

Kentucky Power Company
KPSC Case No. 2020-00034
Commission Staff's 1st Set of Data Requests
Dated March 19, 2020

DATA REQUEST

KPSC 1_1 Refer to the application, page 2, paragraph 5. State whether PJM Interconnection, LLC (PJM) has revised its tariff regarding policies and procedures for member defaults. If so, provide the policies and procedures effective as of June 21, 2018, and those currently effective.

RESPONSE

Yes. PJM filed October 1, 2018, in Docket No. ER19-19 to modify the Tariff (Attachment K-Appendix, section 7.3.9) and parallel Operating Agreement (Schedule 1, section 7.3.9) procedures for closing out FTR positions of Members that default. FERC approved PJM's compliance filing on February 1, 2019.

Under the prior governing document language that was effective on June 21, 2018, when a Member default was declared, PJM was required to close out and liquidate the FTRs of the defaulting Member. The revised Tariff and Operating Agreement procedures allow a defaulted Member's FTR positions to go to settlement as opposed to immediate liquidation. The net charges and credits from the FTR positions of the defaulting member(s) are billed to PJM's non-defaulting Members in accordance with the Default Allocation Assessment provisions of the Operating Agreement (Section 15.2.2). See KPCO_R_KPSC_1_1_Attachment1 for redlines to PJM's OATT and Operating Agreement that reflect what changed between 2018 and the currently effective documents. Pages 1-17 of Attachment1 are PJM's proposed redlines and beginning at page 18 are FERC's further redlines. See also the Company's response to KPSC 1-6.

Witness: Ranie K. Wohnhas

Attachment A

Revisions to the PJM Open Access Transmission Tariff

(Marked/Redline Format)

7.3 Auction Procedures.

7.3.1 Role of the Office of the Interconnection.

Financial Transmission Rights auctions shall be conducted by the Office of the Interconnection in accordance with standards and procedures set forth in the PJM Manuals, such standards and procedures to be consistent with the requirements of this Schedule. PJMSettlement shall be the Counterparty to the purchases and sales of Financial Transmission Rights arising from such auctions, provided however, that PJMSettlement shall not be a contracting party to any subsequent bilateral transfers of Financial Transmission Rights between Market Participants. The conversion of an Auction Revenue Right to a Financial Transmission Right pursuant to this section 7 shall not constitute a purchase or sale transaction to which PJMSettlement is a contracting party. ~~Financial Transmission Rights auctions conducted to liquidate a defaulting Member's Financial Transmission Rights portfolio shall be conducted by the Office of the Interconnection in accordance with the procedures set forth in Section 7.3.9 herein and in accordance with standards and procedures set forth in the PJM Manuals.~~

7.3.2 Notice of Offer.

A holder of a Financial Transmission Right wishing to offer the Financial Transmission Right for sale shall notify the Office of the Interconnection of any Financial Transmission Rights to be offered. Each Financial Transmission Rights sold in an auction shall, at the end of the period for which the Financial Transmission Rights were auctioned, revert to the offering holder or the entity to which the offering holder has transferred such Financial Transmission Right, subject to the term of the Financial Transmission Right itself and to the right of such holder or transferee to offer the Financial Transmission Right in the next or any subsequent auction during the term of the Financial Transmission Right.

7.3.3 Pending Applications for Firm Service.

(a) [Reserved.]

(b) Financial Transmission Rights may be assigned to entities requesting Network Transmission Service or Firm Point-to-Point Transmission Service pursuant to Section 5.2.2 (e), only if such Financial Transmission Rights are simultaneously feasible with all outstanding Financial Transmission Rights, including Financial Transmission Rights effective for the then-current auction period. If an assignment of Financial Transmission Rights pursuant to a pending application for Network Transmission Service or Firm Point-to-Point Transmission Service cannot be completed prior to an auction, Financial Transmission Rights attributable to such transmission service shall not be assigned for the then-current auction period. If a Financial Transmission Right cannot be assigned for this reason, the applicant may withdraw its application, or request that the Financial Transmission Right be assigned effective with the start of the next auction period.

7.3.4 On-Peak, Off-Peak and 24-Hour Periods.

On-peak, off-peak and 24-hour FTRs will be offered in the annual and monthly auction. On-Peak Financial Transmission Rights shall cover the periods from 7:00 a.m. up to the hour ending at 11:00 p.m. on Mondays through Fridays, except holidays as defined in the PJM Manuals. Off-Peak Financial Transmission Rights shall cover the periods from 11:00 p.m. up to the hour ending 7:00 a.m. on Mondays through Fridays and all hours on Saturdays, Sundays, and holidays as defined in the PJM Manuals. The 24-hour period shall cover the period from hour ending 1:00 a.m. to the hour ending 12:00 midnight on all days. Each bid shall specify whether it is for an on-peak, off-peak, or 24-hour period.

7.3.5 Offers and Bids.

(a) Offers to sell and bids to purchase Financial Transmission Rights shall be submitted during the period set forth in Section 7.1.2, and shall be in the form specified by the Office of the Interconnection in accordance with the requirements set forth below.

(b) Offers to sell shall identify the specific Financial Transmission Right, by term, megawatt quantity and receipt and delivery points, offered for sale. An offer to sell a specified megawatt quantity of Financial Transmission Rights shall constitute an offer to sell a quantity of Financial Transmission Rights equal to or less than the specified quantity. An offer to sell may not specify a minimum quantity being offered. Each offer may specify a reservation price, below which the offeror does not wish to sell the Financial Transmission Right. Offers submitted by entities holding rights to Financial Transmission Rights shall be subject to such reasonable standards for the verification of the rights of the offeror as may be established by the Office of the Interconnection. Offers shall be subject to such reasonable standards for the creditworthiness of the offeror or for the posting of security for performance as the Office of the Interconnection shall establish.

(c) Bids to purchase shall specify the term, megawatt quantity, price per megawatt, and receipt and delivery points of the Financial Transmission Right that the bidder wishes to purchase. A bid to purchase a specified megawatt quantity of Financial Transmission Rights shall constitute a bid to purchase a quantity of Financial Transmission Rights equal to or less than the specified quantity. A bid to purchase may not specify a minimum quantity that the bidder wishes to purchase. A bid may specify receipt and delivery points in accordance with Section 7.2.2 and may include Financial Transmission Rights for which the associated Transmission Congestion Credits may have negative values. Bids shall be subject to such reasonable standards for the creditworthiness of the bidder or for the posting of security for performance as the Office of the Interconnection shall establish.

(d) Bids and offers shall be specified to the nearest tenth of a megawatt and shall be greater than zero. The Office of the Interconnection may require that a market participant shall not submit in excess of 5000 bids and offers for any single monthly auction, or for any single round of the annual auction, when the Office of the Interconnection determines that such limit is required to avoid or mitigate significant system performance problems related to bid/offer volume. Notice of the need to impose such limit shall be provided prior to the start of the bidding period if possible. Where such notice is provided after the start of the bidding period,

market participants shall be required within one day to reduce their bids and offers for such auction below 5000, and the bidding period in such cases shall be extended by one day.

7.3.6 Determination of Winning Bids and Clearing Price.

(a) At the close of each bidding period, the Office of the Interconnection will create a base Financial Transmission Rights power flow model that includes all outstanding Financial Transmission Rights that have been approved and confirmed for any portion of the month for which the auction was conducted and that were not offered for sale in the auction. The base Financial Transmission Rights model also will include estimated uncompensated parallel flows into each interface point of the PJM Region and estimated scheduled transmission outages.

(b) In accordance with the requirements of Section 7.5 of this Schedule and subject to all applicable transmission constraints and reliability requirements, the Office of the Interconnection shall determine the simultaneous feasibility of all outstanding Financial Transmission Rights not offered for sale in the auction and of all Financial Transmission Rights that could be awarded in the auction for which bids were submitted. The winning bids shall be determined from an appropriate linear programming model that, while respecting transmission constraints and the maximum MW quantities of the bids and offers, selects the set of simultaneously feasible Financial Transmission Rights with the highest net total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers. In the event that there are two or more identical bids for the selected Financial Transmission Rights and there are insufficient Financial Transmission Rights to accommodate all of the identical bids, then each such bidder will receive a pro rata share of the Financial Transmission Rights that can be awarded.

(c) Financial Transmission Rights shall be sold at the market-clearing price for Financial Transmission Rights between specified pairs of receipt and delivery points, as determined by the bid value of the marginal Financial Transmission Right that could not be awarded because it would not be simultaneously feasible. The linear programming model shall determine the clearing prices of all Financial Transmission Rights paths based on the bid value of the marginal Financial Transmission Rights, which are those Financial Transmission Rights with the highest bid values that could not be awarded fully because they were not simultaneously feasible, and based on the flow sensitivities of each Financial Transmission Rights path relative to the marginal Financial Transmission Rights paths flow sensitivities on the binding transmission constraints. Financial Transmission Rights with a zero clearing price will only be awarded if there is a minimum of one binding constraint in the auction period for which the Financial Transmission Rights path sensitivity is non-zero.

7.3.7 Announcement of Winners and Prices.

Within two (2) Business Days after the close of the bid and offer period for an annual Financial Transmission Rights auction round, and within five (5) Business Days after the close of the bid and offer period for a monthly Financial Transmission Rights auction, the Office of the Interconnection shall post the winning bidders, the megawatt quantity, the term and the receipt and delivery points for each Financial Transmission Right awarded in the auction and the price at

which each Financial Transmission Right was awarded unless circumstances beyond PJM's control prevent PJM from meeting the applicable deadline. Under such circumstances, PJM will post the auction results at the earliest possible opportunity. The Office of the Interconnection shall not disclose the price specified in any bid to purchase or the reservation price specified in any offer to sell. If the Office of the Interconnection discovers an error in the results posted for a Financial Transmission Rights auction (or a given round of the annual Financial Transmission Rights auction), the Office of the Interconnection shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 5:00 p.m. of the Business Day following the initial publication of the results of the auction or round of the annual auction. After this initial notification, if the Office of the Interconnection determines that it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the second Business Day following the initial publication of the results of that auction or round of the annual auction. Thereafter, the Office of the Interconnection must post any corrected results by no later than 5:00 p.m. of the fourth calendar day following the initial publication of the results of the auction or round of the annual auction. Should any of the above deadlines pass without the associated action on the part of the Office of the Interconnection, the originally posted results will be considered final. Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced auction results are under publicly noticed review by the FERC.

