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February 7, 2008

VIA FEDEX

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

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SECRETARY
FEB - 8 P 1:55

Re: PJM Interconnection, L.L.C., Docket No. ER08-544000

Dear Ms. Bose:

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 (2007), PJM Interconnection, L.L.C. ("PJM") hereby submits for filing the attached revisions to the Reliability Pricing Model ("RPM") at Sections 5.4(c) and 6.6(b) of Attachment DD of the PJM Open-Access Transmission Tariff, FERC Electric Tariff, Sixth Revised Volume No. 1 ("OATT"), and Section 1.70 of the Reliability Assurance Agreement, Rate Schedule FERC No. 44 ("RAA") (collectively, the "Tariff"). These revisions correct certain errors in the provisions pertaining to (i) the criteria for determining whether a Second Incremental Auction to account for load growth prior to a Delivery Year is necessary, (ii) the level of available capacity subject to the must-offer requirement, and (iii) the definition of a Planned Generation Capacity Resource. PJM also files to correct a couple of clerical errors. Accordingly, PJM files the proposed revised Tariff sheets as Attachment A (clean) and Attachment B (blacklined) and requests an effective date of April 8, 2008, 60 days post filing.

I. The Proposed Revisions

Experience with RPM during the transitional Base Residual Auction conducted during the past several months reveals a number of errors in the Tariff language implementing RPM. The proposed revisions reflect the efforts of the RPM Working Group ("RPMWG") to correct such errors. The Commission recently approved a number of revisions developed through the RPMWG and

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filed on November 19, 2007.¹ The revisions proposed here reflect the RPMWG's continuing effort to identify and correct such errors. As was the case with PJM's November 19th filing, these revisions are mostly substantive but non-controversial corrections, generally recognized as needed to enhance the efficient administration of RPM. PJM explains the nature and purpose of each of the proposed revisions in turn below.

A. Criteria for Determining Need for Second Incremental Auction

Section 5.4(c) of Attachment DD sets forth the criteria for determining whether PJM must conduct a Second Incremental Auction to account for significant load growth between the time of the Base Residual Auction and the relevant Deliver Year. This provision currently provides for the conduct of a Second Incremental Auction "only if the Final RTO Unforced Capacity Obligation less the Forecast ILR Obligation, as calculated ... immediately prior to the conduct of the Second Incremental Auction, is 100 megawatts or greater than the quantity of megawatts cleared in the Base Residual Auction for such Delivery Year." Because, by definition, the "Final RTO Capacity Obligation"² cannot be known prior to the conduct of the Second Incremental Auction, this test is impossible to meet. The intention was to analyze the "PJM Regional Reliability Requirement" rather than the "Final RTO Capacity Obligation," and PJM proposes to revise Section 5.4(c) consistent with such intent.

B. Relief from Must Offer Requirement for Sudden De-Ratings

Section 6.6 of Attachment DD sets forth the rules regarding the obligation of a Capacity Market Seller in the PJM region to offer its available capacity into PJM capacity auctions with certain specified exceptions. The amount of installed capacity not otherwise subject to an exception is determined on the basis of EFOR_D, a measure of the unit's availability based on its average historical performance over most recent three-year period. This measure, because it is an historical average, may overstate the amount of the capacity that is really available if a relatively recent event results in a significant degradation of available capacity. If this were to occur, a Sell Offer would have to include an amount of capacity under the current rules that is subject to penalties if not ultimately delivered, even though the offering party knows that this capacity will not be available. The situation will not correct itself until sufficient time has passed for the degradation to be reflected in the EFOR_D.

¹ See Letter Order in Docket No. ER08-232-000 issued January 14, 2008.

² See RAA Schedule 8 § C ("The Final Zonal Unforced Capacity Obligation shall be equal to the sum of (i) the Base Zonal Unforced Capacity Obligation, and (ii) *the unforced capacity obligation satisfied in the Second Incremental Auction times (the increase in the Final Zonal Peak Load Forecast from the Preliminary Zonal Peak Load Forecast from the RTO Preliminary Peak Load Forecast)* (emphasis added).

