

Performance Based Regulation

Overview of the 755 Compliance Filing and the Potential 205 Filing Options

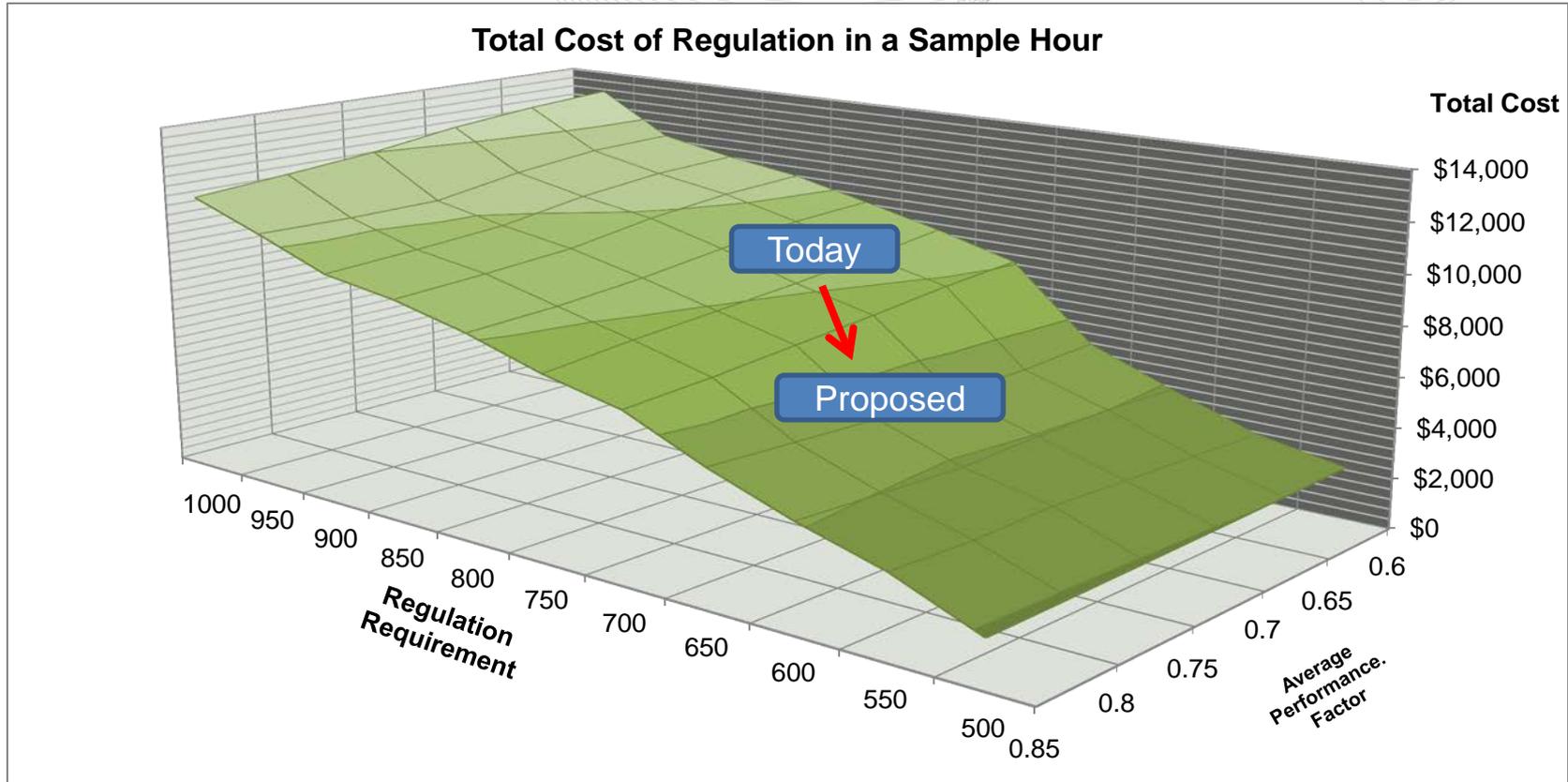
- In the May 17 Order, FERC accepted PJM's 755 compliance filing with a requirement for a subsequent compliance filing by August 15. PJM must:
 - Include the performance score calculations from the manuals in the Tariff.
 - Include additional details on the settlement process in the Tariff and explanation of the impact on make-whole payments.
 - Include additional details for the TPS test in the Tariff.
 - Make tariff corrections for cost allocation and correction of clerical errors
 - Explain the impact that the new rules have on make-whole payments including inter-temporal LOC for hydro.
 - Explain how the Benefits Factor will be calculated.

- Beyond the direct requirements of the compliance filing, several additional items have received broad stakeholder support over the past several months.
 - Inclusion of an after-the-fact check for lost opportunity cost
 - We are proposing the same process that we use today. This was removed in our March 2012 755 compliance filing based on the Order 755 requirements.
 - Provides a “safety net” to ensure all resources are made whole, which will help to increase liquidity in the regulation market.
 - Inclusion of the benefits factor in all aspects of the clearing and settlement process.
 - The benefits factor is the rate of substitution between resources following the dynamic and traditional regulation signals.
 - This ensures an apples-to-apples clearing and settlement process.
- Several additional changes have been raised recently, which will continue to be discussed, but have not been fully vetted through stakeholder discussions.

- Proposed change from original filing:
 - Implementation of the after-the-fact check to determine if these costs were not covered.
 - Similar to today's methodology, but with the Regulation Compensation including all the intra-hour LOC

$$(\text{Offer} + \text{LOC}) - (\text{Total Regulation Credit}) = \text{Lost Opportunity Cost Credit}$$

- Rationale for change
 - Shoulder Hour LOC and Inter-temporal LOC require estimates that cannot be properly incorporated into the real-time regulation prices.
 - Preliminary analysis shows that these costs would be adequately covered under the new market rules.



- This surface shows the total cost of regulation with different MW requirements and varying levels of average resource performance.
- The Benefits Factor allows an automated mechanism for implementing these changes to procure a lower amount of total regulation while still meeting our reliability criteria.

Based on the stakeholder discussions at the RPSTF, PJM requests a vote on the proposal to include a 205 filing along with the 755 compliance filing.

Majority Proposal	Alternative Proposal
Broad stakeholder support for October 1 implementation	Relatively new proposal which most stakeholders believe requires additional discussion
After-the-fact lost opportunity cost check (see posted Tariff language)	After-the-fact lost opportunity cost check (see posted Tariff language)
Benefits Factor in all aspects of clearing and settlements (see posted Tariff language)	Benefits Factor in all aspects of clearing and settlements (see posted Tariff language)
	Use of performance adjusted MW in the clearing and settlements process
	No performance adjustment for the performance cost component