Procedural Update on Regulation Mileage Ratio Issue

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Markets and Reliability Committee

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- In the regulation provisions of the PJM Tariff and OA, there is a paragraph that specifies how PJM must credit regulation resources for performance:

  The owner of each Regulation resource that actively follows the Office of the Interconnection's Regulation signals and instructions, will be credited for Regulation performance by multiplying the assigned MW(s) by the Regulation market performance-clearing price, by the ratio between the requested mileage for the Regulation dispatch signal assigned to the Regulation resource and the Regulation dispatch signal assigned to traditional resources, and by the Regulation resource's accuracy score calculated in accordance with subsection (k) of this section.

  Tariff, Attachment K-Appendix, Section 3.2.2(g); OA, Schedule 1, Section 3.2.2(g)

- What this equation looks like in practice is the following:

  Regulation Resource Regulation Market Performance Clearing Price (RMPCP) Credit =
  5-min integrated Regulation MW x Five Minute Actual Performance Score x **Mileage Ratio** x Five minute RMPCP /12

  Where:
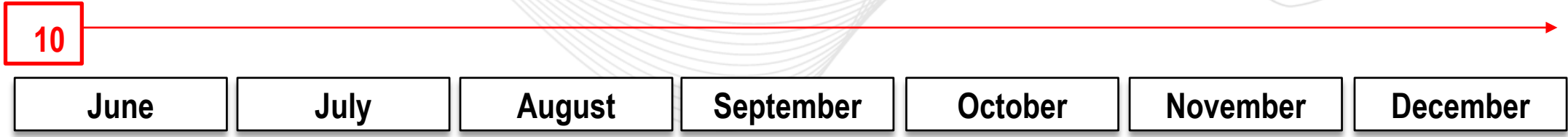 Mileage Ratio (RegD) = RegD Hourly Mileage / RegA Hourly Mileage

  Mileage Ratio (RegA) = RegA Hourly Mileage / RegA Hourly Mileage

- RegA Mileage is the movement of the RegA signal from interval to interval. However, in some rare instances, the RegA signal can be flat or "pegged" for extended periods—meaning it stays at "0" and does not move.

- **When this occurs for a full hour, a value of "0" is substituted into the "RegA Hourly Mileage" portion of the above equations, which produces a number that is undefined (i.e. 0/0 = undefined; 1/0 = undefined).**

- PJM has launched a "quick fix" effort through the MIC to establish a solution that will ensure that the value of "RegA Hourly Mileage" cannot be undefined. This solution will be filed at FERC.

- In order to ensure that PJM is able to apply the eventual solution that emerges from the stakeholder process to any instances in which the value of RegA Hourly Mileage is zero, PJM intends to file an FPA section 206 complaint against itself, to establish a refund effective date (the date that the complaint is filed).

Rule Against Retroactive Ratemaking

Current Rate

| 10 |

| June | July | August | September | October | November | December |

| 5 |

New Rate

By default, FERC cannot apply the new rate to the old rate retroactively.

FPA Section 206

| 10 |

| June | July | August | September | October | November | December |

FPA Section 206 Proceeding

Refund Effective Date (established date of complaint)

| 5 |

Application of the new rate back to refund effective date is not retroactive ratemaking.

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Procedural Update on Regulation Mileage Ratio Calculation

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