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PJM therefore proposes revisions to Section 6.6(b) that sets forth a process whereby Capacity Market Sellers that find themselves in the situation above can document the amount of capacity (MW) lost to a sudden degradation and obtain approval from PJM and the PJM Market Monitoring Unit for a reduced level of capacity subject to the must-offer requirement. PJM submits that this reform is fair to Capacity Market Sellers without compromising the ability of the must-offer rule to protect the integrity of PJM's capacity markets.

C. Definition of a Planned Generation Capacity Resource

Section 1.70 of the RAA defines a "Planned Generation Capacity Resource" as a generating project included in PJM's queue of resources (i) that is scheduled to receive interconnection service no later the first day of the applicable Delivery Year and currently and (ii) has executed a Facilities Study Agreement. PJM has determined that, in light of the three-year period between the Based Residual Auction and the Delivery Year, establishing an executed Facilities Study Agreement as the prerequisite milestone is too strict. PJM believes that an executed System Impact Study is sufficient to demonstrate that a Capacity Market Seller is earnest and will facilitate the inclusion of new resources in the earliest Delivery Year during which it is expected to become available. PJM also believes that the financial risks born by the Capacity Market Seller if the resource is cleared but fails to enter service at the beginning of the Delivery Years provide additional comfort that a project will become available on a timely basis. During the transition period, the applicable milestone has been an executed System Impact Study Agreement, and PJM proposes to adopt that standard permanently going forward.

This change also is necessary to provide a smooth transition from the accelerated schedule during the Transition Period to the steady-state schedule. At least one Capacity Market Seller has a project that cleared the January 2007 Base Residual Auction for Delivery Year 2010/11 on the basis of an executed System Impact Study Agreement but, through no fault of its own, will not have an executed Facilities Study Agreement in time for the May 2008 Base Residual Auction for Delivery Year 2011/12. There is no reason to deny status as a Planned Generation Capacity Resource for a Delivery Year coming after a Delivery Year for which such status has been recognized. Moreover, such a rule would discourage precisely the new investment that RPM seeks to promote. Having the proposed revision in place prior to the May 2008 Base Residual Auction will avoid this unfair result.

D. Clerical Errors

PJM includes two revisions solely to correct non-substantive clerical errors. The need for these corrections is self-explanatory, and they have not been reviewed by PJM's stakeholders. These include inserting the correct page

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reference to Attachment DD in the index to the OATT and correcting the numbering of the subsections in Section 16.4(d).

II. Stakeholder Support

On January 24, 2008, the PJM Members Committee met and endorsed the proposed non-clerical revisions with only one party opposed.

III. 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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IV. Description of Submittal

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

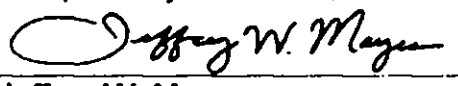
- This letter of transmittal;
- The proposed revisions on clean tariff sheets (Attachment A); and
- The proposed revisions red-lined against the currently effective tariff sheets (Attachment B).

V. 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

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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 Commission proceedings.³ 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."⁴ 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.⁵

Respectfully submitted,

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³ See *Electronic Notification of Commission Issuances*, Order No. 653, 110 FERC ¶81,110 (2005).

⁴ *Id.* at P 2, citing 44 U.S.C. § 3504.

⁵ PJM already maintains, updates, and regularly uses e-mail lists for all Members and affected commissions.

PJM RAA REVISIONS

Clean Version

PJM Interconnection, L.L.C.
Rate Schedule FERC No. 44

First Revised Sheet No. 9
Superseding Original Sheet No. 9

1.69 Planned Demand Resource shall mean a Demand Resource that does not currently have the capability to provide a reduction in demand or to otherwise control load, but that is scheduled to be capable of providing such reduction or control on or before the start of the Delivery Year for which such resource is to be committed, as determined in accordance with the requirements of Schedule 6.

1.70 Planned Generation Capacity Resource shall mean a Generation Capacity Resource participating in the generation interconnection process under part IV, subpart A of the PJM Tariff, for which Interconnection Service is scheduled to commence on or before the first day of the Delivery Year for which such resource is to be committed, for which a System Impact Study Agreement has been executed prior to the Base Residual Auction for such Delivery Year, and for which an Interconnection Service Agreement has been executed prior to any Incremental Auction for such Delivery Year. A Generation Capacity Resource shall cease to be considered a Planned Generation Capacity Resource as of the date that Interconnection Service commences, in accordance with Part IV of the PJM Tariff, as to such resource.