7.3.8 Auction Settlements.

All buyers and sellers of Financial Transmission Rights between the same points of receipt and delivery shall pay PJM Settlement or be paid by PJM Settlement the market-clearing price, as determined in the auction, for such Financial Transmission Rights.

7.3.9 ~~Liquidation of Settling Defaulting Member's Financial Transmission Rights in the Event of Member Default.~~

In the event a Member fails to meet creditworthiness requirements or make timely payments when due pursuant to the PJM Operating Agreement or PJM Tariff, the Office of the Interconnection shall, as soon as practicable after such default is declared, initiate the following procedures to close out and ~~settle~~liquidate the Financial Transmission Rights of ~~the defaulting~~ Member:

- a) The Office of the Interconnection shall close out the defaulting Member's positions as of the date of its default, by unilaterally ~~accelerating and~~ terminating all of the defaulting Member's rights with respect to forward Financial Transmission Rights positions.
- b) ~~Reserved~~The Office of the Interconnection shall post on its website all salient information relating to the closed out portfolio of Financial Transmission Rights.
- c) ~~Reserved~~All current planning period Financial Transmission Right positions within the defaulting Members' Financial Transmission Right portfolio will be offered for sale in the next available monthly balance of planning period Financial Transmission Rights auction at an offer price designed to maximize the likelihood of liquidation of those positions.

~~d) Reserved Financial Transmission Rights positions that do not settle until the next or subsequent planning period will be offered into the next available Financial Transmission Rights auction (taking into account timing constraints and the need for an orderly liquidation) where, based on the Office of Interconnection's commercially reasonable expectation, such positions would be expected to clear. In the event that the next scheduled Financial Transmission Rights auction is more than two (2) months subsequent to the date that the Office of the Interconnection declares a Member in default, a specially scheduled Financial Transmission Rights auction may be conducted by the Office of the Interconnection. The entire portfolio of the defaulting Member's Financial Transmission Rights will be offered for sale at an offer price designed to maximize the likelihood of liquidation of those positions.~~

~~e) For all Financial Transmission Right positions within the defaulting Member's Financial Transmission Right portfolio that have not been not assumed by bilateral seller pursuant to section (c), above, notwithstanding section 7.3.9(a) of this Schedule, the actual net charges or credits resulting from the defaulting Member's Financial Transmission Rights positions as calculated through the normal settlement processes shall be included in calculating the Default Allocation Assessment charges as described in Operating Agreement, section 15.1.2.2, with the obligation for net charges on positions in the defaulting Member's Financial Transmission Rights portfolio obtained through bilateral transactions remaining with the indemnifying seller. The resulting Default Allocation Assessments shall in no way relieve the defaulting Member of its obligations, including, without limitation, the defaulting Member's obligations arising from or associated with the full value of its default.~~

~~e) The Financial Transmission Right positions comprising the defaulting Member's portfolio that are liquidated in a Financial Transmission Rights auction should avoid setting the price in the auction at the bid prices with which they were initially submitted. In the event that any of the closed out Financial Transmission Rights would set market based on the auction's preliminary solution, then only one half of each Financial Transmission Rights position will be offered for sale and the auction will be re-executed. In the event that any Financial Transmission Rights position that has been closed out once again sets price, then all Financial Transmission Rights scheduled to be liquidated will be removed from the affected auction and the auction will be re-executed excluding the closed out Financial Transmission Right positions. Financial Transmission Right positions that are not liquidated will then be offered in the next available auction or specially scheduled auction, as appropriate.~~

~~f) The liquidation of the defaulting Members' Financial Transmission Rights portfolio pursuant to the foregoing procedures shall result in a final liquidated settlement amount. The final liquidated settlement amount will be included in calculating a Default Allocation Assessment as described in Section 15.1.2A(I) of the PJM Operating Agreement. If the Office of the Interconnection is unable to close out and liquidate a Financial Transmission Rights position under the foregoing procedures, the close out shall be deemed void and the defaulting Member shall remain liable for the full final value of its default, such full final value being realized at the normal time for performance of the Financial Transmission Rights position.~~

~~g) For the period of August 24, 2018 through November 30, 2018, the liquidation process of a defaulting Member's Financial Transmission Rights described in Tariff, Attachment K—Appendix, section 7.3.9(e) (f) and the parallel provisions in Operating Agreement, Schedule 1, section 7.3.9(e) (f) shall not apply, including, without limitation, that the Office of the Interconnection shall not be required to offer the defaulting Member's Financial Transmission Rights for sale into any auction. During this period, the amount of gain or loss on each of the defaulting Member's Financial Transmission Rights positions shall be realized at the normal time for performance of such Financial Transmission Rights position. The net of such gains and losses for all such positions shall be considered the final monthly settlement amount. Such final monthly settlement amount shall be included in calculating the Default Allocation Assessments as described in Operating Agreement, section 15.1.2A(I). Such assessment shall in no way relieve the defaulting Member of its obligations, including, without limitation, the defaulting Member's obligations arising from or associated with the full value of its default.~~

~~In all other respects, Financial Transmission Rights terminated pursuant to this section shall be liquidated pursuant to the appropriate provisions and procedures set forth in the PJM Manuals.~~

Attachment C

Revisions to the PJM Operating Agreement

(Marked/Redline Format)

15.1 Failure to Meet Obligations.

15.1.1 Termination of Market Buyer Rights.

The Office of the Interconnection shall terminate a Market Buyer's right to make purchases from the PJM Interchange Energy Market, the PJM Capacity Credit Market or any other market operated by PJM if it determines that the Market Buyer does not continue to meet the obligations set forth in this Agreement, including but not limited to the obligation to be in compliance with PJM's creditworthiness requirements and the obligation to make timely payment, provided that the Office of the Interconnection has notified the Market Buyer of any such deficiency and afforded the Market Buyer a reasonable opportunity to cure pursuant to Section 15.1.3. The Office of the Interconnection shall reinstate a Market Buyer's right to make purchases from the PJM Interchange Energy Market and PJM Capacity Credit Market upon demonstration by the Market Buyer that it has come into compliance with the obligations set forth in this Agreement.

15.1.2 Termination of Market Seller Rights.

The Office of the Interconnection shall not accept offers from a Market Seller that has not complied with the prices, terms, or operating characteristics of any of its prior scheduled transactions in the PJM Interchange Energy Market, unless such Market Seller has taken appropriate measures to the satisfaction of the Office of the Interconnection to ensure future compliance.

~~15.1.2A Close Out and Liquidation of Member Financial Transmission Rights~~

~~The Office of the Interconnection shall close out and liquidate all of a Member's current and forward Financial Transmission Rights positions if it determines the Member (i) no longer meets PJM's creditworthiness requirements, or (ii) fails to make timely payment when due under the PJM Operating Agreement or PJM Tariff, in each case following any opportunity given to cure the deficiency. Financial Transmission Rights shall be closed out and liquidated pursuant to Schedule 1, Section 7.3.9 of the PJM Operating Agreement and the Appendix to Attachment K, Section 7.3.9 of the PJM Tariff.~~

~~15.1.2A(1): Allocation of Costs and Proceeds Resulting from Liquidation~~

~~The liquidation of the defaulting Member's Financial Transmission Rights portfolio shall result in a final liquidated settlement amount. The final liquidated settlement amount may be aggregated with any other amounts owed by the defaulting Member to the Office of the Interconnection and may be set off by the Office of the Interconnection against any amounts owed by the Office of the Interconnection to the defaulting Member for purposes of determining the proper Default Allocation Assessment pursuant to the provisions of Section 15.2.2. Any payments made to a party purchasing some or all of a liquidated portfolio shall be net of that party's charge resulting from a Default Allocation Assessment.~~

15.1.3 Payment of Bills.

A Member shall make full and timely payment, in accordance with the terms specified by the Office of the Interconnection, of all bills rendered in connection with or arising under or from this Agreement, any service or rate schedule, any tariff, or any services performed by the Office of the Interconnection or transactions with PJMSettlement, notwithstanding any disputed amount, but any such payment shall not be deemed a waiver of any right with respect to such dispute. Any Member that fails to make full and timely payment to PJMSettlement (of amounts owed either directly to PJMSettlement or PJMSettlement as agent for the LLC) or otherwise fails to meet its financial or other obligations to a Member, PJMSettlement, or the LLC under this Agreement, shall, in addition to any requirement set forth in Section 15.1 and upon expiration of the 2-day period specified below be in default.

15.1.4 Breach Notification and Remedy

If the Office of the Interconnection concludes, upon its own initiative or the recommendation of or complaint by the Members Committee or any Member, that a Member is in breach of any obligation under this Agreement, including, but not limited to, the obligation to make timely payment and the obligation to meet PJM's creditworthiness standards and to otherwise comply with PJM's credit policies, the Office of the Interconnection shall so notify such Member. The notified Member may remedy such asserted breach by: (i) paying all amounts assertedly due, along with interest on such amounts calculated in accordance with the methodology specified for interest on refunds in FERC's regulations at 18 C.F.R. § 35.19a(a)(2)(iii); and (ii) demonstration to the satisfaction of the Office of the Interconnection that the Member has taken appropriate measures to meet any other obligation of which it was deemed to be in breach; provided, however, that any such payment or demonstration may be subject to a reservation of rights, if any, to subject such matter to the PJM Dispute Resolution Procedures; and provided, further, that any such determination by the Office of the Interconnection may be subject to review by the PJM Board upon request of the Member involved or the Office of the Interconnection.

