

November 29, 2011

Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E., Room 1A
Washington, D.C. 20426

Re: *PJM Interconnection, L.L.C., Docket No. ER11-3972- 002*
Compliance with September 15, 2011 Order on June 30, 2011 Order No.
741 Compliance Filing

Dear Secretary Bose:

Pursuant to section 206 of the Federal Power Act (“FPA”), 16 U.S.C. § 824e, PJM Interconnection, L.L.C. (“PJM”)¹ submits revisions to the PJM Open Access Transmission Tariff (“Tariff”) to comply with the Federal Energy Regulatory Commission’s (“Commission”) directives in its September 15, 2011 order in this proceeding.² PJM requests an effective date of December 13, 2011 for the revisions proposed in this filing.³

¹ In 2010, PJM Settlement, Inc. (“PJMSettlement”) was established to act as the counterparty to transactions occurring in PJM’s markets and, in this role, administers the credit policy in its own right and on behalf of PJM. *See PJM Interconnection, L.L.C.*, 132 FERC ¶ 61,207 (2010). However, as the independent regional transmission organization (“RTO”) and administrator of the PJM Tariff, PJM has the authority to submit these Tariff revisions pursuant to section 206 of the FPA.

² *PJM Interconnection, L.L.C.*, 136 FERC ¶ 61,190 (2011) (“September 15 Order”).

³ All of the tariff revisions submitted in this filing are set forth in eTariff record OATT Attachment Q. Although this compliance filing is not required until
(continued . . .)

I. INTRODUCTION AND BACKGROUND

On October 21, 2010, the Commission issued Order No. 741⁴ mandating reforms to credit policies used in organized wholesale electric power markets to improve the management of risk and the use of credit in such markets.⁵ The Commission adopted a new Subpart J – Credit Practices in Organized Wholesale Electric Markets – in Part 35 of its regulations.⁶ The Commission directed each RTO and independent system operator (“ISO”) to submit a compliance filing including tariff revisions to comply with the Commission’s amended regulations or to demonstrate that its existing tariff already satisfies the requirements.

On June 30, 2011, PJM submitted its filing to comply with Order No. 741, which the Commission conditionally accepted in the September 15 Order. The Commission directed PJM to submit a further compliance filing to: clarify a provision (paragraph 3.a) of PJM’s proposed officer certification form (“Certification Form”) to better identify which entities qualify for treatment under the paragraph; amend a provision of Attachment Q regarding the cap on unsecured credit; eliminate the use of unsecured

(. . . continued)

December 14, 2011, PJM is submitting the filing now, two weeks before the next FTR auction, in order to provide market participants with timely notice of the Tariff provisions prior to the auction.

⁴ *Credit Reforms in Organized Wholesale Electric Markets*, Order No. 741, III FERC Stats. & Regs., Regs. Preambles ¶ 31,317 (2010), *order on reh’g*, Order No. 741-A, III FERC Stats. & Regs., Regs. Preambles ¶ 31,320, *reh’g denied*, Order No. 741-B, 135 FERC ¶ 61,242 (2011).

⁵ Order No. 741 at P 1.

⁶ 18 C.F.R. §§ 35.45-35.47.

credit (i.e. seller credit) in the FTR markets; and provide for compliance verification concerning the risk management component of minimum criteria for market participation.

In addition, PJM addresses in this filing a request for clarification of the September 15 Order filed by the Requesting Parties.⁷ The Requesting Parties sought clarification regarding the attestation of the signatory of the certificate. Specifically, the Requesting Parties asked that the Commission direct revisions to the attestation in the certificate to be consistent with the Commission's finding in the September 15 Order "that the attestation is 'implicitly indicating that the signatory is making any statements to the best of his or her knowledge, given that an individual is making the certification on behalf of a corporate entity.'"⁸ In its answer to the Requesting Parties' request for clarification, PJM explained it did not oppose revising the attestation, and that it would submit revisions to the attestation in this compliance filing.