1.71 Planning Period shall mean the 12 months beginning June 1 and extending through May 31 of the following year, or such other period approved by the Members Committee.

1.72 Public Power Entity shall mean any agency, authority, or instrumentality of a state or of a political subdivision of a state, or any corporation wholly owned by any one or more of the foregoing, that is engaged in the generation, transmission, and/or distribution of electric energy.

1.73 Qualifying Transmission Upgrades shall have the meaning specified in Attachment DD to the PJM Tariff.

1.74 Markets and Reliability Committee shall mean the committee established pursuant to the Operating Agreement as a Standing Committee of the Members Committee.

1.75 Reliability Principles and Standards shall mean the principles and standards established by NERC or an Applicable Regional Reliability Council to define, among other things, an acceptable probability of loss of load due to inadequate generation or transmission capability, as amended from time to time.

1.76 Required Approvals shall mean all of the approvals required for this Agreement to be modified or to be terminated, in whole or in part, including the acceptance for filing by FERC and every other regulatory authority with jurisdiction over all or any part of this Agreement.

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Vice President, Federal Government Policy
Issued On: February 8, 2008

Effective: April 8, 2008

PJM TARIFF REVISIONS

Clean Version

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

Second Revised Sheet No. 32A
Superseding First Revised Sheet No. 32A

ATTACHMENT BB

**Form of Certified Inverter-Based Generating Facility No Larger Than 10 kW
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**Form of Certificate of Completion
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PJM Interconnection, L.L.C.
FERC Electric Tariff
Sixth Revised Volume No. 1

First Revised Sheet No. 577
Superseding Original Sheet No. 577

a) Base Residual Auction.

PJM shall conduct for each Delivery Year a Base Residual Auction to secure commitments of Capacity Resources as needed to satisfy the portion of the Final RTO Unforced Capacity Obligation not satisfied through Self-Supply of Capacity Resources for such Delivery Year. All Self-Supply Capacity Resources must be offered in the Base Residual Auction. As set forth in section 6.6, all other Capacity Resources, and certain other existing generation resources, must be offered in the Base Residual Auction. Except during the Transition Period, the Base Residual Auction shall be conducted in the month of May that is three years prior to the start of such Delivery Year. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be collected from Load Serving Entities through the Locational Reliability Charge during such Delivery Year.

b) First Incremental Auction.

PJM shall conduct for each Delivery Year a First Incremental Auction to allow Capacity Market Sellers that committed Capacity Resources in the Base Residual Auction for such Delivery Year to submit Buy Bids for replacement Capacity Resources. The need to purchase replacement Capacity Resources may arise from resource retirement, resource cancellation or construction delay, resource derating, EFORd increase, a decrease in the Nominated Demand Resource Value of a Planned Demand Resource, delay or cancellation of a Qualifying Transmission Upgrade, or similar occurrences. The cost of payments to Capacity Market Sellers for Capacity Resources that clear such auction shall be collected from Capacity Market Buyers that purchase replacement Capacity Resources in such auction. Except during the Transition Period, the First Incremental Auction shall be conducted in the month of June that is twenty-three months prior to the start of the Delivery Year.

c) Second Incremental Auction.

PJM shall conduct for any Delivery Year a Second Incremental Auction if necessary to secure additional commitments of Capacity Resources to satisfy an increase in the Unforced Capacity Obligation of the PJM Region due to a load forecast increase. Such auction shall be conducted only if the Final RTO Unforced Capacity Obligation PJM Regional Reliability Requirement less the Forecast ILR Obligation, as calculated in accordance with the PJM Manuals immediately prior to the conduct of the Second Incremental Auction, is 100 megawatts or greater than the quantity of megawatts cleared in the Base Residual Auction for such Delivery Year. If held, the Second Incremental Auction shall be conducted in the month of April that is thirteen months prior to the start of such Delivery Year. The cost of payments to Market Sellers for Capacity Resources cleared in such auction shall be collected from Load Serving Entities through an adjustment to the Locational Reliability Charge for such Delivery Year.