15.1.5 Default Notification and Remedy

If a Member has not remedied a breach by the 2nd Business Day following receipt of the Office of the Interconnection's notice, or receipt of the PJM Board's decision on review, if applicable, then the Member shall be in default and, in addition to such other remedies as may be available to the LLC or PJMSettlement:

- i) A defaulting Market Participant shall be precluded from buying or selling in the PJM Interchange Energy Market, the PJM Capacity Credit Market, or any other market operated by PJM until the default is remedied as set forth above;
- ii) A defaulting Member shall not be entitled to participate in the activities of any committee or other body established by the Members Committee or the Office of the Interconnection; and
- iii) A defaulting Member shall not be entitled to vote on the Members Committee or any other committee or other body established pursuant to this Agreement.

- iv) PJM shall notify all other members of the default.

15.1.6 Reinstatement of Member Following Default and Remedy

a. A Member that has been declared in default, solely of PJM's creditworthiness standards, or fails to otherwise comply with PJM's credit policies once within any 12 month period may be reinstated in full after remedying such default.

b. A Member that has been declared in default of this Agreement for failing to: (i) make timely payments when due once during any prior 12 month period, or (ii) adhere to PJM's creditworthiness standards and credit policies, twice during any prior 12 month period, may be subject to the following restrictions:

- a) Loss of stakeholder privileges, including voting privileges, for 12 months following such default; and
- b) Loss of the allowance of unsecured credit for 12 months following such default

c. A Member that has been declared in default of this Agreement for failing to: (i) make timely payments when due twice during any prior 12 month period, or (ii) adhere to PJM's creditworthiness standards and credit policies, three times during any prior 12 month period, shall, except as provided for below, not be eligible to be reinstated as a Member to this Agreement and its membership rights pursuant to this Agreement shall be terminated in accordance with Section 4.1(c) of this Agreement, notwithstanding whether such default has been remedied. Furthermore:

- a) PJM Settlement shall close out and liquidate all of the Member's current and forward positions in accordance with the provisions of this Agreement; and
- b) A Member terminated in accordance with these provisions shall be precluded from seeking future membership under this Agreement;

d. A Member may appeal a determination made pursuant to the foregoing procedures utilizing PJM's dispute resolution procedure as set forth in Schedule 5 of this Agreement, (provided, however, that a Member's decision to utilize these procedures shall not operate to stay the ability of PJM to exercise any and all of its rights under this Agreement and the PJM Tariff) and may be reinstated provided that the Member can demonstrate the following:

- a) that it has otherwise consistently complied with its obligations under this Agreement and the PJM Tariff; and
- b) the failure to comply was not material; and
- c) the failure to comply was due in large part to conditions that were not in the common course of business.

7.3 Auction Procedures.

7.3.1 Role of the Office of the Interconnection.

Financial Transmission Rights auctions shall be conducted by the Office of the Interconnection in accordance with standards and procedures set forth in the PJM Manuals, such standards and procedures to be consistent with the requirements of this Schedule. PJMSettlement shall be the Counterparty to the purchases and sales of Financial Transmission Rights arising from such auctions, provided however, that PJMSettlement shall not be a contracting party to any subsequent bilateral transfers of Financial Transmission Rights between Market Participants. The conversion of an Auction Revenue Right to a Financial Transmission Right pursuant to this section 7 shall not constitute a purchase or sale transaction to which PJMSettlement is a contracting party. ~~Financial Transmission Rights auctions conducted to liquidate a defaulting Members' Financial Transmission Rights portfolio shall be conducted by the Office of the Interconnection in accordance with the procedures set forth in the Section 7.3.9 herein and with the standards and procedures set forth in the PJM Manuals.~~

7.3.2 Notice of Offer.

A holder of a Financial Transmission Right wishing to offer the Financial Transmission Right for sale shall notify the Office of the Interconnection of any Financial Transmission Rights to be offered. Each Financial Transmission Right sold in an auction shall, at the end of the period for which the Financial Transmission Rights were auctioned, revert to the offering holder or the entity to which the offering holder has transferred such Financial Transmission Right, subject to the term of the Financial Transmission Right itself and to the right of such holder or transferee to offer the Financial Transmission Right in the next or any subsequent auction during the term of the Financial Transmission Right.

7.3.3 Pending Applications for Firm Service.

(a) [Reserved.]

(b) Financial Transmission Rights may be assigned to entities requesting Network Transmission Service or Firm Point-to-Point Transmission Service pursuant to Section 5.2.2 (e), only if such Financial Transmission Rights are simultaneously feasible with all outstanding Financial Transmission Rights, including Financial Transmission Rights effective for the then-current auction period. If an assignment of Financial Transmission Rights pursuant to a pending application for Network Transmission Service or Firm Point-to-Point Transmission Service cannot be completed prior to an auction, Financial Transmission Rights attributable to such transmission service shall not be assigned for the then-current auction period. If a Financial Transmission Right cannot be assigned for this reason, the applicant may withdraw its application, or request that the Financial Transmission Right be assigned effective with the start of the next auction period.

7.3.4 On-Peak, Off-Peak and 24-Hour Periods.

On-peak, off-peak and 24-hour FTRs will be offered in the annual and monthly auction. On-Peak Financial Transmission Rights shall cover the periods from 7:00 a.m. up to the hour ending at 11:00 p.m. on Mondays through Fridays, except holidays as defined in the PJM Manuals. Off-Peak Financial Transmission Rights shall cover the periods from 11:00 p.m. up to the hour ending 7:00 a.m. on Mondays through Fridays and all hours on Saturdays, Sundays, and holidays as defined in the PJM Manuals. The 24-hour period shall cover the period from hour ending 1:00 a.m. to the hour ending 12:00 midnight on all days. Each bid shall specify whether it is for an on-peak, off-peak, or 24-hour period.

7.3.5 Offers and Bids.

(a) Offers to sell and bids to purchase Financial Transmission Rights shall be submitted during the period set forth in Section 7.1.2, and shall be in the form specified by the Office of the Interconnection in accordance with the requirements set forth below.

(b) Offers to sell shall identify the specific Financial Transmission Right, by term, megawatt quantity and receipt and delivery points, offered for sale. An offer to sell a specified megawatt quantity of Financial Transmission Rights shall constitute an offer to sell a quantity of Financial Transmission Rights equal to or less than the specified quantity. An offer to sell may not specify a minimum quantity being offered. Each offer may specify a reservation price, below which the offeror does not wish to sell the Financial Transmission Right. Offers submitted by entities holding rights to Financial Transmission Rights shall be subject to such reasonable standards for the verification of the rights of the offeror as may be established by the Office of the Interconnection. Offers shall be subject to such reasonable standards for the creditworthiness of the offer or for the posting of security for performance as the Office of the Interconnection shall establish.

(c) Bids to purchase shall specify the term, megawatt quantity, price per megawatt, and receipt and delivery points of the Financial Transmission Right that the bidder wishes to purchase. A bid to purchase a specified megawatt quantity of Financial Transmission Rights shall constitute a bid to purchase a quantity of Financial Transmission Rights equal to or less than the specified quantity. A bid to purchase may not specify a minimum quantity that the bidder wishes to purchase. A bid may specify receipt and delivery points in accordance with Section 7.2.2 and may include Financial Transmission Rights for which the associated Transmission Congestion Credits may have negative values. Bids shall be subject to such reasonable standards for the creditworthiness of the bidder or for the posting of security for performance as the Office of the Interconnection shall establish.

(d) Bids and offers shall be specified to the nearest tenth of a megawatt and shall be greater than zero. The Office of the Interconnection may require that a market participant shall not submit in excess of 5000 bids and offers for any single monthly auction, or for any single round of the annual auction, when the Office of the Interconnection determines that such limit is required to avoid or mitigate significant system performance problems related to bid/offer volume. Notice of the need to impose such limit shall be provided prior to the start of the bidding period if possible. Where such notice is provided after the start of the bidding period,

market participants shall be required within one day to reduce their bids and offers for such auction below 5000, and the bidding period in such cases shall be extended by one day.

7.3.6 Determination of Winning Bids and Clearing Price.

(a) At the close of each bidding period, the Office of the Interconnection will create a base Financial Transmission Rights power flow model that includes all outstanding Financial Transmission Rights that have been approved and confirmed for any portion of the month for which the auction was conducted and that were not offered for sale in the auction. The base Financial Transmission Rights model also will include estimated uncompensated parallel flows into each interface point of the PJM Region and estimated scheduled transmission outages.

(b) In accordance with the requirements of Section 7.5 of this Schedule and subject to all applicable transmission constraints and reliability requirements, the Office of the Interconnection shall determine the simultaneous feasibility of all outstanding Financial Transmission Rights not offered for sale in the auction and of all Financial Transmission Rights that could be awarded in the auction for which bids were submitted. The winning bids shall be determined from an appropriate linear programming model that, while respecting transmission constraints and the maximum MW quantities of the bids and offers, selects the set of simultaneously feasible Financial Transmission Rights with the highest net total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers. In the event that there are two or more identical bids for the selected Financial Transmission Rights and there are insufficient Financial Transmission Rights to accommodate all of the identical bids, then each such bidder will receive a pro rata share of the Financial Transmission Rights that can be awarded.

(c) Financial Transmission Rights shall be sold at the market-clearing price for Financial Transmission Rights between specified pairs of receipt and delivery points, as determined by the bid value of the marginal Financial Transmission Right that could not be awarded because it would not be simultaneously feasible. The linear programming model shall determine the clearing prices of all Financial Transmission Rights paths based on the bid value of the marginal Financial Transmission Rights, which are those Financial Transmission Rights with the highest bid values that could not be awarded fully because they were not simultaneously feasible, and based on the flow sensitivities of each Financial Transmission Rights path relative to the marginal Financial Transmission Rights paths flow sensitivities on the binding transmission constraints. Financial Transmission Rights with a zero clearing price will only be awarded if there is a minimum of one binding constraint in the auction period for which the Financial Transmission Rights path sensitivity is non-zero.

