification of the rights of the offeror as may be established by the Office of the Interconnection. Offers shall be subject to such reasonable standards for the creditworthiness of the offer or for the posting of security for performance as the Office of the Interconnection shall establish.

(c) Bids to purchase shall specify the term, megawatt quantity, price per megawatt, and receipt and delivery points of the Financial Transmission Right that the bidder wishes to purchase. A bid to purchase a specified megawatt quantity of Financial Transmission Rights shall constitute a bid to purchase a quantity of Financial Transmission Rights equal to or less than the specified quantity. A bid to purchase may not specify a minimum quantity that the bidder wishes to purchase. A bid may specify receipt and delivery points in accordance with Section 7.2.2 and may include Financial Transmission Rights for which the associated Transmission Congestion Credits may have negative values. Bids shall be subject to such reasonable standards for the creditworthiness of the bidder or for the posting of security for performance as the Office of the Interconnection shall establish.

(d) Bids and offers shall be specified to the nearest tenth of a megawatt and shall be greater than zero. The Office of the Interconnection may require that a market participant shall not submit in excess of 5000 bids and offers for any single monthly auction, or for any single round of the annual auction, when the Office of the Interconnection determines that such limit is required to avoid or mitigate significant system performance problems related to bid/offer volume. Notice of the need to impose such limit shall be provided prior to the start of the bidding period if possible. Where such notice is provided after the start of the bidding period, market participants shall be required within one day to reduce their bids and offers for such auction below 5000, and the bidding period in such cases shall be extended by one day.

7.3.6 Determination of Winning Bids and Clearing Price.

(a) At the close of the bidding period each month, the Office of the Interconnection will create a base Financial Transmission Rights power flow model that includes all outstanding Financial Transmission Rights that have been approved and confirmed for any portion of the month for which the auction was conducted and that were not offered for sale in the auction. The base Financial Transmission Rights model also will include estimated uncompensated parallel flows into each interface point of the PJM Region and estimated scheduled transmission outages.

(b) In accordance with the requirements of Section 7.4 of this Schedule and subject to all applicable transmission constraints and reliability requirements, the Office of the Interconnection shall determine the simultaneous feasibility of all outstanding Financial Transmission Rights not offered for sale in the auction and of all Financial Transmission Rights that could be awarded in the auction for which bids were submitted. The winning bids shall be determined from an appropriate linear programming model that, while respecting transmission constraints and the maximum MW quantities of the bids and offers, selects the set of simultaneously feasible Financial Transmission Rights with the highest net total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers. In the event that there are two or more identical bids for the selected Financial Transmission Rights and there are insufficient Financial Transmission Rights to accommodate all of the identical bids, then each such bidder will receive a pro rata share of the Financial Transmission Rights that can be awarded.

(c) Financial Transmission Rights shall be sold at the market-clearing price for Financial Transmission Rights between specified pairs of receipt and delivery points, as determined by the bid value of the marginal Financial Transmission Right that could not be awarded because it would not be simultaneously feasible. The linear programming model shall determine the clearing prices of all Financial Transmission Rights paths based on the bid value of the marginal Financial Transmission Rights, which are those Financial Transmission Rights with the highest bid values that could not be awarded fully because they were not simultaneously feasible, and based on the flow sensitivities of each Financial Transmission Rights path relative to the marginal Financial Transmission Rights paths flow sensitivities on the binding transmission constraints.

7.3.7 Announcement of Winners and Prices.

Within two (2) business days after the close of the bid and offer period for an monthly auction, or annual Financial Transmission Rights auction round and within five (5) business days after the close of the bid and offer period for a monthly Financial Transmission Rights auction, the Office of the Interconnection shall post the winning bidders, the megawatt quantity, the ~~term~~ and the receipt and delivery points for each Financial Transmission Right awarded in the auction and the price at which each Financial Transmission Right was awarded. The Office of the Interconnection shall not disclose the price specified in any bid to purchase or the reservation price specified in any offer to sell.

