

SCHEDULE 2 - COMPONENTS OF COST

1. GENERAL COST PROVISIONS

1.1 Permissible Components of Cost-based Offers.

(a) Each Market Participant obligated to sell energy on the PJM Interchange Energy Market at cost-based rates may include the following components or their equivalent in the determination of costs for energy supplied to or from the PJM Region:

For generating units powered by boilers

Firing-up cost

Peak-prepared-for maintenance cost

For generating units powered by machines

Starting cost from cold to synchronized operation

For all generating units

Incremental fuel cost

Incremental maintenance cost

No-load cost during period of operation

Incremental labor cost

Emission allowances/adders

Maintenance Adders

Ten percent adder

Other incremental operating costs

For a generating unit that is subject to operational limitations due to energy or environmental limitations imposed on the generating unit by Applicable Laws and Regulations, the Market Participant may include in the calculation of its "other incremental operating costs" an amount reflecting the unit-specific Energy Market Opportunity Costs expected to be incurred. Such unit-specific Energy Market Opportunity Costs are calculated by forecasting Locational Marginal Prices based on future contract prices for electricity using PJM Western Hub forward prices, taking into account historical variability and basis differentials for the bus at which the generating unit is located for the prior three year period immediately preceding the relevant compliance period, and subtract therefrom the forecasted costs to generate energy at the bus at which the generating unit is located, as specified in more detail in PJM Manual 15. If the difference between the forecasted Locational Marginal Prices and forecasted costs to generate energy is negative, the resulting Energy Market Opportunity Cost shall be zero. A Market Participant may utilize the Energy Market Opportunity Cost determined by the opportunity cost calculator maintained by the Office of the Interconnection or by the Market Monitoring Unit; provided that the use of the Market Monitoring Unit's opportunity cost calculator is conditioned upon (i) the Market Monitoring Unit providing to the Office of the Interconnection at its request documentation demonstrating that the methodology and logic employed by the calculator is compliant with this Schedule 2, (ii) the ability of the Office of the Interconnection to review the inputs to the calculator, selected interim outputs, and the final output that results from those inputs, and (iii) the Market Monitoring Unit providing to the Office of the Interconnection advance notice of any change to the

calculation methodology and logic. The Office of the Interconnection may suspend the use of the Market Monitoring Unit's calculator at any time if the Market Monitoring Unit does not reasonably comply with foregoing requirements. Notwithstanding ~~anything herein~~ the foregoing, a Market Participant may submit a request to PJM for consideration and approval of an alternative method of calculating its Energy Market Opportunity Cost if the standard methodology described herein does not accurately represent the Market Participant's Energy Market Opportunity Cost.

For a generating unit that is subject to operational limitations because it only has a limited number of starts or available run hours resulting from (i) the physical equipment limitations of the unit, for up to one year, due to original equipment manufacturer recommendations or insurance carrier restrictions, or (ii) a fuel supply limitation, for up to one year, resulting from an event of Catastrophic Force Majeure, the Market Participant may include in the calculation of its "other incremental operating costs" an amount reflecting the unit-specific Non-Regulatory Opportunity Costs expected to be incurred. Such unit-specific Non-Regulatory Opportunity Costs are calculated by forecasting Locational Marginal Prices based on future contract prices for electricity using PJM Western Hub forward prices, taking into account historical variability and basis differentials for the bus at which the generating unit is located for the prior three year period immediately preceding the period of time in which the unit is bound by the referenced restrictions, and subtract therefrom the forecasted costs to generate energy at the bus at which the generating unit is located, as specified in more detail in PJM Manual 15. If the difference between the forecasted Locational Marginal Prices and forecasted costs to generate energy is ~~negative~~ negative, the resulting Non-Regulatory Opportunity Cost shall be zero. A Market Participant may utilize the Energy Market Opportunity Cost determined by the opportunity cost calculator maintained by the Office of the Interconnection or by the Market Monitoring Unit; provided that the use of the Market Monitoring Unit's opportunity cost calculator is conditioned upon (i) the Market Monitoring Unit providing to the Office of the Interconnection at its request documentation demonstrating that the methodology and logic employed by the calculator is compliant with this Schedule 2, (ii) the ability of the Office of the Interconnection to review the inputs to the calculator, selected interim outputs, and the final output that results from those inputs, and (iii) the Market Monitoring Unit providing to the Office of the Interconnection advance notice of any change to the calculation methodology and logic. The Office of the Interconnection may suspend the use of the Market Monitoring Unit's calculator at any time if the Market Monitoring Unit does not reasonably comply with foregoing requirements.