7.3.7 Announcement of Winners and Prices.

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which each Financial Transmission Right was awarded unless circumstances beyond PJM's control prevent PJM from meeting the applicable deadline. Under such circumstances, PJM will post the auction results at the earliest possible opportunity. The Office of the Interconnection shall not disclose the price specified in any bid to purchase or the reservation price specified in any offer to sell. If the Office of the Interconnection discovers an error in the results posted for a Financial Transmission Rights auction (or a given round of the annual Financial Transmission Rights auction), the Office of the Interconnection shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 5:00 p.m. of the Business Day following the initial publication of the results of the auction or round of the annual auction. After this initial notification, if the Office of the Interconnection determines that it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the second Business Day following the initial publication of the results of that auction or round of the annual auction. Thereafter, the Office of the Interconnection must post any corrected results by no later than 5:00 p.m. of the fourth calendar day following the initial publication of the results of the auction or round of the annual auction. Should any of the above deadlines pass without the associated action on the part of the Office of the Interconnection, the originally posted results will be considered final. Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced auction results are under publicly noticed review by the FERC.

7.3.8 Auction Settlements.

All buyers and sellers of Financial Transmission Rights between the same points of receipt and delivery shall pay PJM Settlement or be paid by PJM Settlement the market-clearing price, as determined in the auction, for such Financial Transmission Rights.

7.3.9 Liquidation of Settling Defaulting Member's Financial Transmission Rights in the Event of Member Default.

In the event a Member fails to meet creditworthiness requirements or make timely payments when due pursuant to the PJM Operating Agreement or PJM Tariff, the Office of the Interconnection shall, as soon as practicable after such default is declared, initiate the following procedures to close out and ~~settle~~liquidate the Financial Transmission Rights of ~~the defaulting~~ Member:

- a) The Office of the Interconnection shall close out the defaulting Member's positions as of the date of its default, by unilaterally ~~accelerating and~~ terminating all of the defaulting Member's rights with respect to forward Financial Transmission Rights positions.
- b) ~~Reserved~~The Office of the Interconnection shall post on its website all salient information relating to the closed-out portfolio of Financial Transmission Rights.
- c) ~~Reserved~~All current planning period Financial Transmission Right positions within the defaulting Members' Financial Transmission Right portfolio will be offered for sale in the next available monthly balance of planning period Financial Transmission Rights auction at an offer price designed to maximize the likelihood of liquidation of those positions.

~~d) Reserved Financial Transmission Rights positions that do not settle until the next or subsequent planning period will be offered into the next available Financial Transmission Rights auction (taking into account timing constraints and the need for an orderly liquidation) where, based on the Office of Interconnection's commercially reasonable expectation, such positions would be expected to clear. In the event that the next scheduled Financial Transmission Rights auction is more than two (2) months subsequent to the date that the Office of the Interconnection declares a Member in default, a specially scheduled Financial Transmission Rights auction may be conducted by the Office of the Interconnection. The entire portfolio of the defaulting Member's Financial Transmission Rights will be offered for sale at an offer price designed to maximize the likelihood of liquidation of those positions.~~

e) For all Financial Transmission Right positions within the defaulting Member's Financial Transmission Right portfolio that have not been not assumed by bilateral seller pursuant to section (c), above, notwithstanding section 7.3.9(a) of this Schedule, the actual net charges or credits resulting from the defaulting Member's Financial Transmission Rights positions as calculated through the normal settlement processes shall be included in calculating the Default Allocation Assessment charges as described in Operating Agreement, section 15.1.2.2, with the obligation for net charges on positions in the defaulting Member's Financial Transmission Rights portfolio obtained through bilateral transactions remaining with the indemnifying seller. The resulting Default Allocation Assessments shall in no way relieve the defaulting Member of its obligations, including, without limitation, the defaulting Member's obligations arising from or associated with the full value of its default.

~~e) The Financial Transmission Right positions comprising the defaulting Member's portfolio that are liquidated in a Financial Transmission Rights auction should avoid setting the price in the auction at the bid prices with which they were initially submitted. In the event that any of the closed out Financial Transmission Rights would set market based on the auction's preliminary solution, then only one half of each Financial Transmission Rights position will be offered for sale and the auction will be re-executed. In the event that any Financial Transmission Rights position that has been closed out once again sets price, then all Financial Transmission Rights scheduled to be liquidated will be removed from the affected auction and the auction will be re-executed excluding the closed out Financial Transmission Right positions. Financial Transmission Right positions that are not liquidated will then be offered in the next available auction or specially scheduled auction, as appropriate.~~

~~f) The liquidation of the defaulting Members' Financial Transmission Rights portfolio pursuant to the foregoing procedures shall result in a final liquidated settlement amount. The final liquidated settlement amount will be included in calculating a Default Allocation Assessment as described in Section 15.1.2A(I) of the PJM Operating Agreement. If the Office of the Interconnection is unable to close out and liquidate a Financial Transmission Rights position under the foregoing procedures, the close out shall be deemed void and the defaulting Member shall remain liable for the full final value of its default, such full final value being realized at the normal time for performance of the Financial Transmission Rights position.~~

~~g) — For the period of August 24, 2018 through November 30, 2018, the liquidation process of a defaulting Member's Financial Transmission Rights described in Tariff, Attachment K— Appendix, section 7.3.9(e) (f) and the parallel provisions in Operating Agreement, Schedule I, section 7.3.9(e) (f) shall not apply, including, without limitation, that the Office of the Interconnection shall not be required to offer the defaulting Member's Financial Transmission Rights for sale into any auction. During this period, the amount of gain or loss on each of the defaulting Member's Financial Transmission Rights positions shall be realized at the normal time for performance of such Financial Transmission Rights position. The net of such gains and losses for all such positions shall be considered the final monthly settlement amount. Such final monthly settlement amount shall be included in calculating the Default Allocation Assessments as described in Operating Agreement, section 15.1.2A(I). Such assessment shall in no way relieve the defaulting Member of its obligations, including, without limitation, the defaulting Member's obligations arising from or associated with the full value of its default.~~

~~In all other respects, Financial Transmission Rights terminated pursuant to this section shall be liquidated pursuant to the appropriate provisions and procedures set forth in the PJM Manuals.~~

Attachment A

Revisions to the PJM Open Access Transmission Tariff and PJM Operating Agreement

(Marked / Redline Format)

Section(s) of the
PJM Open Access Transmission Tariff
(Marked / Redline Format)

7.3 Auction Procedures.

7.3.1 Role of the Office of the Interconnection.

Financial Transmission Rights auctions shall be conducted by the Office of the Interconnection in accordance with standards and procedures set forth in the PJM Manuals, such standards and procedures to be consistent with the requirements of this Schedule. PJMSettlement shall be the Counterparty to the purchases and sales of Financial Transmission Rights arising from such auctions, provided however, that PJMSettlement shall not be a contracting party to any subsequent bilateral transfers of Financial Transmission Rights between Market Participants. The conversion of an Auction Revenue Right to a Financial Transmission Right pursuant to this section 7 shall not constitute a purchase or sale transaction to which PJMSettlement is a contracting party.

7.3.2 Notice of Offer.

A holder of a Financial Transmission Right wishing to offer the Financial Transmission Right for sale shall notify the Office of the Interconnection of any Financial Transmission Rights to be offered. Each Financial Transmission Right sold in an auction shall, at the end of the period for which the Financial Transmission Rights were auctioned, revert to the offering holder or the entity to which the offering holder has transferred such Financial Transmission Right, subject to the term of the Financial Transmission Right itself and to the right of such holder or transferee to offer the Financial Transmission Right in the next or any subsequent auction during the term of the Financial Transmission Right.

7.3.3 Pending Applications for Firm Service.

(a) [Reserved.]

(b) Financial Transmission Rights may be assigned to entities requesting Network Transmission Service or Firm Point-to-Point Transmission Service pursuant to Section 5.2.2 (e), only if such Financial Transmission Rights are simultaneously feasible with all outstanding Financial Transmission Rights, including Financial Transmission Rights effective for the then-current auction period. If an assignment of Financial Transmission Rights pursuant to a pending application for Network Transmission Service or Firm Point-to-Point Transmission Service cannot be completed prior to an auction, Financial Transmission Rights attributable to such transmission service shall not be assigned for the then-current auction period. If a Financial Transmission Right cannot be assigned for this reason, the applicant may withdraw its application, or request that the Financial Transmission Right be assigned effective with the start of the next auction period.

7.3.4 On-Peak, Off-Peak and 24-Hour Periods.

On-peak, off-peak and 24-hour FTRs will be offered in the annual and monthly auction. On-Peak Financial Transmission Rights shall cover the periods from 7:00 a.m. up to the hour ending at 11:00 p.m. on Mondays through Fridays, except holidays as defined in the PJM Manuals. Off-

Peak Financial Transmission Rights shall cover the periods from 11:00 p.m. up to the hour ending 7:00 a.m. on Mondays through Fridays and all hours on Saturdays, Sundays, and holidays as defined in the PJM Manuals. The 24-hour period shall cover the period from hour ending 1:00 a.m. to the hour ending 12:00 midnight on all days. Each bid shall specify whether it is for an on-peak, off-peak, or 24-hour period.

7.3.5 Offers and Bids.

(a) Offers to sell and bids to purchase Financial Transmission Rights shall be submitted during the period set forth in Section 7.1.2, and shall be in the form specified by the Office of the Interconnection in accordance with the requirements set forth below.

(b) Offers to sell shall identify the specific Financial Transmission Right, by term, megawatt quantity and receipt and delivery points, offered for sale. An offer to sell a specified megawatt quantity of Financial Transmission Rights shall constitute an offer to sell a quantity of Financial Transmission Rights equal to or less than the specified quantity. An offer to sell may not specify a minimum quantity being offered. Each offer may specify a reservation price, below which the offeror does not wish to sell the Financial Transmission Right. Offers submitted by entities holding rights to Financial Transmission Rights shall be subject to such reasonable standards for the verification of the rights of the offeror as may be established by the Office of the Interconnection. Offers shall be subject to such reasonable standards for the creditworthiness of the offeror or for the posting of security for performance as the Office of the Interconnection shall establish.

