

The United States Environmental Protection Agency has in the last year issued proposed regulations that if finalized, would require the owners of certain generation resources to make capital investments in pollution control technologies to comply with the regulations and continue operating the resources into the future. These rules include the Clean Air Transport Rule issued on July 26, 2010 and the National Emission Standards for Hazardous Air Pollutants Rule issued on March 16, 2011. With the final enactment of any such regulations, PJM expects market sellers to seek to use the Avoidable Project Investment Recovery Rate (APIR) described in Section 6.8(a) of Attachment DD of the PJM Open Access Transmission Tariff ("Tariff") to incorporate the costs of their capital investments associated with environmental retrofits indicated by the referenced regulations as part of their Avoidable Cost Rate (ACR) for the purpose of determining Market Seller Offer Caps.

For the purposes of determining the APIR portion of the ACR, there are Tariff defined capital recovery factors (CRF) in Section 6.8(a) that delineate the number of years over which project investment can be recovered, and consequently how much of the project investment is recovered annually, based on the age of the resource. PJM recently discovered there remains a reference in Section 6.8(a) to the "16 Plus" CRF category which should have been changed to the "25 Plus" CRF category in a filing made on December 12, 2008 in docket numbers ER05-1410-000 and ER05-418-00, and subsequently approved by the Commission on March 26, 2009. The current Tariff language associated with CRFs in Section 6.8(a) is reproduced below with the "16 Plus" references highlighted:

• **APIR (Avoidable Project Investment Recovery Rate) = PI * CRF**

Where:

- **PI** is the amount of project investment completed prior to June 1 of the Delivery Year, except for Mandatory Capital Expenditures ("CapEx") for which the project investment must be completed during the Delivery Year, that is reasonably required to enable a Generation Capacity Resource that is the subject of a Sell Offer to continue operating or improve availability during Peak-Hour Periods during the Delivery Year.
- **CRF** is the annual capital recovery factor from the following table, applied in accordance with the terms specified below.

Age of Existing Units (Years)	Remaining Life of Plant (Years)	Levelized CRF
1 to 5	30	0.107
6 to 10	25	0.114
11 to 15	20	0.125
16 to 20	15	0.146
21 to 25	10	0.198
25 Plus	5	0.363
Mandatory CapEx	4	0.450
40 Plus Alternative	1	1.100

Unless otherwise stated, Age of Existing Unit shall be equal to the number of years since the Unit commenced commercial operation, up to and through the relevant Delivery Year. Remaining Life of Plant defines the amortization schedule (i.e., the maximum number of years over which the Project Investment may be included in the Avoidable Cost Rate.)

Capital Expenditures and Project Investment

For any given Project Investment, a Capacity Market Seller may make a one-time election to recover such investment using: (i) the highest CRF and associated recovery schedule to which it is entitled; or (ii) the next highest CRF and associated recovery schedule. For these purposes, the CRF and recovery schedule for the **16 Plus category** is the next highest CRF and recovery schedule for both the Mandatory CapEx and the 40 Plus Alternative categories. The Capacity Market Seller using the above table must provide the Market Monitoring Unit with information, identifying and supporting such election, including but not limited to the age of the unit, the amount of the Project Investment, the purpose of the investment, evidence of corporate commitment (e.g., an SEC filing, a press release, or a letter from a duly authorized corporate officer indicating intent to make such investment), and detailed information concerning the governmental requirement (if applicable). Absent other written notification, such election shall be deemed based on the CRF such Seller employs for the first Sell Offer reflecting recovery of any portion of such Project Investment. A Sell Offer submitted in the BRA for either or both of the 2007-2008 and 2008-2009 Delivery Years for which the **"16 Plus"** CRF and recovery schedule is selected may not exceed an offer price equal to the then-current Net CONE (on an unforced-equivalent basis)."

With the revisions to the CRF table in Section 6.8(a) of Attachment DD, PJM created three new categories of capital recovery factors out of the then-existing "16 Plus" category. These new categories were the "16 to 20," "21 to 25" and "25 Plus" capital recovery factors. In addition, PJM decreased the "levelized CRF" and increased the number of years in the respective "remaining life of plant" for each related category except the Mandatory CapEx and 40 Plus Alternative options. Unfortunately, PJM inadvertently neglected to make a corresponding revision to the text of the "Capital

Expenditures and Project Investment” provisions in Section 6.8(a) to change the reference therein from “16 Plus” to “25 Plus” consistent with the revisions that it sought for the table of capital recovery factors at that time of the December 12th filing. Thus, today there remains a reference to “16 Plus” in Section 6.8(a) although that category of capital recovery factors no longer exists. Allowing this reference to remain in Section 6.8(a) has caused confusion among some stakeholders. To eliminate this confusion PJM hereby clarifies that for the upcoming 2014/2015 Base Residual Auction, for the purposes of this section the next highest CRF and associated recovery schedule for the Mandatory CapEx and 40 Plus Alternative CRF categories is the “25 Plus” age category as defined in the CRF Table in Section 6.8(a). Moreover, PJM clarifies that resources are not bound to recover their associated environmental investment costs under the Mandatory CapEx option but may elect the “25 Plus” category for the recovery of environmental investment costs.

PJM expects to submit a filing with the Commission in the near future to correct Section 6.8(a) as discussed herein. PJM will also propose to delete the second reference to “16 Plus” in Section 6.8(a), because while not inconsistent with the CRF table, it is a historical provision that has now become moot because it only applied to the 2007/2008 and 2008/2009 Delivery Years, both of which have already occurred.