7.3.8 Auction Settlements.

All buyers and sellers of Financial Transmission Rights between the same points of receipt and delivery shall pay or be paid the market-clearing price, as determined in the auction, for such Financial Transmission Rights.

7.4 Allocation of Auction Revenues.

7.4.1 Eligibility.

(a) Annual and monthly auction revenues, net of payments to entities selling Financial Transmission Rights into the auction, shall be allocated among holders of Auction Revenue Rights in proportion to, but not more than, the Target Allocation of Auction Revenue Rights Credits for the holder.

(b) Auction Revenue Rights Credits will be calculated based upon the clearing price results of the applicable Annual Financial Transmission Rights auction.

7.4.2 Auction Revenue Rights.

(a) On an annual basis by such deadline established by the Office of the Interconnection, the allocation of Auction Revenue Rights shall be performed using a two stage allocation process. In the first stage of the allocation process, each Network Service User may request Auction Revenue Rights from a subset of the historical generation resources that were designated to be delivered to load based on the historical reference year for the Zone, and each Qualifying Transmission Customer (as defined in paragraph (d) of this section) may request Auction Revenue Rights based on the megawatts of firm service provided between the receipt and delivery points as to which the Transmission Customer had Point-to-Point Transmission Service during the historical reference year. The historical reference year for all Zones shall be 1998, except that the reference year shall be 2002 for the Allegheny Power and Rockland Electric Zones, and the Office of the Interconnection shall specify a historical reference year for a new PJM zone corresponding to the

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year that the zone is integrated into the PJM Interchange Energy Market. For each Zone, the Office of the Interconnection shall determine a set of eligible generation sources based on the historical reference year and assign a pro rata amount of megawatt capability from each resource to each Network Service User in the Zone based on its proportion of peak load in the Zone. Auction Revenue Rights shall be allocated to each Network Service User in a Zone from each historical generation resource in a number of megawatts equal to or less than the amount of the resource that has been assigned to the Network Service User. Each Auction Revenue Right allocated to a Network Service User shall be to the

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aggregate load buses of such Network Service User in a Zone or, with respect to Non-Zone Network Load, to the border of the PJM Region. In the first stage of the allocation process, the sum of each Network Service User's allocated Auction Revenue Rights for a Zone must be equal to or less than the Network Service User's peak load for that Zone as determined under Section 34.1 of the Tariff. The sum of each Network Service User's Auction Revenue Rights for Non-Zone Network Load must be equal to or less than the Network Service User's transmission responsibility for Non-Zone Network Load as determined under Section 34.1 of the Tariff. The sum of each Qualifying Transmission Customer's Auction Revenue Rights must be equal to or less than the megawatts of firm service provided between the receipt and delivery points as to which the Transmission Customer had Point-to-Point Transmission Service during the historical reference year.

(b) In the second stage of the allocation process, the Office of the Interconnection shall conduct an iterative allocation process that consists of four rounds with 25 percent of the remaining system Auction Revenue Rights capability allocated in each round. Each round of this allocation process will be conducted sequentially with Network Service users and Transmission Customers being given the opportunity to view results of each allocation round prior to submission of Auction Revenue Right requests into the subsequent round. In each round, each Network Service User shall designate a subset of buses from which Auction Revenue Rights will be sourced. Valid Auction Revenue Rights source buses include only zones, generators, hubs and external interface buses. The Network Service User shall specify the amount of Auction Revenue Rights requested from each source bus. Each Auction Revenue Right shall be sunk to the aggregate load buses of the Network Service User in a Zone or, with respect to Non-Zone Network Load, to the border of the PJM Region. The sum of each Network Service User's Auction Revenue Rights requests in each allocation round for each Zone must be equal to or less than 25 percent of the difference between the Network Service User's peak load for that Zone as determined under Section 34.1 of the Tariff and its Auction Revenue Right Allocation from the first stage of the allocation process for that Zone. The second-stage allocation to Transmission Customers shall be as set forth in paragraph (d).