(c) Bids to purchase shall specify the term, megawatt quantity, price per megawatt, and receipt and delivery points of the Financial Transmission Right that the bidder wishes to purchase. A bid to purchase a specified megawatt quantity of Financial Transmission Rights shall constitute a bid to purchase a quantity of Financial Transmission Rights equal to or less than the specified quantity. A bid to purchase may not specify a minimum quantity that the bidder wishes to purchase. A bid may specify receipt and delivery points in accordance with Section 7.2.2 and may include Financial Transmission Rights for which the associated Transmission Congestion Credits may have negative values. Bids shall be subject to such reasonable standards for the creditworthiness of the bidder or for the posting of security for performance as the Office of the Interconnection shall establish.

(d) Bids and offers shall be specified to the nearest tenth of a megawatt and shall be greater than zero. The Office of the Interconnection may require that a market participant shall not submit in excess of 5000 bids and offers for any single monthly auction, or for any single round of the annual auction, when the Office of the Interconnection determines that such limit is required to avoid or mitigate significant system performance problems related to bid/offer volume. Notice of the need to impose such limit shall be provided prior to the start of the bidding period if possible. Where such notice is provided after the start of the bidding period, market participants shall be required within one day to reduce their bids and offers for such auction below 5000, and the bidding period in such cases shall be extended by one day.

7.3.6 Determination of Winning Bids and Clearing Price.

(a) At the close of each bidding period, the Office of the Interconnection will create a base Financial Transmission Rights power flow model that includes all outstanding Financial Transmission Rights that have been approved and confirmed for any portion of the month for which the auction was conducted and that were not offered for sale in the auction. The base Financial Transmission Rights model also will include estimated uncompensated parallel flows into each interface point of the PJM Region and estimated scheduled transmission outages.

(b) In accordance with the requirements of Section 7.5 of this Schedule and subject to all applicable transmission constraints and reliability requirements, the Office of the Interconnection shall determine the simultaneous feasibility of all outstanding Financial Transmission Rights not offered for sale in the auction and of all Financial Transmission Rights that could be awarded in the auction for which bids were submitted. The winning bids shall be determined from an appropriate linear programming model that, while respecting transmission constraints and the maximum MW quantities of the bids and offers, selects the set of simultaneously feasible Financial Transmission Rights with the highest net total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers. In the event that there are two or more identical bids for the selected Financial Transmission Rights and there are insufficient Financial Transmission Rights to accommodate all of the identical bids, then each such bidder will receive a pro rata share of the Financial Transmission Rights that can be awarded.

(c) Financial Transmission Rights shall be sold at the market-clearing price for Financial Transmission Rights between specified pairs of receipt and delivery points, as determined by the bid value of the marginal Financial Transmission Right that could not be awarded because it would not be simultaneously feasible. The linear programming model shall determine the clearing prices of all Financial Transmission Rights paths based on the bid value of the marginal Financial Transmission Rights, which are those Financial Transmission Rights with the highest bid values that could not be awarded fully because they were not simultaneously feasible, and based on the flow sensitivities of each Financial Transmission Rights path relative to the marginal Financial Transmission Rights paths flow sensitivities on the binding transmission constraints. Financial Transmission Rights with a zero clearing price will only be awarded if there is a minimum of one binding constraint in the auction period for which the Financial Transmission Rights path sensitivity is non-zero.

7.3.7 Announcement of Winners and Prices.

Within two (2) Business Days after the close of the bid and offer period for an annual Financial Transmission Rights auction round, and within five (5) Business Days after the close of the bid and offer period for a monthly Financial Transmission Rights auction, the Office of the Interconnection shall post the winning bidders, the megawatt quantity, the term and the receipt and delivery points for each Financial Transmission Right awarded in the auction and the price at which each Financial Transmission Right was awarded unless circumstances beyond PJM's control prevent PJM from meeting the applicable deadline. Under such circumstances, PJM will post the auction results at the earliest possible opportunity. The Office of the Interconnection shall not disclose the price specified in any bid to purchase or the reservation price specified in

any offer to sell. If the Office of the Interconnection discovers an error in the results posted for a Financial Transmission Rights auction (or a given round of the annual Financial Transmission Rights auction), the Office of the Interconnection shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 5:00 p.m. of the Business Day following the initial publication of the results of the auction or round of the annual auction. After this initial notification, if the Office of the Interconnection determines that it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the second Business Day following the initial publication of the results of that auction or round of the annual auction. Thereafter, the Office of the Interconnection must post any corrected results by no later than 5:00 p.m. of the fourth calendar day following the initial publication of the results of the auction or round of the annual auction. Should any of the above deadlines pass without the associated action on the part of the Office of the Interconnection, the originally posted results will be considered final. Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced auction results are under publicly noticed review by the FERC.

7.3.8 Auction Settlements.

All buyers and sellers of Financial Transmission Rights between the same points of receipt and delivery shall pay PJMSettlement or be paid by PJMSettlement the market-clearing price, as determined in the auction, for such Financial Transmission Rights.

7.3.9 Settling Defaulting Member's Financial Transmission Rights.

In the event a Member fails to meet creditworthiness requirements or make timely payments when due pursuant to the PJM Operating Agreement or PJM Tariff, the Office of the Interconnection shall, as soon as practicable after such default is declared, initiate the following procedures to close out and settle the Financial Transmission Rights of the defaulting Member:

- a) The Office of the Interconnection shall close out the defaulting Member's positions as of the date of its default, by unilaterally terminating all of the defaulting Member's rights with respect to forward Financial Transmission Rights positions.
- b) Reserved.
- c) Reserved.
- d) Reserved.
- e) ~~For all Financial Transmission Right positions within the defaulting Member's Financial Transmission Right portfolio that have not been not assumed by bilateral seller pursuant to section (c), above, N~~otwithstanding section 7.3.9(a) of this Schedule, the actual net charges or credits resulting from the defaulting Member's Financial Transmission Rights positions for which PJMSettlement acted as counterparty as calculated through the normal settlement processes shall be included in calculating the Default Allocation Assessment charges as described in Operating Agreement, section 15.1-2.2, ~~with the obligation for net charges on~~

~~positions in the defaulting Member's Financial Transmission Rights portfolio obtained through bilateral transactions remaining with the indemnifying seller. The resulting Default Allocation Assessments shall in no way relieve the defaulting Member of its obligations, including, without limitation, the defaulting Member's obligations arising from or associated with the full value of its default.~~

Section(s) of the
PJM Operating Agreement

(Marked / Redline Format)

7.3 Auction Procedures.

7.3.1 Role of the Office of the Interconnection.

Financial Transmission Rights auctions shall be conducted by the Office of the Interconnection in accordance with standards and procedures set forth in the PJM Manuals, such standards and procedures to be consistent with the requirements of this Schedule. PJMSettlement shall be the Counterparty to the purchases and sales of Financial Transmission Rights arising from such auctions, provided however, that PJMSettlement shall not be a contracting party to any subsequent bilateral transfers of Financial Transmission Rights between Market Participants. The conversion of an Auction Revenue Right to a Financial Transmission Right pursuant to this section 7 shall not constitute a purchase or sale transaction to which PJMSettlement is a contracting party.

7.3.2 Notice of Offer.

A holder of a Financial Transmission Right wishing to offer the Financial Transmission Right for sale shall notify the Office of the Interconnection of any Financial Transmission Rights to be offered. Each Financial Transmission Right sold in an auction shall, at the end of the period for which the Financial Transmission Rights were auctioned, revert to the offering holder or the entity to which the offering holder has transferred such Financial Transmission Right, subject to the term of the Financial Transmission Right itself and to the right of such holder or transferee to offer the Financial Transmission Right in the next or any subsequent auction during the term of the Financial Transmission Right.

7.3.3 Pending Applications for Firm Service.

(a) [Reserved.]

(b) Financial Transmission Rights may be assigned to entities requesting Network Transmission Service or Firm Point-to-Point Transmission Service pursuant to Section 5.2.2 (e), only if such Financial Transmission Rights are simultaneously feasible with all outstanding Financial Transmission Rights, including Financial Transmission Rights effective for the then-current auction period. If an assignment of Financial Transmission Rights pursuant to a pending application for Network Transmission Service or Firm Point-to-Point Transmission Service cannot be completed prior to an auction, Financial Transmission Rights attributable to such transmission service shall not be assigned for the then-current auction period. If a Financial Transmission Right cannot be assigned for this reason, the applicant may withdraw its application, or request that the Financial Transmission Right be assigned effective with the start of the next auction period.

7.3.4 On-Peak, Off-Peak and 24-Hour Periods.

On-peak, off-peak and 24-hour FTRs will be offered in the annual and monthly auction. On-Peak Financial Transmission Rights shall cover the periods from 7:00 a.m. up to the hour ending at 11:00 p.m. on Mondays through Fridays, except holidays as defined in the PJM Manuals. Off-

Peak Financial Transmission Rights shall cover the periods from 11:00 p.m. up to the hour ending 7:00 a.m. on Mondays through Fridays and all hours on Saturdays, Sundays, and holidays as defined in the PJM Manuals. The 24-hour period shall cover the period from hour ending 1:00 a.m. to the hour ending 12:00 midnight on all days. Each bid shall specify whether it is for an on-peak, off-peak, or 24-hour period.

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(b) Offers to sell shall identify the specific Financial Transmission Right, by term, megawatt quantity and receipt and delivery points, offered for sale. An offer to sell a specified megawatt quantity of Financial Transmission Rights shall constitute an offer to sell a quantity of Financial Transmission Rights equal to or less than the specified quantity. An offer to sell may not specify a minimum quantity being offered. Each offer may specify a reservation price, below which the offeror does not wish to sell the Financial Transmission Right. Offers submitted by entities holding rights to Financial Transmission Rights shall be subject to such reasonable standards for the verification of the rights of the offeror as may be established by the Office of the Interconnection. Offers shall be subject to such reasonable standards for the creditworthiness of the offeror or for the posting of security for performance as the Office of the Interconnection shall establish.