II. STAKEHOLDER REVIEW

PJM and its stakeholders have conferred about the tariff changes proposed to comply with the September 15 Order. The revisions were presented and discussed by

⁷ Request for Clarification and, in the Alternative, Rehearing of American Electric Power Company, Inc., Arcelormittal Steel USA, LLC, Consolidated Edison Energy, Inc., Consolidated Edison Solutions, Inc., Dominion Resources Services, Inc., DTE Energy Trading, Inc., Financial Institutions Energy Group, Noble Americas Gas & Power Corp., PJM Industrial Customer Coalition, Rockland Electric Company, Shell Energy North America (US), L.P., and Vitol Inc. ("Requesting Parties"), Docket No. ER11-3972-000 (Oct. 17, 2011) ("Requesting Parties Rehearing Request").

⁸ Requesting Party Rehearing Request at 5 (quoting September 15 Order at P 126).

stakeholders during: (i) the Credit Subcommittee meetings on October 21, 2011 and November 11, 2011; (ii) the Market Implementation Committee (“MIC”) meeting on November 1, 2011; (iii) the Markets and Reliability Committee (“MRC”) meeting on November 16, 2011; and (iv) the Members Committee (“MC”) meeting on November 22, 2011.

Through the stakeholder discussions, PJM has incorporated a significant number of stakeholder comments into the proposed Tariff revisions. Because this is a compliance filing, PJM does not require stakeholder approval to submit the compliance tariff revisions, and therefore did not seek an indicative vote of the stakeholders, but nonetheless sought and incorporated stakeholder input.

III. PROPOSED TARIFF CHANGES

In compliance with the Commission’s directives in the September 15 Order, PJM provides in this filing: (a) tariff language providing for compliance verification concerning minimum criteria for market participation; (b) revised language in paragraph 3.a of the officer certification form; and (c) amended tariff provisions regarding the cap on unsecured credit and the elimination of the use of seller credit in Financial Transmission Rights (“FTRs”) markets. In addition, as PJM explained in its answer to the requests for clarification, PJM also includes revisions to the attestation of the Certification Form to indicate that the signatory acknowledges that the information provided in the certificate is true and accurate to the best of the signatory’s belief and knowledge after due investigation.

A. Compliance Verification

In the September 15 Order, the Commission found that PJM's proposed risk management and verifications, with the revisions directed, are just and reasonable, not unduly discriminatory, and consistent with the directives in Order No. 741.⁹ The Commission found that PJM's "proposed risk management and verification requirements should help protect the markets from risks posed by market participants who do not have adequate risk management procedures in place."¹⁰ The Commission found "that requiring market participants to annually provide the Certification Form and comply with the requirements that correspond with each certification, is reasonable."¹¹

The Commission, however, found that the annual execution by a market participant of the certification "is insufficient to ensure the protection of the markets from risks posed by under capitalized market participants or those who do not have adequate risk management procedures in place."¹² The Commission explained that a "market participant officer-certified form that attests to the existence of risk management policies and procedures . . . does not by itself satisfy [this] criterion without independent verification that risk management policies and procedures are actually being implemented."¹³ Because the Commission believes that "minimum participation criteria

⁹ September 15 Order at P 112.

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.* at P 113.

¹³ September 15 Order at P 113.

require PJM to engage in periodic compliance verification to minimize risk to the market,” the Commission directed PJM “to establish such verification as part of its minimum participation criteria.”¹⁴ The Commission explained that it was not mandating a particular form of periodic verification, but that “such a periodic verification could include periodic review of risk management policies, practices, and procedures, and their implementation, conducted on a random basis or directed to certain market participants based on identified risk.”¹⁵

PJM has revised Section Ia.A (Risk Management and Verification) of Attachment Q to the PJM Tariff to comply with this directive. PJM has revised the section to set forth a periodic compliance verification process.¹⁶ Pursuant to this process, PJMSettlement will review and verify, as applicable, a participant’s risk management policies, practices, and procedures pertaining to the participant’s activities in the PJM markets. Section Ia.A as revised provides that the review will include verification that:

1. The risk management framework is documented in a risk policy addressing market, credit and liquidity risks.
2. The Participant maintains an organizational structure with clearly defined roles and responsibilities that clearly segregates trading and risk management functions.
3. There is clarity of authority specifying the types of transactions into which traders are allowed to enter.

¹⁴ *Id.*

¹⁵ *Id.* at P 113 n.98.

¹⁶ PJM Tariff, Attachment Q, Section Ia.A (eTariff record OATT Attachment Q).

