

7.1A Long-Term Financial Transmission Rights Auctions.

7.1A.1 Auctions.

(i) Subsequent to each annual Financial Transmission Rights auction conducted pursuant to Operating Agreement, Schedule 1, sSection 7.1-of Schedule 1-of this Agreement, the Office of the Interconnection shall conduct a long-term Financial Transmission Rights auction for the three consecutive Planning Periods immediately subsequent to the Planning Period during which the long-term Financial Transmission Rights auction is conducted. PJMSettlement shall be the Counterparty to the purchases and sales of Financial Transmission Rights arising from such long-term Financial Transmission Rights FTR-auctions, provided however, that PJMSettlement shall not be a contracting party to any subsequent bilateral transfers of Financial Transmission Rights between Market Participants. The conversion of an Auction Revenue Right to a Financial Transmission Right pursuant to this section 7 shall not constitute a purchase or sale transaction to which PJMSettlement is a contracting party.

(ii) The capacity offered for sale in long-term Financial Transmission Rights auctions shall be the residual system capability after the Annual Auction Revenue Rights allocations and the annual Financial Transmission Rights auction. In determining the residual capability the Office of the Interconnection shall assume that all Auction Revenue Rights allocated in the immediately prior annual Auction Revenue Rights allocation process are self-scheduled into Financial Transmission Rights, which shall be modeled as fixed injections and withdrawals in the long-term Financial Transmission Rights auction. Additionally, residual Annual Auction Revenue Rights that become available through incremental capability created by future transmission upgrades as further described in the PJM Manuals shall be modeled as fixed injections and withdrawals in the long-term Financial Transmission Rights auction. PJM shall calculate residual Auction Revenue Rights for Auction Revenue Rights pathways that were prorated pursuant to Operating Agreement, Schedule 1, section 7.4.2(h) for any increase in transmission capability created by future transmission upgrades that are in effect or planned to go into effect for the following Planning Period. The transmission upgrades to be modeled for this purpose shall only include those upgrades that, individually, or together, have 10% or more impact on the transmission congestion on an individual constraint or constraints with congestion of \$5 million or more affecting a common congestion path. Transmission upgrades modeled for this purpose also will be modeled in the subsequent long-term Financial Transmission Rights auction, as further detailed in the PJM Manuals. Residual Auction Revenue Rights created by an increase in transmission capability due to future transmission upgrades, as specified above, are determined only for modeling purposes and will not be allocated to market participants.

7.1A.2 Frequency and Timing.

The long-term Financial Transmission Rights auction process shall consist of three rounds. The first round shall be conducted by the Office of the Interconnection approximately 11 months prior to the start of the three Planning Period term covered by the relevant long-term Financial Transmission Rights auction. The second round shall be conducted approximately 3 months after the first round, and the third round shall be conducted approximately 3 months after the second round. In each round 1/3 of total capacity available in the long-term Financial

Transmission Rights auction shall be offered for sale. Eligible entities may submit bids to purchase and offers to sell Financial Transmission Rights at the start of the bidding period in each round. The bidding period shall be three Business Days ending at 5:00 p.m. on the last day. PJM performs the Financial Transmission Rights auction clearing analysis for each round and posts the auction results on the market user interface within five Business Days after the close of the bidding period for each round unless circumstances beyond PJM's control prevent PJM from meeting the applicable deadline. Under such circumstances, PJM will post the auction results at the earliest possible opportunity. If the Office of the Interconnection discovers an error in the results posted for a long-term Financial Transmission Rights auction, the Office of the Interconnection shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 5:00 p.m. of the Business Day immediately following the initial publication of the results for that auction. After this initial notification, if the Office of the Interconnection determines it is necessary to post modified auction results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the second Business Day following the initial publication of prices for that auction. Thereafter, the Office of the Interconnection must post the corrected prices by no later than 5:00 p.m. of the fourth calendar day following the initial publication of prices in the auction. Should any of the above deadlines pass without the associated action on the part of the Office of the Interconnection, the originally posted results will be considered final. Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced auction results are under publicly noticed review by the FERC.