(c) Bids to purchase shall specify the term, megawatt quantity, price per megawatt, and receipt and delivery points of the Financial Transmission Right that the bidder wishes to purchase. A bid to purchase a specified megawatt quantity of Financial Transmission Rights shall constitute a bid to purchase a quantity of Financial Transmission Rights equal to or less than the specified quantity. A bid to purchase may not specify a minimum quantity that the bidder wishes to purchase. A bid may specify receipt and delivery points in accordance with Section 7.2.2 and may include Financial Transmission Rights for which the associated Transmission Congestion Credits may have negative values. Bids shall be subject to such reasonable standards for the creditworthiness of the bidder or for the posting of security for performance as the Office of the Interconnection shall establish.

(d) Bids and offers shall be specified to the nearest tenth of a megawatt and shall be greater than zero. The Office of the Interconnection may require that a market participant shall not submit in excess of 5000 bids and offers for any single monthly auction, or for any single round of the annual auction, when the Office of the Interconnection determines that such limit is required to avoid or mitigate significant system performance problems related to bid/offer volume. Notice of the need to impose such limit shall be provided prior to the start of the bidding period if possible. Where such notice is provided after the start of the bidding period, market participants shall be required within one day to reduce their bids and offers for such auction below 5000, and the bidding period in such cases shall be extended by one day.

7.3.6 Determination of Winning Bids and Clearing Price.

- (a) At the close of each bidding period, the Office of the Interconnection will create a base Financial Transmission Rights power flow model that includes all outstanding Financial Transmission Rights that have been approved and confirmed for any portion of the month for which the auction was conducted and that were not offered for sale in the auction. The base Financial Transmission Rights model also will include estimated uncompensated parallel flows into each interface point of the PJM Region and estimated scheduled transmission outages.
- (b) In accordance with the requirements of Section 7.5 of this Schedule and subject to all applicable transmission constraints and reliability requirements, the Office of the Interconnection shall determine the simultaneous feasibility of all outstanding Financial Transmission Rights not offered for sale in the auction and of all Financial Transmission Rights that could be awarded in the auction for which bids were submitted. The winning bids shall be determined from an appropriate linear programming model that, while respecting transmission constraints and the maximum MW quantities of the bids and offers, selects the set of simultaneously feasible Financial Transmission Rights with the highest net total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers. In the event that there are two or more identical bids for the selected Financial Transmission Rights and there are insufficient Financial Transmission Rights to accommodate all of the identical bids, then each such bidder will receive a pro rata share of the Financial Transmission Rights that can be awarded.
- (c) Financial Transmission Rights shall be sold at the market-clearing price for Financial Transmission Rights between specified pairs of receipt and delivery points, as determined by the bid value of the marginal Financial Transmission Right that could not be awarded because it would not be simultaneously feasible. The linear programming model shall determine the clearing prices of all Financial Transmission Rights paths based on the bid value of the marginal Financial Transmission Rights, which are those Financial Transmission Rights with the highest bid values that could not be awarded fully because they were not simultaneously feasible, and based on the flow sensitivities of each Financial Transmission Rights path relative to the marginal Financial Transmission Rights paths flow sensitivities on the binding transmission constraints. Financial Transmission Rights with a zero clearing price will only be awarded if there is a minimum of one binding constraint in the auction period for which the Financial Transmission Rights path sensitivity is non-zero.

7.3.7 Announcement of Winners and Prices.

Within two (2) Business Days after the close of the bid and offer period for an annual Financial Transmission Rights auction round, and within five (5) Business Days after the close of the bid and offer period for a monthly Financial Transmission Rights auction, the Office of the Interconnection shall post the winning bidders, the megawatt quantity, the term and the receipt and delivery points for each Financial Transmission Right awarded in the auction and the price at which each Financial Transmission Right was awarded unless circumstances beyond PJM's control prevent PJM from meeting the applicable deadline. Under such circumstances, PJM will post the auction results at the earliest possible opportunity. The Office of the Interconnection shall not disclose the price specified in any bid to purchase or the reservation price specified in

any offer to sell. If the Office of the Interconnection discovers an error in the results posted for a Financial Transmission Rights auction (or a given round of the annual Financial Transmission Rights auction), the Office of the Interconnection shall notify Market Participants of the error as soon as possible after it is found, but in no event later than 5:00 p.m. of the Business Day following the initial publication of the results of the auction or round of the annual auction. After this initial notification, if the Office of the Interconnection determines that it is necessary to post modified results, it shall provide notification of its intent to do so, together with all available supporting documentation, by no later than 5:00 p.m. of the second Business Day following the initial publication of the results of that auction or round of the annual auction. Thereafter, the Office of the Interconnection must post any corrected results by no later than 5:00 p.m. of the fourth calendar day following the initial publication of the results of the auction or round of the annual auction. Should any of the above deadlines pass without the associated action on the part of the Office of the Interconnection, the originally posted results will be considered final. Notwithstanding the foregoing, the deadlines set forth above shall not apply if the referenced auction results are under publicly noticed review by the FERC.

7.3.8 Auction Settlements.

All buyers and sellers of Financial Transmission Rights between the same points of receipt and delivery shall pay PJMSettlement or be paid by PJMSettlement the market-clearing price, as determined in the auction, for such Financial Transmission Rights.

7.3.9 Settling Defaulting Member's Financial Transmission Rights.

In the event a Member fails to meet creditworthiness requirements or make timely payments when due pursuant to the PJM Operating Agreement or PJM Tariff, the Office of the Interconnection shall, as soon as practicable after such default is declared, initiate the following procedures to close out and settle the Financial Transmission Rights of the defaulting Member:

- a) The Office of the Interconnection shall close out the defaulting Member's positions as of the date of its default, by unilaterally terminating all of the defaulting Member's rights with respect to forward Financial Transmission Rights positions.
- b) Reserved.
- c) Reserved.
- d) Reserved.
- e) ~~For all Financial Transmission Right positions within the defaulting Member's Financial Transmission Right portfolio that have not been not assumed by bilateral seller pursuant to section (e), above, Notwithstanding section 7.3.9(a) of this Schedule, the actual net charges or credits resulting from the defaulting Member's Financial Transmission Rights positions for which PJMSettlement acted as counterparty as calculated through the normal settlement processes shall be included in calculating the Default Allocation Assessment charges as described in Operating Agreement, section 15.1.2.2, with the obligation for net charges on~~

~~positions in the defaulting Member's Financial Transmission Rights portfolio obtained through bilateral transactions remaining with the indemnifying seller. The resulting Default Allocation Assessments shall in no way relieve the defaulting Member of its obligations, including, without limitation, the defaulting Member's obligations arising from or associated with the full value of its default.~~

Kentucky Power Company
KPSC Case No. 2020-00034
Commission Staff's 1st Set of Data Requests
Dated March 19, 2020

DATA REQUEST

KPSC 1_2 Refer to the application, pages 2 and 4, paragraphs 8 and 14, and the Direct Testimony of Ranie K. Wohnhas (Wohnhas Testimony), page 4, line 11. Provide the expense and billing periods for which GreenHat Energy, LLC (GreenHat) default charges will be billed to Kentucky Power.

RESPONSE

PJM began allocating GreenHat default charges to Kentucky Power in the July 2018 expense period. Kentucky Power booked those charges in the August 2018 billing period. Billing periods, in general, lag behind expense periods by one month with one exception in October 2018. PJM has allocated GreenHat default charges to Kentucky Power in every month since July 2018, and Kentucky Power has booked GreenHat default charges in every month since August 2018. Kentucky Power expects that PJM will make its final allocation of such charges in May 2021, which will be reflected on Kentucky Power's books in the June 2021 billing period.

Note: The initial two settlement intervals of July and August 2018 were also invoiced by PJM in the same month and booked in August and September 2018. Beginning with the September 2018 settlement, PJM moved to invoicing on a one-month lag and the September 2018 settlement was invoiced in October 2018 and booked in November 2018; thus, there was no amount booked in October 2018.

Witness: Ranie K. Wohnhas

Kentucky Power Company
KPSC Case No. 2020-00034
Commission Staff's 1st Set of Data Requests
Dated March 19, 2020

DATA REQUEST

KPSC 1_3 Refer to the application, page 3, paragraph 9. Provide a monthly breakdown of the estimated \$335,261 in GreenHat default charges.

RESPONSE

Please see KPCO_R_KPSC_1_3_Attachment1 for the requested information.

Witness: Ranie K. Wohnhas

| Booked Month | Amount Booked | Act./Est. |
|----------------|---------------|-----------|
| 2018 August | \$38,362.66 | A |
| 2018 September | \$44,189.44 | A |
| 2018 October | \$0.00 | A |
| 2018 November | \$13,416.88 | A |
| 2018 December | \$36,487.23 | A |
| 2019 January | \$2,864.25 | A |
| 2019 February | \$12,808.95 | A |
| 2019 March | \$32,306.47 | A |
| 2019 April | \$6,696.66 | A |
| 2019 May | \$13,594.03 | A |
| 2019 June | \$8,139.27 | A |
| 2019 July | \$9,950.73 | A |
| 2019 August | \$5,886.03 | A |
| 2019 September | \$5,965.57 | A |
| 2019 October | \$8,209.64 | A |
| 2019 November | \$16,666.16 | A |
| 2019 December | \$12,972.80 | A |
| 2020 January | \$5,776.46 | E |
| 2020 February | \$28,772.77 | E |
| 2020 March | \$5,956.06 | E |
| 2020 April | \$5,567.32 | E |
| 2020 May | \$5,941.19 | E |
| 2020 June | \$5,755.30 | E |
| 2020 July | \$5,937.78 | E |
| 2020 August | \$243.30 | E |
| 2020 September | \$254.43 | E |
| 2020 October | \$248.30 | E |
| 2020 November | \$244.97 | E |
| 2020 December | \$256.26 | E |
| 2021 January | \$244.74 | E |
| 2021 February | \$260.14 | E |
| 2021 March | \$253.61 | E |
| 2021 April | \$239.03 | E |
| 2021 May | \$269.85 | E |
| 2021 June | \$262.14 | E |
| 2021 July | \$260.83 | E |

Total \$335,261.25

NOTE: The amounts included in the table show actuals and estimates for charges through July 2021. As stated in the direct testimony of Company Witness Wohnhas at page 4, lines 10-12, "Kentucky Power anticipates being billed (or credited) in connection with the May 2021 liquidation in June 2021." In other words, the final charges should be included on the June 2021 PJM invoice, which will be booked in July 2021.

