

SCHEDULE 2 PENALTY CALCULATIONS

PROBLEM / OPPORTUNITY STATEMENT

If upon review of a Market Seller's cost-based offer, PJM or the IMM determines that the offer is not in compliance with the Market Seller's PJM-approved Fuel Cost Policy or Operating Agreement, Schedule 2 and the IMM or PJM agrees with that determination, the Market Seller is subject to a penalty under Operating Agreement, Schedule 2 section 6.1. In its current state, the penalty does not account for scenarios when the LMP is negative. As a result, an average negative LMP in the calculation would result in a negative penalty (credit) issued to the Market Seller when such Market Seller is subject to a penalty for submitting a cost-based offer that is inconsistent with a Fuel Cost Policy and/or Operating Agreement, Schedule 2.