7.1A.3 Products.

- (i) The periods covered by long-term Financial Transmission Rights auctions shall be: (1) any single Planning Period within the three Planning Period term covered by the relevant auction; and (2) the three Planning Period term covered by the relevant auction.
- (ii) On-peak, off-peak and 24-hour Financial Transmission Right Obligations, shall be offered in long-term Financial Transmission Rights auctions; Financial Transmission Rights options shall not be offered.

7.1A.4 Participation Eligibility.

- (i) To participate in long-term Financial Transmission Rights auctions an entity shall be a PJM Member or a PJM Transmission Customer. Eligible entities may submit bids or offers in long-term Financial Transmission Rights auctions, provided they own Financial Transmission Rights offered for sale.

7.1A.5 Specified Receipt and Delivery Points.

The Office of the Interconnection will post a list of available receipt and delivery points for each long-term Financial Transmission Rights auction. Eligible receipt and delivery points in long-term Financial Transmission Rights auctions shall be limited to the posted available hubs, Zones, aggregates, generators, and Interface Pricing Points.

7.9 Residual Auction Revenue Rights.

(a) As necessary in each Planning Period PJM shall calculate Residual Auction Revenue Rights for Auction Revenue Rights pathways that were prorated pursuant to section Operating Agreement, Schedule 1, section 7.4.2(h) ~~of Schedule 1 of this Agreement~~. Residual Auction Revenue Rights calculated pursuant to this section shall be determined prior to the increase in transmission capability, including the return to service of existing transmission capability, that creates the Residual Auction Revenue Rights.

(b) Network Service Users and Qualifying Transmission Customers allocated stage 1 Auction Revenue Rights pursuant to Operating Agreement, Schedule 1, sections 7.4.2(a)-(c) ~~of Schedule 1 of this Agreement~~ that were subject to proration pursuant to Operating Agreement, Schedule 1, section 7.4.2(h) ~~of Schedule 1 of this Agreement~~ shall be eligible to receive Residual Auction Revenue Rights. Residual Auction Revenue Rights shall be allocated pursuant to the following schedule:

- (i) The initial allocation of Residual Auction Revenue Rights shall be to holders of prorated stage 1A Auction Revenue Rights in an amount equal to the difference between the allocated stage 1A Auction Revenue Rights and the requested stage 1A Auction Revenue Rights.
- (ii) Residual Auction Revenue Rights remaining after an allocation made pursuant to section Operating Agreement, Schedule 1, section 7.9(b)(i) ~~of Schedule 1 of this Agreement~~ shall be allocated to holders of prorated stage 1B Auction Revenue Rights in an amount equal to the difference between the allocated stage 1B Auction Revenue Rights and the requested stage 1B Auction Revenue Rights.
- (iii) Residual Auction Revenue Rights remaining after allocations made pursuant to Operating Agreement, Schedule 1, sections 7.9(b)(i) and (ii) ~~of Schedule 1 of this Agreement~~ shall not be allocated to any entity and shall not be considered by the Office of the Interconnection in its administration of Section 7 of Schedule 1 of this Agreement.

(c) The sum of a Network Service User's and Qualifying Transmission Customer's Residual Auction Revenue Rights awarded pursuant to this section and its stage 1 and 2 Auction Revenue Rights awarded in an annual allocation shall not exceed the entity's peak load.

(d) Residual Auction Revenue Rights awarded pursuant to this section shall be effective on the first day of the month in a Planning Period the increase in transmission capability creating the Residual Auction Revenue Rights is included in the administration of Operating Agreement, Schedule 1, section 7.1.1(a) ~~of Schedule 1 of this Agreement~~.

(e) Residual Auction Revenue Rights awarded pursuant to this section shall be subject to Operating Agreement, section 7.4.2(e) ~~of Schedule 1 of this Agreement~~.

(f) The value of Residual Auction Revenue Rights awarded pursuant to this section, determined as specified in Operating Agreement, Schedule 1, section 7.4.3(b) ~~of Schedule 1 of this Agreement~~, shall be positive. Negatively valued Residual Auction Revenue Rights will not be awarded.