The initial two settlement intervals of July and August 2018 were also invoiced by PJM in the same month and booked in August and September 2018. Beginning with the September 2018 settlement, PJM moved to invoicing on a one-month lag and the September 2018 settlement was invoiced in October 2018 and booked in November 2018; thus, there was no amount booked in October 2018.

Kentucky Power Company
KPSC Case No. 2020-00034
Commission Staff's 1st Set of Data Requests
Dated March 19, 2020

DATA REQUEST

- KPSC 1_4** Refer to the application, page 4, paragraph 15, and the Wohnhas Testimony, page 10, Table 1.
- a. Further explain why Kentucky Power recorded “an offsetting provision in FERC account 1823000 in December 2019,” and why it contends that this offsetting provision is “consistent with Financial Accounting Standards Board Accounting 19 Standards Codification 980-340-25-1.”
 - b. Provide the journal entries Kentucky Power would record if its request in this case is granted.

RESPONSE

a. In accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) 980-340-25-1, Regulated Operations, a regulatory asset cannot be recorded unless it is probable of recovery. Since management could not conclude that the regulatory asset was probable of recovery at the December 31, 2019 balance sheet date, an offsetting credit (contra regulatory asset) was recorded to Account 1823000 on Kentucky Power's books to offset the GreenHat regulatory asset. This recording of a regulatory asset and an offsetting contra regulatory asset combine to serve as a memo entry recorded for internal reporting purposes only, with no resulting impact to Kentucky Power's externally reported GAAP financial statements.

b. If the Commission approves Kentucky Power's request to recover the GreenHat regulatory asset deferral, the Company would record an entry to remove (or debit) the contra regulatory asset in Account 1823000 and record credits to expense as shown below:

Proposed adjusting journal entry if the Commission approves Kentucky Power's requested recovery of its GreenHat regulatory asset:

- Debit Account 1823000 (increase to regulatory asset) - Other Regulatory Assets \$268,516.77
- Credit Account 5614007 (reduction to expense) - PJM Admin Default OSS - \$37,950.02
- Credit Account 5614008 (reduction to expense) - PJM Admin Default LSE - \$230,566.75

Witness: Ranie K. Wohnhas

Kentucky Power Company
KPSC Case No. 2020-00034
Commission Staff's 1st Set of Data Requests
Dated March 19, 2020

DATA REQUEST

KPSC 1_5 Refer to the application, page 5, paragraph 18. For each of the past five calendar years, provide the annual costs recorded by Kentucky Power in Federal Energy Regulatory Commission (FERC) Account Nos. 560–576.5, by account.

RESPONSE

Please see KPCo_R_KPSC_1_5_Attachment1.xlsx for the requested information.

Witness: Ranie K. Wohnhas

Kentucky Power Company
Income Statement Activity - Accounts 560 through 575
For the Years Ended December 31, 2015 through 2019

| Account | Account Description | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|--------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| 5600000 | Oper Supervision & Engineering | 1,137,188.16 | 1,371,905.47 | 2,190,274.43 | 2,631,242.35 | 3,129,206.59 |
| 5611000 | Load Dispatch - Reliability | 5,631.92 | 8,547.22 | 1,930.24 | 18.90 | - |
| 5612000 | Load Dispatch-Mntr&Op TransSys | 820,158.66 | 778,887.05 | 402,602.38 | 356,978.73 | 396,938.48 |
| 5614000 | PJM Admin-SSC&DS-OSS | 277,366.76 | 163,062.09 | 178,453.24 | 134,451.41 | 131,446.72 |
| 5614001 | PJM Admin-SSC&DS-Internal | 956,010.28 | 965,673.76 | 923,867.81 | 1,073,728.04 | 995,081.20 |
| 5614007 | RTO Admin Default LSE. | (1,022.11) | (138.37) | - | 114,856.65 | 115,710.10 |
| 5614008 | PJM Admin Defaults OSS | - | - | - | 17,599.56 | 20,350.46 |
| 5614009 | GreenHat Settlement | - | - | - | 177,615.27 | (110,870.82) |
| 5615000 | Reliability,Plng&Stds Develop | 139,835.74 | 116,662.57 | 77,254.19 | 75,731.03 | 103,814.74 |
| 5616000 | Transmission Service Studies | 109.56 | - | 3.59 | 15.73 | - |
| 5618000 | PJM Admin-RP&SDS-OSS | 73,076.20 | 40,688.66 | 59,685.39 | 38,776.41 | 34,862.59 |
| 5618001 | PJM Admin-RP&SDS- Internal | 232,888.99 | 252,721.53 | 289,341.41 | 305,918.34 | 282,621.18 |
| 5620001 | Station Expenses - Nonassoc | 464,602.12 | 229,137.72 | 316,752.30 | 179,060.93 | 223,580.35 |
| 5630000 | Overhead Line Expenses | 163,797.46 | 117,013.83 | 60,752.27 | 24,597.28 | 18,313.58 |
| 5640000 | Underground Line Expenses | (6.80) | - | - | - | - |
| 5650002 | Transmssn Elec by Others-NAC | 142,684.20 | 124,942.20 | 126,572.66 | 135,945.00 | 112,276.50 |
| 5650012 | PJM Trans Enhancement Charge | 5,543,065.06 | 5,651,726.15 | 4,559,822.93 | (1,613,398.87) | (3,563,352.39) |
| 5650015 | PJM TO Serv Exp - Aff | 41,450.56 | - | - | - | 192,715.03 |
| 5650016 | PJM NITS Expense - Affiliated | 11,018,158.61 | 16,666,616.75 | 23,168,817.72 | 24,822,103.32 | 34,901,809.36 |
| 5650019 | Affil PJM Trans Enhncement Exp | 1,767,331.38 | 3,465,752.40 | 5,641,331.73 | 5,742,520.41 | 5,521,481.77 |
| 5650020 | PROVISION RTO Affl Expense | 459,463.92 | 259,832.80 | 2,074,910.21 | (5,837,690.48) | 3,337,881.98 |
| 5650021 | PJM NITS Expense - Non-Affilia | - | - | - | 193,394.41 | 248,444.47 |
| 5650060 | PJM trans enhancement refund | - | - | - | (1,903,735.28) | 1,134,139.34 |
| 5660000 | Misc Transmission Expenses | 1,204,474.04 | 1,484,724.75 | 844,092.04 | 1,158,946.48 | 939,587.59 |
| 5660004 | SPP FERC Assessment Fees | 0.04 | 9.86 | - | - | - |
| 5660008 | R.King Trans Cntr Exp - Affil | - | 0.66 | - | - | - |
| 5660009 | PJM OATT LSE Over-Under Adjust | - | - | - | 3,864,303.70 | (2,673,975.84) |
| 5660010 | GreenHat Settlement | - | - | - | 46,316.42 | (28,911.59) |
| 5670001 | Rents - Nonassociated | 13,363.19 | - | 250.00 | 3,272.94 | 304.70 |
| 5670002 | Rents - Associated | - | 170,159.00 | (127,619.00) | - | - |
| 5680000 | Maint Supv & Engineering | 27,593.02 | 27,396.44 | 18,305.14 | 25,171.58 | 71,495.53 |
| 5690000 | Maintenance of Structures | 4,917.69 | 21,759.21 | 9,237.30 | 7,609.06 | 8,871.68 |
| 5691000 | Maint of Computer Hardware | 589.18 | 1,650.38 | 5,659.13 | 6,414.36 | 6,376.60 |
| 5692000 | Maint of Computer Software | 79,679.01 | 107,394.14 | 115,352.05 | 293,137.10 | 348,041.21 |
| 5693000 | Maint of Communication Equip | 1,896.03 | 6,346.58 | 1,245.64 | 6,302.09 | 7,929.38 |
| 5700000 | Maint of Station Equipment | 663,400.34 | 678,388.35 | 591,135.14 | 1,125,054.26 | 481,292.39 |
| 5710000 | Maintenance of Overhead Lines | 2,298,681.66 | 1,831,232.25 | 2,515,973.69 | 5,183,563.50 | 5,960,124.01 |
| 5720000 | Maint of Underground Lines | 206.05 | 41.92 | 241.52 | 455.38 | 122.00 |
| 5730000 | Maint of Misc Trnsmssion Plt | 298,049.35 | 384,784.06 | 189,287.72 | 67,587.36 | 103,965.41 |
| TOTAL TRANSMISSION EXPENSES | | 27,834,640.27 | 34,926,919.43 | 44,235,532.87 | 38,457,863.37 | 52,451,674.29 |
| 5757000 | PJM Admin-MAM&SC- OSS | 169,387.94 | 149,340.77 | 204,452.97 | 127,295.34 | 126,331.06 |
| 5757001 | PJM Admin-MAM&SC- Internal | 845,656.60 | 847,377.69 | 975,438.91 | 1,029,109.90 | 958,983.97 |
| TOTAL Regional Transmission and Market Op Expns | | 1,015,044.54 | 996,718.46 | 1,179,891.88 | 1,156,405.24 | 1,085,315.03 |

Kentucky Power Company
KPSC Case No. 2020-00034
Commission Staff's 1st Set of Data Requests
Dated March 19, 2020

DATA REQUEST

KPSC 1_6 Refer to the Wohnhas Testimony, page 4, lines 16–18. Explain how PJM determined how the GreenHat default liquidation costs were to be allocated to its PJM members.