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(C) Where the two conditions stated in Paragraph (B) are not met, or the Sell Offer is pivotal, the Sell Offer [shall be] reject[ed] [if it exceeds 140 percent of: 1) the average of location-adjusted Sell Offers for Planned Generation Capacity Resources from the same asset class as such Sell Offer, submitted (and not rejected) (Asset-Class New Plant Offers) for such Delivery Year; or 2) if there are no Asset-Class New Plant Offers for such Delivery Year, the average of Asset-Class New Plant Offers for all prior Delivery Years; or 3) if there are no Asset-Class New Plant Offers for any prior Delivery Year, the Net CONE applicable for such Delivery Year in the LDA for which such offer was submitted. For purposes of this paragraph, asset classes shall be as stated in section 6.7(c) as effective for such Delivery Year, and Asset-Class New Plant Offers shall be location-adjusted by the ratio between the Net CONE effective for such Delivery Year for the LDA in which the Sell Offer subject to this paragraph was submitted and the average, weighted by installed capacity, of the Net CONEs for all LDAs in which the units underlying such Asset Class New Plant Offers are located.] Following the conduct of the applicable auction and before the final determination of clearing prices, in accordance with Section 6.2(b) above, [each] Capacity Market Seller whose Sell Offer is [so rejected shall be notified] and allow[ed] an opportunity to submit a revised Sell Offer [that does not exceed such threshold.] The Office of the Interconnection then shall clear the auction with such revised Sell Offer in place.

(b) Mitigation for Demand Resources

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

6.6 Offer Requirement for Capacity Resources

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

(b) Notwithstanding the foregoing: 1) to address the risk of a change in EFORD between the auction and the Delivery Year, a Capacity Market Seller may include an EFORD Offer Segment in its Sell Offer(s) pursuant to section 6.7; and 2) if a Capacity Market Seller can demonstrate to the satisfaction of the Office of the Interconnection and the PJM Market Monitor that the EFORD established pursuant to subsection (a) of this section does not accurately reflect the amount of its Unforced Capacity anticipated to be reliable in the relevant Delivery Year, the Market Seller shall be allowed to adjust the EFORD for its existing Generation Capacity Resources, provided that any such change shall be subject to approval by the Office of the Interconnection and the PJM Market Monitor.

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f) FERC Approval

Any such agreement shall provide that it shall be filed with FERC as a rate schedule pursuant to section 205 of the Federal Power Act, and that the effectiveness of such agreement shall be conditioned on receipt of FERC acceptance or approval of such agreement.

16.5 Must Offer into Base Residual Auction

All Capacity Market Sellers submitting a Sell Offer that is selected in a Reliability Backstop Auction must offer all Unforced Capacity of the Generation Capacity Resource underlying such Sell Offer into the Base Residual Auctions conducted subsequent to the Reliability Backstop Auction for all Delivery Years in the Backstop Period. The Market Seller shall offer the Unforced Capacity of such resources into each such auction at zero price, and shall receive the Capacity Resource Clearing Price as determined in each such auction.

16.6 Reliability Backstop Resource Deficiency Charges

(a) Any Capacity Market Seller that submits a Sell Offer that was selected in a Reliability Backstop Auction and that is not able to deliver in a Delivery Year all megawatts of Unforced Capacity specified in the selected Sell Offer, shall not receive any payments that such Capacity Market Seller otherwise would have been eligible to receive for such Delivery Year pursuant to the Reliability Backstop Auction.

(b) Any Capacity Market Seller that submits a Sell Offer that was selected in a Reliability Backstop Auction and that fails to deliver all megawatts of Unforced Capacity specified in the selected Sell Offer at any time during the Backstop Period specified in such Sell Offer must refund all payments received by such Market Seller pursuant to section 16.4(b).

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Redline Version

PJM Interconnection, L.L.C.
Rate Schedule FERC No. 44

First Revised Sheet No. 9
Superseding Original Sheet No. 9

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1.70 Planned Generation Capacity Resource shall mean a Generation Capacity Resource participating in the generation interconnection process under part IV, subpart A of the PJM Tariff, for which Interconnection Service is scheduled to commence on or before the first day of the Delivery Year for which such resource is to be committed, **for which a Facilities System Impact Study Agreement** has been executed prior to the Base Residual Auction for such Delivery Year, and for which an Interconnection Service Agreement has been executed prior to any Incremental Auction for such Delivery Year. ~~Notwithstanding the foregoing, for purposes of any Delivery Year for which the Base Residual Auction is conducted in calendar year 2007 and 2008 as part of the Transition in implementing the Reliability Pricing Model, a Planned Generation Capacity Resource shall include a Generation Capacity Resource scheduled to be in service on or before the first day of such Delivery Year, for which a System Impact Study Agreement has been executed prior to the Base Residual Auction for such Delivery Year. A~~ Generation Capacity Resource shall cease to be considered a Planned Generation Capacity Resource as of the date that Interconnection Service commences, in accordance with Part IV of the PJM Tariff, as to such resource.

