

**D. Peak Market Activity and Financial Security Requirement**

~~———— If PJM determines that a Participant does not qualify for an Unsecured Credit Allowance, that Participant will be required to provide Financial Security equal to its Peak Market Activity to support its activity in the PJM market. Peak Market Activity will be determined for Applicants based on review of an estimate of their transaction activity for all PJM markets and services, excluding FTR Net Activity over the next 52 weeks, which the Applicant shall provide to PJM. Peak Market Activity will be determined for Participants based on a~~

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~~review of their historical transaction activity for all PJM markets and services excluding FTR Net Activity. PJM may review a Participant's market activity at its discretion but will review such activity at least annually.~~

A PJM Participant or Applicant that has an insufficient Unsecured Credit Allowance to satisfy its Peak Market Activity will be required to provide Financial Security such that its Unsecured Credit Allowance and Financial Security together are equal to its Peak Market Activity in order to secure its transactional activity in the PJM Market.

Peak Market Activity for Participants will be determined semi-annually beginning in the first complete billing week in the months of April and October. Peak Market Activity shall be the greater of the initial Peak Market Activity, as explained below, or the greatest amount invoiced for the Participant's transaction activity for all PJM markets and services, excluding FTR Net Activity, in any rolling one, two, or three week period, ending within a respective semi-annual period.

The initial Peak Market Activity for Applicants will be determined by PJM based on a review of an estimate of their transactional activity for all PJM markets and services, excluding FTR Net Activity, over the next 52 weeks, which the Applicant shall provide to PJM.

The initial Peak Market Activity for Participants, calculated at the beginning of each respective semi-annual period, shall be the average of all non-zero invoice totals, excluding FTR Net Activity, over the previous 52 weeks. This calculation shall be performed and applied within three business days following the day the invoice is issued for the first full billing week in the current semi-annual period.

Prepayments shall not affect Peak Market Activity unless otherwise agreed to in writing pursuant to this Credit Policy.

All Peak Market Activity calculations shall take into account reductions of invoice values effectuated by early payments which are applied to reduce a Participant's Peak Market Activity as contemplated by other terms of the Credit Policy; provided that the initial Peak Market Activity shall not be less than the average value calculated using the weeks for which no early payment was made.

A Participant may reduce its Financial Security Requirement by agreeing in writing (in a form acceptable to PJM) to make additional payments, including prepayments, as and when necessary to ensure that such Participant's Total Net Obligation at no time exceeds such reduced Financial Security Requirement.

PJM may, at its discretion, adjust a Participant's Financial Security Requirement if PJM determines that the Peak Market Activity is not representative of such Participant's

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expected activity, as a consequence of known, measurable, and sustained changes. Such changes may include the loss (without replacement) of short-term load contracts, when such contracts had terms of three months or more and were acquired through state-sponsored retail load programs, but shall not include short-term buying and selling or virtual bidding.

PJM may waive the Financial Security Requirement for a Participant that agrees in writing that it shall not, after the date of such agreement, incur obligations under any of the Agreements. Such entity's access to all electronic transaction systems administered by PJM shall be terminated.

PJM will maintain a posting of each Participant's Financial Security Requirement on the PJM web site in a secure, password-protected location. Such information will be updated at least weekly. Each Participant will be responsible for monitoring such information and recognizing changes that may occur. However, in case of an increase in the Financial Security Requirement of greater than 25% within a 30-day period, PJM will notify the Participant. PJM's responsibility to notify the Participant will be satisfied if it sends an email notification to either a primary or secondary Members Committee Representative for the Participant. It is the Participant's responsibility to ensure that such a representative exists, and that contact information is correct. This notification does not restrict or in any way affect PJM's authority to require Financial Security under other provisions of the credit policy.

#### **E. Working Credit Limit**

PJM will establish a Working Credit Limit for each Participant against which its **Total Net Obligation** will be monitored. The Working Credit Limit is defined as ~~8~~75% of the Financial Security provided to PJM and/or ~~8~~75% of the Unsecured Credit Allowance determined by PJM based on a credit evaluation. A Participant's Total Net Obligation should not exceed its Working Credit Limit.

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**Obligation** – All amounts owed to PJM for purchases from the PJM Markets, Transmission Service, (under both Part II and Part III of the O.A.T.T.), and other services or obligations pursuant to the Agreements. In addition, aggregate amounts that will be owed to PJM in the future for Capacity purchases within the PJM Capacity markets will be added to this figure. Should other markets be formed such that Participants may incur future Obligations in those markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

**Operating Agreement of PJM Interconnection, L.L.C., (“Operating Agreement”)** – The Amended and Restated Operating Agreement of PJM Interconnection, L.L.C., dated as of June 2, 1997, on file with the Federal Energy Regulatory Commission, and as revised from time to time..

**Participant** – A **Market Participant** and/or **Transmission Customer** and/or **Applicant**.

**Peak Market Activity** – ~~The total amount, invoiced or expected to be invoiced for the Participant’s transaction activity for all PJM markets and services, excluding FTR Net Activity, for the three consecutive weeks (or two consecutive weeks or single week if either period is greater) for which such total is greatest over a rolling 52-week period. Invoice values shall be considered prior to any prepayments unless otherwise agreed in writing pursuant to this Credit Policy. A measure of exposure for which credit is required, involving peak exposures in rolling three-week periods over a year timeframe, with two semi-annual reset points, pursuant to provisions of section II.D of this Credit Policy.~~

**PJM Markets** – The PJM Interchange Energy Market and the PJM Capacity markets as **established** by the Operating Agreement. Also any other markets that exist or may be established in the future wherein Participants may incur Obligations to PJM.

**PJM Open Access Transmission Tariff (“O.A.T.T.”)** –The Open Access Transmission Tariff of PJM Interconnection, L.L.C., on file with the Federal Energy Regulatory Commission, and as revised from time to time.

**Reliability Assurance Agreement (“R.A.A.”)** – See definition in the Operating Agreement.

**Reliability Assurance Agreement–West** – See definition in the Operating Agreement.

**Seller Credit** – A form of Unsecured Credit extended to Participants that have a consistent long-term history of selling into PJM, as defined in this document.

**Tangible Net Worth** – All assets (not including any intangible assets such as goodwill) less all liabilities. Any such calculation may be reduced by PJM upon review of the available financial information.

**Unsecured Credit Allowance – Unsecured Credit** extended by PJM in an amount determined by PJM’s evaluation of the creditworthiness of a Participant. This is also defined as the amount of credit that an Participant qualifies for based on the strength of its own financial condition without having to provide Financial Security, except that only the Seller Credit form of Unsecured Credit may be utilized to establish a Participant’s FTR Credit Limit. See also: “Working Credit Limit.”

**Virtual Bid Screening** – The process of reviewing the Virtual Credit Exposure of submitted Day-Ahead market bids, as defined in this policy, against the Credit Available for Virtual Bidding. If the credit required is greater than credit available, then the bids will not be accepted.

**Virtual Credit Exposure** – The amount of potential credit exposure created by a market participant’s bid submitted into the Day-ahead market, as defined in this policy.

**Working Credit Limit** – This amount is ~~87~~87.5% of the Participant’s Unsecured Credit Allowance and/or ~~87~~87.5% of the Financial Security provided by the Participant to PJM. The Working Credit Limit establishes the maximum amount of Total Net Obligation that a Participant may have outstanding at any time.