(c) On a daily basis within the annual Financial Transmission Rights auction period, a proportionate share of Network Service User's Auction Revenue Rights for each Zone are reallocated as Network Load changes from one Network Service User to another within that Zone.

(d) A Qualifying Transmission Customer shall be any customer with an agreement for Long-Term Point-to-Point Transmission Service, as defined in the PJM Tariff, used to deliver energy from a designated network resource located either outside or within the PJM Region to load located either outside or within the PJM Region, and that was confirmed and in effect during the historical reference year for the zone in which the resource is located. Such an agreement shall allow the Qualifying Transmission Customer to participate in the first stage of the allocation, but only if such agreement has remained in effect continuously following the historical reference year and is to continue in effect for the period addressed by the allocation, either by its term or by renewal or rollover. The megawatts of Auction Revenue Rights the Qualifying Transmission Customer may request in the first stage of the allocation may not exceed the lesser of: (i) the megawatts of firm service between the designated network resource and the load delivery point (or applicable point at the border of the PJM Region for load located outside such region) under contract during the historical reference year; and (ii) the megawatts of firm service presently under contract between

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7.4.3 Target Allocation of Auction Revenue Right Credits.

A target allocation of Auction Revenue Right Credits for each entity holding an Auction Revenue Right shall be determined for each Auction Revenue Right. After each round of the annual Financial Transmission Right Auction, each Auction Revenue Right shall be divided by four and multiplied by the price differences for the receipt and delivery points associated with the Auction Revenue Right, calculated as the Locational Marginal Price at the delivery point(s) minus the Locational Marginal Price at the receipt point(s), where the price for the receipt and delivery point is determined by the clearing prices of each round of the annual Financial Transmission Right auction. The daily total target allocation for an entity holding the Auction Revenue Rights shall be the sum of the daily target allocations associated with all of the entity's Auction Revenue Rights.

7.4.4 Calculation of Auction Revenue Right Credits.

(a) Each day, the total of all the daily target allocations determined as specified above in Section 7.4.3 plus any additional Auction Revenue Rights target allocations applicable for that day shall be compared to the total revenues of all applicable ~~the~~ monthly Financial Transmission Rights auction(s) (divided by the number of days in the month) plus the total revenues of the annual Financial Transmission Rights auction (divided by the number of days in the planning ~~Planning~~ ~~period~~ Period). If the total of the target allocations is less than the total auction revenues, the Auction Revenue Right Credit for each entity holding an Auction Revenue Right shall be equal to its target allocation. All remaining funds shall be distributed as Excess Congestion Charges pursuant to Section 5.2.5.

(b) If the total of the target allocations is greater than the total auction revenues, each holder of Auction Revenue Rights shall be assigned a share of the total auction revenues in proportion to its Auction Revenue Rights target allocations for Auction Revenue Rights which have a positive Target Allocation value. Auction Revenue Rights which have a negative Target Allocation value are assigned the full Target Allocation value as a negative Auction Revenue Right Credit.

7.5 Simultaneous Feasibility.

The Office of the Interconnection shall make the simultaneous feasibility determinations specified herein using appropriate powerflow models of contingency-constrained dispatch. Such determinations shall take into account outages of both individual generation units and transmission facilities and shall be based on reasonable assumptions about the configuration and availability of transmission capability during the period covered by the auction that are not inconsistent with the determination of the deliverability of Capacity Resources under the Reliability Assurance Agreement or Reliability Assurance Agreement-West. The goal of the simultaneous feasibility determination shall be to ensure that there are sufficient revenues from Transmission Congestion Charges to satisfy all Financial Transmission Rights obligations for the auction period under expected conditions and to ensure that there are sufficient revenues from the annual Financial Transmission Right Auction to satisfy all Auction Revenue Rights obligations.