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(C) Where the two conditions stated in Paragraph (B) are not met, or the Sell Offer is pivotal, the Sell Offer [shall be] reject[ed] [if it exceeds 140 percent of: 1) the average of location-adjusted Sell Offers for Planned Generation Capacity Resources from the same asset class as such Sell Offer, submitted (and not rejected) (Asset-Class New Plant Offers) for such Delivery Year; or 2) if there are no Asset-Class New Plant Offers for such Delivery Year, the average of Asset-Class New Plant Offers for all prior Delivery Years; or 3) if there are no Asset-Class New Plant Offers for any prior Delivery Year, the Net CONE applicable for such Delivery Year in the LDA for which such offer was submitted. For purposes of this paragraph, asset classes shall be as stated in section 6.7(c) as effective for such Delivery Year, and Asset-Class New Plant Offers shall be location-adjusted by the ratio between the Net CONE effective for such Delivery Year for the LDA in which the Sell Offer subject to this paragraph was submitted and the average, weighted by installed capacity, of the Net CONEs for all LDAs in which the units underlying such Asset Class New Plant Offers are located.] Following the conduct of the applicable auction and before the final determination of clearing prices, in accordance with Section 6.2(b) above, [each] Capacity Market Seller whose Sell Offer is [so rejected shall be notified] and allow[ed] an opportunity to submit a revised Sell Offer [that does not exceed such threshold.] The Office of the Interconnection then shall clear the auction with such revised Sell Offer in place.

(b) Mitigation for Demand Resources

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

6.6 Offer Requirement for Capacity Resources

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

(b) Notwithstanding the foregoing: 1) to address the risk of a change in EFORD between the auction and the Delivery Year, a Capacity Market Seller may include an EFORD Offer Segment in its Sell Offer(s) pursuant to section 6.7; and 2) if a Capacity Market Seller can demonstrate to the satisfaction of the Office of the Interconnection and the PJM Market Monitor that the EFORD established pursuant to subsection (a) of this section does not accurately reflect the amount of its Unforced Capacity anticipated to be reliable in the relevant Delivery Year, the Market Seller shall be allowed to adjust the EFORD for its existing Generation Capacity Resources, provided that any such change shall be subject to approval by the Office of the Interconnection and the PJM Market Monitor.

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d) FERC Approval

Any such agreement shall provide that it shall be filed with FERC as a rate schedule pursuant to section 205 of the Federal Power Act, and that the effectiveness of such agreement shall be conditioned on receipt of FERC acceptance or approval of such agreement.

16.5 Must Offer into Base Residual Auction

All Capacity Market Sellers submitting a Sell Offer that is selected in a Reliability Backstop Auction must offer all Unforced Capacity of the Generation Capacity Resource underlying such Sell Offer into the Base Residual Auctions conducted subsequent to the Reliability Backstop Auction for all Delivery Years in the Backstop Period. The Market Seller shall offer the Unforced Capacity of such resources into each such auction at zero price, and shall receive the Capacity Resource Clearing Price as determined in each such auction.

16.6 Reliability Backstop Resource Deficiency Charges

(a) Any Capacity Market Seller that submits a Sell Offer that was selected in a Reliability Backstop Auction and that is not able to deliver in a Delivery Year all megawatts of Unforced Capacity specified in the selected Sell Offer, shall not receive any payments that such Capacity Market Seller otherwise would have been eligible to receive for such Delivery Year pursuant to the Reliability Backstop Auction.

(b) Any Capacity Market Seller that submits a Sell Offer that was selected in a Reliability Backstop Auction and that fails to deliver all megawatts of Unforced Capacity specified in the selected Sell Offer at any time during the Backstop Period specified in such Sell Offer must refund all payments received by such Market Seller pursuant to section 16.4(b).

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