4. The Participant has requirements that traders have adequate training relative to their authority in the systems and PJM markets in which they transact.
5. As appropriate, risk limits are in place to control risk exposures.
6. Reporting is in place to ensure that risks and exceptions are adequately communicated throughout the organization.
7. Processes are in place for qualified independent review of trading activities.
8. As appropriate, there is periodic valuation or mark-to-market of risk positions.

Each of the above items has a corresponding element in the attestations in the Certification Form set forth as Appendix 1 to Attachment Q. Items 1, 2, 4, 5, 6, 7 and 8 address requirements of paragraph 2 of the Certification Form requiring a participant to attest that it

has written risk management policies, procedures, and controls, approved by the Participant's independent risk management function and applicable to transactions in the PJM markets in which it participates and for which employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Operating Agreement have been trained, that provide an appropriate, comprehensive risk management framework that, at a minimum, clearly identifies and documents the range of risks to which Participant is exposed, including, but not limited to credit risks, liquidity risks and market risks.

Items 3 and 4 address the requirements of paragraph 1 of the Certification Form that a participant attest that "[a]ll employees or agents transacting in markets or services provided pursuant to the PJM or PJM [Operating Agreement] on behalf of the participant have received appropriate training and are authorized to transaction on behalf of Participant." Items 2, 5, 6, 7, and 8 address the requirements set forth in paragraph 3.b of the Certification Form, applicable to certain FTR Participants, that an FTR Participant

attest that: (i) within specified time frames, it values its FTR positions and engages in a probabilistic assessment of the hypothetical risk of such positions using analytically based methodologies; (ii) such valuation and risk assessment functions are preformed by persons who are independent from those trading in PJM's FTR markets or by an outside qualified firm with expertise in the area of risk management; (iii) it applies its written policies, procedures and controls to limit its risks using industry recognized practices; (iv) exceptions to its written risk policies, procedures and controls applicable to its FTR positions are documented with a reasoned basis for granting exceptions; and (v) it has provided to PJMSettlement a copy of its current governing risk management policies, procedures and controls applicable to its FTR trading activities.

The revisions to section Ia.A further provide that if principles or best practices relating to risk management in PJM-type markets are published by a third-party industry association, PJMSettlement may apply such principles or best practices in determining the sufficiency of the participant's risk controls. PJMSettlement may apply such published principles and practices following stakeholder discussion and with no less than six months prior notice to stakeholders.

As the September 15 Order permits, the verification process allows PJMSettlement to select the participants for the periodic verification review on a random basis and/or based on identified risk factors such as, but not limited to, the PJM markets in which the participant transacts, the magnitude of the participant's transactions, or the volume of the participant's open positions. Once notified that it has been selected for review by PJMSettlement, a participant has 14 calendar days to provide to PJMSettlement a copy of its current governing risk control policies, procedures, and

controls applicable to its PJM market activities and further information or documentation regarding the participant's activities in the PJM markets as requested by PJMSettlement. PJMSettlement annually will randomly select for review no more than 20% of the participants in each member sector. If a participant randomly is selected for the verification review process and satisfactorily verified by PJMSettlement, it will be excluded from random selection for the subsequent two years.

Further, each selected participant's continued eligibility to participate in the PJM markets is conditioned upon PJMSettlement notifying the participant of successful completion of the verification process. If PJMSettlement notifies the participant in writing that it could not successfully complete the verification process, the participant has 14 calendar days to provide sufficient evidence for the verification before PJMSettlement declares the participant to be ineligible to participate in the PJM markets. In such cases, PJMSettlement will notify the participant in writing that it is ineligible to continue participating in the PJM markets, including an explanation why PJMSettlement could not complete the verification. However, if a participant demonstrates to PJMSettlement that it has filed with the Commission an appeal of PJMSettlement's verification determination, the participant will retain transaction rights pending the outcome of the participant's appeal.

The Tariff provisions also provide that PJMSettlement may retain outside expertise to perform the review and verifications and that such third parties will treat as confidential the documentation provided by participants consistent with the confidentiality provisions of the Operating Agreement. In such situations, however, a

participant may direct that PJMSettlement, instead of a third party, perform the review and verification for the participant.

