

7.8 Elective Upgrade Auction Revenue Rights.

(a) In addition to any Incremental Auction Revenue Rights established under the PJM Tariff, any party may elect to fully fund Network Upgrades to obtain Incremental Auction Revenue Rights pursuant to this section, provided that Incremental Auction Revenue Rights granted pursuant to this section shall be simultaneously feasible with outstanding Auction Revenue Rights, which shall include stage 1 and stage 2 Auction Revenue Rights, and against stage 1A Auction Revenue Right capability for the future 10 year period as determined by the Office of the Interconnection pursuant to Section 7.8(b) of Schedule 1 of this Agreement. A request made pursuant to this section shall specify a source, sink and megawatt amount, where the source and sink each meet the criteria described for stage 1 in sections 7.4.2(b) and 7.4.2(c).

(b) The Office of the Interconnection shall assess the simultaneous feasibility of the requested Incremental Auction Revenue Rights and the outstanding Auction Revenue Rights against the existing base system Auction Revenue Right capability and stage 1A Auction Revenue Right capability for the future 10 year period pursuant to Operating Agreement, Schedule 1, section 7.5. This preliminary assessment will determine the incremental flow impact necessary on facilities.

(c) The incremental flow impact represents the incremental capability required on a facility to ensure the requested Incremental Auction Revenue Rights can be made feasible. This required capability is used to determine the upgrades required to accommodate the requested Incremental Auction Revenue Rights and ensure all outstanding Auction Revenue Rights are simultaneously feasible. Additional details are provided in the PJM Manuals and related explanatory materials posted on the PJM website such as the PJM Whitepaper entitled “PJM Incremental Auction Revenue Rights Model Development and Analysis.”

- (i) For Incremental Auction Revenue Rights requests, the Office of the Interconnection shall use an Incremental Auction Revenue Rights model to perform the simultaneous feasibility test detailed in Operating Agreement, Schedule 1, section 7.5. The Incremental Auction Revenue Rights model shall consist of an Incremental Auction Revenue Rights model and the 10 year stage 1A Auction Revenue Rights model. An Incremental Auction Revenue Rights model uses the same transmission system model used in the annual Auction Revenue Rights process, except any modeled transmission outages included in the Auction Revenue Rights process are removed (i.e., the transmission assumed out of service in the base markets model is assumed to be in service). Auction Revenue Rights requests that were denied or pro-rated in the annual Auction Revenue Rights allocation as a result of assumed transmission outages also are restored in the Incremental Auction Revenue Rights model because the transmission is assumed to be in service for purposes of this model.

- (ii) If the incremental market flows created by the Incremental Auction Revenue Rights request cause facilities to be limited or increase the market flow on already limited facilities in either the Incremental Auction Revenue Rights model or the 10 year stage 1A Auction Revenue Rights model, increased system capability will be required in order for the Office of the Interconnection to grant the Incremental Auction Revenue Rights request. This required incremental capability is used to determine the upgrades required to accommodate the requested Incremental Auction Revenue Rights and ensure all outstanding Auction Revenue Rights (including any pro-rated but restored Auction Revenue Rights requests) are simultaneously feasible. Additional details are provided in the PJM Manuals and related explanatory materials posted on the PJM website such as the PJM Whitepaper entitled “PJM Incremental Auction Revenue Rights Model Development and Analysis.”
- (iii) In addition to the Incremental Auction Revenue Rights model, the Office of the Interconnection uses a planning model that consists of the Regional Transmission Expansion Plan model used by the Office of the Interconnection to study system needs and proposed projects five years forward combined with modeled in-service and planned generation and forecasted load. The planning model includes transmission system upgrades that are ahead of the proposed Incremental Auction Revenue Rights request in the New Services Queue. The upgrades required for the Incremental Auction Revenue Rights request must achieve additional incremental capability over and above any planned baseline or Supplemental Project upgrades, including upgrades related to a Supplemental Project with a projected in-service date later than the applicable planning case year.

(d) If a party elects to fund upgrades to obtain Incremental Auction Revenue Rights pursuant to this section, no less than forty-five (45) days prior to the in-service date of the relevant upgrades, as determined by the Office of the Interconnection, the Office of the Interconnection shall notify the party of the actual amount of Incremental Auction Revenue Rights that will be granted to the party based on the allocation process established pursuant to Section 231.1 of Part VI of the Tariff.

(e) Incremental Auction Revenue Rights established pursuant to this section shall be effective for the lesser of thirty (30) years, or the life of the project, from the in-service date of the Network Upgrade(s). At any time during this thirty-year period (or the life of the Network Upgrade, whichever is less), in lieu of continuing this thirty-year Auction Revenue Right, the owner of the right shall have a one-time choice to switch to an optional mechanism, whereby, on an annual basis, it will have the choice to request an Auction Revenue Right during the annual Auction Revenue Rights allocation process between the same source and sink, provided the Auction Revenue Right is simultaneously feasible. A party that is granted Incremental Auction Revenue Rights pursuant to this section may return such rights at any time, provided that the Office of the Interconnection determines that it can simultaneously accommodate all remaining

outstanding Auction Revenue Rights following the return of such Auction Revenue Rights. In the event a party returns Incremental Auction Revenue Rights, it shall retain no further rights regarding such Incremental Auction Revenue Rights.

(f) No Incremental Auction Revenue Rights shall be granted pursuant to this section if the costs associated with funding the associated Network Upgrades are included in the rate base of a public utility and on which a regulated return is earned.