RESPONSE

The allocation to PJM members is defined in Section 15.2.2 of the Operating Agreement. PJM determines the Default Allocation Assessment for each Member based on the number of Members (“N”), individual Member billing activity (“A”) and total member billing activity (“Z”). This formula provides the responsibility for each Member which is multiplied by the corresponding monthly default amount to yield the dollar amount of the default liquidation costs allocated to each member. This amount is billed to each Member on a monthly basis. Those with no billing activity may be assessed up to \$10,000 per calendar year.

Below is an example calculation:

The Default Allocation Assessment is equal to $(0.1(1/N) + 0.9(A/Z))$.

If the billing activity for Company X was \$8,000,000 and there were 1,000 PJM members whose invoices totaled \$500,000,000 in billing activity with the first month's default being \$200,000:

Company X allocation = $(0.1(1/1,000) + 0.9(8,000,000/500,000,000)) = 1.45\%$

Company X would be billed \$2,900 ($\$200,000 * 0.0145$) for that month.

Witness: Ranie K. Wohnhas

Kentucky Power Company
KPSC Case No. 2020-00034
Commission Staff's 1st Set of Data Requests
Dated March 19, 2020

DATA REQUEST

KPSC 1_7 Refer to the Wohnhas Testimony, page 6, lines 12–14. Explain why Kentucky Power elected not to include the portion of GreenHat default charges associated with its off-system sales when it updated its System Sales Clause factor in August 2019. Include in the explanation a description of the relationship of the expenses included in Kentucky Power's Fuel Adjustment Clause and its System Sales Clause.

RESPONSE

At the time Kentucky Power was preparing its System Sales Clause (SSC) factor annual filing in early August 2019, the Company had yet to receive an order in the 2-year FAC Review, Case No. 2019-00002. The 2019 SSC filing considered July 2018 through June 2019 actual Off-System Sales (OSS) margins. The portion of GreenHat default charges associated with OSS margins for that period was \$28,134.99. That amount is so small that including it in the 2019 SSC factor annual filing would not have changed the amount of the factor. Because there was no impact to the 2019 SSC factor, and because the Company was awaiting the Commission's guidance on its treatment of GreenHat default charges in the FAC, which could also guide the treatment of such charges in the SSC factor, Kentucky Power conservatively decided to not include the portion of GreenHat default charges associated with OSS margins in the 2019 SSC filing.

With respect to the relationship of the expenses included in Kentucky Power's Fuel Adjustment Clause and its System Sales Clause, please see the Company's May 8, 2019 Supplemental Response to Staff 1-33 in Case No. 2019-00002, attached here for reference as KPCO_R_KPSC_1_7_Attachment1. As explained in Mr. Wohnhas's direct testimony beginning at page 3, Financial Transmission Rights (FTR) are financial hedges for congestion costs on the transmission systems controlled by PJM. FTR default charges are fuel-related charges and are apportioned to the Company's Fuel Adjustment Clause and System Sales Clause in proportion to the expenses incurred.

Witness: Ranie K. Wohnhas

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

An Examination Of The Application Of The Fuel)
Adjustment Clause of Kentucky Power Company) Case No. 2019-00002
From November 1, 2016 Through October 31, 2018)

**KENTUCKY POWER COMPANY'S
MAY 8, 2019 SUPPLEMENTAL RESPONSE
TO KPSC 1-33**

RECEIVED
MAY 09 2019
PUBLIC SERVICE
COMMISSION

Dated May 8, 2019

May 8, 2019 Supplemental Response.

Subsequent to filing its February 25, 2019 response to this data request, Kentucky Power Company identified the recovery through its fuel adjustment clause of those fuel-related expenses billed to the Company by PJM Interconnection, L.L.C. through billing line item 1999A, and related to the default by GreenHat Energy, LLC in the PJM Financial Transmission Right market, as an issue affecting fuel cost during the review period.

1. The Fuel-Related Nature Of Financial Transmission Rights Market Charges And Credits.

“Congestion arises when one or more constraints inhibit the economic dispatch of energy from serving load. To relieve congestion on the transmission system, generating units are dispatched out of economic order.... The increased energy costs due to the re-dispatch to relieve congestion are reflected in the congestion price component of the locational marginal price (“LMP”) and assessed to market participants such as Kentucky Power. These increased energy expenses, like energy purchased to serve Kentucky Power’s native load, reflect fuel expenses....”¹

A Financial Transmission Right (FTR) “is a financial instrument awarded to bidders in the FTR Auctions that entitle the holder to a stream of revenues (or charges) based on the hourly Day Ahead congestion price differences across the path.”² An FTR allows market participants to offset potential losses, including congestion-related costs, related to the price risk of the delivery energy to the transmission grid. As such, FTR market charges and credits reflect fuel-related charges and credits.³

The fuel-related nature of FTR market charges and credits was recognized by the Commission in its January 18, 2018 order in Case No. 2017-00179. There, the Commission authorized Kentucky Power to recover FTR market charges (PJM BLI 1500) and credits (PJM BLI 2500) through the Company’s fuel adjustment clause.⁴

¹ Direct Testimony of John A. Rogness, *In the Matter of: Electronic Application Of Kentucky Power Company For (1) A General Adjustment Of Its Rates For Electric Service; (2) An Order Approving Its 2017 Environmental Compliance Plan; (3) An Order Approving Its Tariffs And Riders; (4) An Order Approving Accounting Practices To Establish Regulatory Assets Or Liabilities; And (5) An Order Granting All Other Required Approvals And Relief*, Case No. 2017-00179 at 16 (Ky. P.S.C. Filed July 20, 2017) (“Rogness Direct Testimony”).

² PJM Glossary, (May 1, 2019, 3:54 p.m.) https://www.pjm.com/Glossary.aspx#index_F

³ Rogness Direct Testimony at 17.

⁴ Order, *In the Matter of: Electronic Application Of Kentucky Power Company For (1) A General Adjustment Of Its Rates For Electric Service; (2) An Order Approving Its 2017 Environmental Compliance Plan; (3) An Order Approving Its Tariffs And Riders; (4) An Order Approving Accounting Practices To Establish Regulatory Assets Or Liabilities; And (5) An Order Granting All Other Required Approvals And Relief*, Case No. 2017-00179 at 44 (Ky. P.S.C. January 18, 2018).

2. The GreenHat Energy, LLC Default.

PJM on June 21, 2018 declared GreenHat in payment default of GreenHat's FTR market financial obligations for the 2018/2019, 2019/2020, and 2020/2021 planning periods. PJM then initiated the process of closing out and liquidating GreenHat's FTR positions. The net loss or gain on these positions are allocated to PJM members, including Kentucky Power, in accordance with the default allocation assessment provisions of sections 15.1.2A(1) and 15.2.2 of the PJM Operating Agreement. Any charges related to the liquidation of GreenHat's position in the FTR market are allocated to Kentucky Power through PJM billing line item 1999A.

The GreenHat FTR market default charges allocated to Kentucky Power through April 2019 totaled \$233,508.86. The fuel-related portion of these charges during the same period totaled \$161,986.73. The fuel-related portion of the GreenHat FTR market default charges billed to Kentucky Power during the review period through PJM billing line item 1999A were:

| Month/Year | Aug-18 | Sep-18 | Oct-18 | Total |
|------------|-------------|-------------|--------|-------------|
| Amount | \$27,515.03 | \$43,046.29 | \$0.00 | \$70,561.32 |

3. Recovery Of GreenHat Energy, LLC Default Charges Through Kentucky Power Company's Tariff F.A.C.

Kentucky Power's fuel adjustment clause tariff defines fuel costs recoverable through the Company fuel adjustment clause to include "fuel-related costs charged to the Company by PJM Interconnection LLC including but not limited those costs identified in the following Billing Line Items, as may be amended from time to time by PJM Interconnection LLC..."⁵ Among the listed PJM billing line items are FTR market charges (PJM BLI 1500) and credits (PJM BLI 2500). The fuel-related portion of the GreenHat FTR market default charges allocated to Kentucky Power through PJM billing line item 1999A, like the other FTR market charges and credits enumerated in the Company's tariff, are properly recoverable through Kentucky Power's fuel adjustment clause.

No fuel-related GreenHat FTR market default charges allocated to Kentucky Power through PJM billing line item 1999A were billed to the Company's customers during the review period notwithstanding the fact they are properly recoverable through the tariff.


4. Kentucky Power's Proposal.

Kentucky Power proposes to recover the fuel-related portion of the GreenHat FTR market default charges allocated to Kentucky Power through PJM billing line item 1999A but not billed to customers during the review period. The charges will be recovered by billing one-third of the total \$70,561.32 over a three-month period (\$23,520.44 per month) beginning the first day of the billing cycle beginning after the Commission's order in this case. The Company's proposal would increase the bill of the average residential customer using 1,300 kWh per month for the three-month period by approximately \$0.06 per month.

⁵ Kentucky Power Company Tariff F.A.C., Section Rate 3(e) (Tariff Sheet 5-1).

VERIFICATION

The undersigned, Ranie K. Wohnhas, being duly sworn, deposes and says he is the Managing Director of Regulatory & Finance for Kentucky Power, that he has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.


Ranie K. Wohnhas

Commonwealth of Kentucky)
)
County of Boyd)

Case No. 2019-00002

Subscribed and sworn before me, a Notary Public, by Ranie K. Wohnhas this 18th day of April, 2019.

 Notary #19495
Notary Public

My Commission Expires March 18, 2023

VERIFICATION

The undersigned, Ranie K. Wohnhas, being duly sworn, deposes and says he is the Vice President of Regulatory & Finance for Kentucky Power, that he has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.

Ranie K. Wohnhas
Ranie K. Wohnhas

Commonwealth of Kentucky)
)
County of Boyd) Case No. 2020-00034

Subscribed and sworn before me, a Notary Public, by Ranie K. Wohnhas this 27th day of March, 2020.

Trisha Nance
Notary Public

My Commission Expires 9-26-2023