PJM also has revised earlier paragraphs in Section Ia.A to indicate that PJMSettlement “may” (instead of “will”) apply published principles or best practices in determining the fundamental sufficiency of an FTR Participant’s risk controls if such principles or best practices relating to the risk management practices for entities trading in FTR-type markets are published by a third-party industry association, such as the Committee of Chief Risk Officers. Now that PJM has adopted its own practices, this change reflects that application of other published practices with respect to FTR Participants will be optional, not mandatory, consistent with the new verification process. Further, PJM clarified Section Ia.A to indicate that an FTR Participant’s “*continued*” eligibility to participant in the PJM FTR markets is conditioned on PJMSettlement notifying the FTR Participant that its annual certification has been accepted.

B. Paragraph 3.a of the Certification Form

In the September 15 Order, the Commission found that minimum participation criteria “requiring market participants to annually provide the Certification Form and comply with the requirements that correspond with each certification, is reasonable.”¹⁷ The Commission also found “generally reasonable the distinction in risk between hedged and non-hedged transactions,” but agreed with “concerns regarding what it means to transact ‘solely to hedge the congestion risk related to the Participant’ physical

¹⁷ September 15 Order at P 112.

transactions’ in the context of paragraph 3.a.”¹⁸ The Commission also noted that PJM, in its answer in the proceeding, stated that it would not oppose revising the language in paragraph 3.a to add “‘or generally do not exceed’ after ‘generally proportionate’ to clarify that the use of FTRs as hedges in amounts less than the full value of physical transactions, e.g. under-hedging, would still qualify for paragraph 3.a treatment.”¹⁹

In the September 15 Order, the Commission also directed PJM to revise the language in paragraph 3.a of the Certification Form set forth in Attachment Q of the PJM Tariff “to clarify the circumstances under which an entity qualifies for treatment under paragraph 3.a,” specifically “to define more clearly what it means to transact ‘solely to hedge the congestion risk related to the Participant’s physical transactions,’ and that FTR positions ‘considering both the levels and pathways, are generally proportionate to and appropriate for the Participant’s physical transactions as a load serving entity or generation provider.’”²⁰

PJM has revised paragraph 3.a of the Certification Form to clarify the circumstances under which a participant that transacts in PJM’s FTR markets would be subject to treatment under paragraph 3.a. PJM revises paragraph 3.a to indicate more clearly that it applies to participants that are acting in a manner designed solely with the intent to hedge physical congestion risk associated with serving load or providing generation. Further, such participants must monitor their activity to endeavor to ensure

¹⁸ *Id.* at P 117.

¹⁹ *Id.* at P 118.

²⁰ *Id.*

that their FTR activity is generally consistent with their intention solely to hedge their physical transactions. Consistent with its answer in this proceeding, PJM also revises this paragraph to clarify that such a participant's FTR positions either should be generally proportionate to or generally not exceed the participant's physical transactions. These modifications allow a participant to hedge its physical positions while recognizing that hedges are difficult to achieve in an exact match to the physical position itself, and that a participant may choose not to hedge its entire physical position. As revised paragraph 3.a now states:

Participant transacts in PJM's FTR markets with the sole intent to hedge congestion risk in connection with either obligations Participant has to serve load or rights Participant has to generate electricity in the PJM Region ("physical transactions") and monitors all of the Participant's FTR market activity to endeavor to ensure that its FTR positions, considering both the size and pathways of the positions, are either generally proportionate to or generally do not exceed the Participant's physical transactions, and remain generally consistent with the Participant's intention to hedge its physical transactions.

C. Seller Credit

In the September 15 Order, the Commission directed PJM to amend its tariff "to provide that seller credit will be included in the \$50 million cap on unsecured credit"²¹ and "to remove any provision that permits the use of seller credit to meet FTR credit requirements."²²

First, PJM has amended Section II.C (Seller Credit) of Attachment Q of the PJM Tariff to provide that seller credit is included in the cap on unsecured credit by adding a

²¹ September 15 Order at P 22

²² *Id.* at P 26.

new sentence stating: “Seller Credit shall be subject to the cap on available Unsecured Credit set forth in Section II.F.”²³

Second, in Section II.F (Credit Limit Setting for Affiliates), PJM has changed several of the references to “Unsecured Credit Allowance” to “Unsecured Credit.” These revisions clarify that the aggregate amount of Unsecured Credit, which includes both the Unsecured Credit Allowance and Seller Credit, for affiliates will not exceed \$50 million. Additionally, PJM clarified that the allocation of Unsecured Credit and Working Credit Limit amongst a group of affiliates will be in a manner such that no individual participant “or common guarantor shall exceed the Unsecured Credit level appropriate for its credit strength and activity.”²⁴

Third, PJM has revised Attachment Q to clarify that seller credit in the Reliability Pricing Model (“RPM”) also is Unsecured Credit and subject to the cap on available Unsecured Credit. Specifically, PJM added a new defined term for “RPM Seller Credit” as “an additional form of Unsecured Credit for RPM.” PJM also revised Section IV.F (RPM Seller Credit – Additional Forms of Unsecured Credit for RPM) to incorporate the new defined term RPM Seller Credit and clarify that RPM Seller Credit is subject to the cap on available Unsecured Credit established in Section II.F.

Finally, PJM has revised Attachment Q to clarify that Seller Credit is not permitted for FTRs. Specifically, PJM revised Section V.A (FTR Credit Limit) to provide that FTR Credit Limits will be established only by financial security provided by

²³ PJM Tariff, Attachment Q, Section II.C (eTariff record OATT Attachment Q).

²⁴ PJM Tariff, Attachment Q, Section II.F (eTariff record OATT Attachment Q).

the participant by deleting the language stating “or qualifying for Seller Credit as provided for in §II.C of this policy” which previously provided that Seller Credit was available to be used in establishing FTR Credit Limits.

PJM also made conforming revisions to several defined terms. PJM revised the definition of FTR Participant to remove references that an FTR Participant may utilize Seller Credit to participate in PJM’s FTR auctions. PJM also revised the definition of the defined term “Unsecured Credit Allowance” to remove the reference to Seller Credit as a form of Unsecured Credit being used to establish a participant’s FTR Credit Limit.

D. Attestation of Certification Form

In their request for clarification, the Requesting Parties sought clarification regarding the attestation of the signatory of the certificate.²⁵ Specifically, the parties requested that the Commission direct revisions to the attestation in the certificate to be consistent with the Commission’s finding in the September 15 Order “that the attestation is ‘implicitly indicating that the signatory is making any statements to the best of his or her knowledge, given that an individual is making the certification on behalf of a corporate entity.’”²⁶

In its answer, PJM explained that it did not oppose the request to revise the attestation in the certificate and intended to submit revisions to the attestation in the compliance filing directed by the September 15 Order. Accordingly, in this filing, PJM also is submitting revisions to the attestation (paragraph 6 of the Certificate Form) to

²⁵ Requesting Parties Rehearing Request at 5-6.

²⁶ *Id.* at 5 (quoting September 15 Order at P 126).

indicate that the signatory acknowledges that the information provided in the certificate is true and accurate to the best of the signatory's belief and knowledge after due investigation.

As PJM explained in its answer to the clarification requests, while compliance filings typically may only include revisions required by the Commission to be included in the compliance filing, to the extent the Commission has not yet acted on the request for clarification, PJM requests that the Commission permit the proposed revision in this compliance filing rather than awaiting a further compliance filing. This will promote more efficient and timely processing of the proposed revision.

IV. EFFECTIVE DATE

PJM requests an effective day of December 13, 2011 for the tariff revisions. A December 13, 2011 effective date for the tariff revisions coincides with the start of the January FTR auction held in December, 2011.

V. DOCUMENTS ENCLOSED

This filing consists of the following:

1. This transmittal letter; and
2. Revisions to Attachment Q of the PJM Tariff (in non-redlined and redlined format (as Attachments A and B, respectively) and in electronic tariff filing format as required by Order No. 714).

VI. SERVICE

PJM has served a copy of this filing on all PJM members and on all state utility regulatory commissions in the PJM Region by posting this filing electronically. In

accordance with the Commission's regulations,²⁷ PJM will post a copy of this filing to the FERC filings section of its internet site, located at the following link: <http://www.pjm.com/documents/ferc-manuals/ferc-filings.aspx> with a specific link to the newly-filed document, and will send an e-mail on the same date as this filing to all PJM members and all state utility regulatory commissions in the PJM Region²⁸ alerting them that this filing has been made by PJM and is available by following such link. PJM also serves the parties listed on the Commission's official service list for this docket. If the document is not immediately available by using the referenced link, the document will be available through the referenced link within 24 hours of the filing. Also, a copy of this filing will be available on the FERC's eLibrary website located at the following link: <http://www.ferc.gov/docs-filing/elibrary.asp> in accordance with the Commission's regulations and Order No. 714.

²⁷ See 18 C.F.R §§ 35.2(e) and 385.2010(f)(3).

²⁸ PJM already maintains, updates and regularly uses e-mail lists for all PJM members and affected state commissions.

VII. CONCLUSION

PJM requests that the Commission accept the enclosed Tariff revisions, effective December 13, 2011, and find that PJM is in compliance with Order No. 741.

Respectfully submitted,

/s/ Deborah C. Brentani

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C., this 29th day of November, 2011.

/s/ Deborah C. Brentani

Deborah C. Brentani

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Of Counsel for

PJM Interconnection, L.L.C.

Attachment A

**Revisions to Attachment Q of the PJM Tariff
(Non-Redlined Format)**

ATTACHMENT Q
PJM CREDIT POLICY

POLICY STATEMENT:

It is the policy of PJM Interconnection, LLC (“PJM”) that prior to an entity participating in the PJM Markets, or in order to take Transmission Service, the entity must demonstrate its ability to meet PJMSettlement’s credit requirements.

Prior to becoming a Market Participant, Transmission Customer, and/or Member of PJM, PJMSettlement must accept and approve a Credit Application (including Credit Agreement) from such entity and establish a Working Credit Limit with PJMSettlement. PJMSettlement shall approve or deny an accepted Credit Application on the basis of a complete credit evaluation including, but not be limited to, a review of financial statements, rating agency reports, and other pertinent indicators of credit strength.

POLICY INTENT:

This credit policy describes requirements for: (1) the establishment and maintenance of credit by Market Participants, Transmission Customers, and entities seeking either such status (collectively “Participants”), pursuant to one or more of the Agreements, and (2) forms of security that will be deemed acceptable (hereinafter the “Financial Security”) in the event that the Participant does not satisfy the financial or other requirements to establish Unsecured Credit.

This policy also sets forth the credit limitations that will be imposed on Participants in order to minimize the possibility of failure of payment for services rendered pursuant to the Agreements, and conditions that will be considered an event of default pursuant to this policy and the Agreements.

These credit rules may establish certain set-asides of credit for designated purposes (such as for FTR or RPM activity). Such set-asides shall be construed to be applicable to calculation of credit requirements only, and shall not restrict PJMSettlement’s ability to apply such designated credit to any obligation(s) in case of a default.

PJMSettlement may post on PJM’s web site, and may reference on OASIS, a supplementary document which contains additional business practices (such as algorithms for credit scoring) that are not included in this document. Changes to the supplementary document will be subject to stakeholder review and comment prior to implementation. PJMSettlement will notify any individual Participant that will have its Unsecured Credit Allowance reduced by 25% or more, or its Financial Security requirement increased by 25% or more by such change. PJMSettlement may specify a required compliance date, not less than 15 days from notification, by which time all Participants must comply with provisions that have been revised in the supplementary document.

APPLICABILITY:

This policy applies to all Participants.

IMPLEMENTATION:

I. CREDIT EVALUATION

Each Participant will be subject to a complete credit evaluation in order for PJMSettlement to determine creditworthiness and to establish an **Unsecured Credit Allowance**, if applicable; provided, however, that a Participant need not provide the information specified in section I.A or I.B if it notifies PJMSettlement in writing that it does not seek any Unsecured Credit Allowance. PJMSettlement will identify any necessary Financial Security requirements and establish a Working Credit Limit for each Participant. In addition, PJMSettlement will perform follow-up credit evaluations on at least an annual basis.

If a **Corporate Guaranty** is being utilized to establish credit for a Participant, the guarantor will be evaluated and the Unsecured Credit Allowance or Financial Security requirement will be based on the financial strength of the Guarantor.

PJMSettlement will provide a Participant, upon request, with a written explanation for any change in credit levels or collateral requirements. PJMSettlement will provide such explanation within ten Business Days.

If a Participant believes that either its level of unsecured credit or its collateral requirement has been incorrectly determined, according to this credit policy, then the Participant may send a request for reconsideration in writing to PJMSettlement. Such a request should include:

- A citation to the applicable section(s) of the PJMSettlement credit policy along with an explanation of how the respective provisions of the credit policy were not carried out in the determination as made
- A calculation of what the Participant believes should be the correct credit level or collateral requirement, according to terms of the credit policy

PJMSettlement will reconsider the determination and will provide a written response as promptly as practical, but no longer than ten Business Days of receipt of the request. If the Participant still feels that the determination is incorrect, then the Participant may contest that determination. Such contest should be in written form, addressed to PJMSettlement, and should contain:

- ◆ A complete copy of the Participant's earlier request for reconsideration, including citations and calculations
- ◆ A copy of PJMSettlement's written response to its request for reconsideration

- ◆ An explanation of why it believes that the determination still does not comply with the credit policy

PJMSettlement will investigate and will respond to the Participant with a final determination on the matter as promptly as practical, but no longer than 20 Business Days.

Neither requesting reconsideration nor contesting the determination following such request shall relieve or delay Participant's responsibility to comply with all provisions of this credit policy.

A. Initial Credit Evaluation

In completing the initial credit evaluation, PJMSettlement will consider:

1) Rating Agency Reports

In evaluating credit strength, PJMSettlement will review rating agency reports from Standard & Poor's, Moody's Investors Service, Fitch Ratings, or other nationally known rating agencies. The focus of the review will be on senior unsecured debt ratings; however, PJMSettlement will consider other ratings if senior unsecured debt ratings are not available.

2) Financial Statements and Related Information

Each Participant must submit with its application audited financial statements for the most recent fiscal quarter, as well as the most recent three fiscal years, or the period of existence of the Participant, if shorter. All financial and related information considered for a Credit Score must be audited by an outside entity, and must be accompanied by an unqualified audit letter acceptable to PJMSettlement.

The information should include, but not be limited to, the following:

- a. If publicly traded:
 - i. Annual and quarterly reports on Form 10-K and Form 10-Q, respectively.
 - ii. Form 8-K reports disclosing Material changes, if any.
- b. If privately held:
 - i. Management's Discussion & Analysis
 - ii. Report of Independent Accountants
 - iii. Financial Statements, including:
 - Balance Sheet
 - Income Statement
 - Statement of Cash Flows
 - Statement of Stockholder's Equity
 - iv. Notes to Financial Statements

If the above information is available on the Internet, the Participant may provide a letter stating where such statements may be located and retrieved by PJMSettlement. For certain Participants,

some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJMSettlement.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness. For Cooperatives and Municipalities, PJMSettlement will consider qualitative factors such as the following in its credit evaluation: taxing authority, independent ratemaking authority, financial strength of members that have contractual commitments to pay a cooperative's expenses, and other measures of size besides Tangible Net Worth.

3) References

PJMSettlement may request Participants to provide with their applications at least one (1) bank and three (3) utility credit references. In the case where a Participant does not have the required utility references, trade payable vendor references may be substituted.

4) Litigation, Commitments and Contingencies

Each Participant is also required to provide with its application information as to any known Material litigation, commitments or contingencies as well as any prior bankruptcy declarations or Material defalcations by the Participant or its predecessors, subsidiaries or Affiliates, if any. These disclosures shall be made upon application, upon initiation or change, and at least annually thereafter, or as requested by PJMSettlement.

5) Other Disclosures

Each Participant is required to disclose any Affiliates that are currently Members of PJMSettlement or are applying for membership with PJMSettlement. Each Participant is also required to disclose the existence of any ongoing investigations by the Securities and Exchange Commission ("SEC"), Federal Energy Regulatory Commission ("FERC"), Commodity Futures Trading Commission ("CFTC"), or any other governing, regulatory, or standards body. These disclosures shall be made upon application, upon initiation or change, and at least annually thereafter, or as requested by PJMSettlement.

B. Ongoing Credit Evaluation

On at least an annual basis, PJMSettlement will perform follow-up credit evaluations on all Participants. In completing the credit evaluation, PJMSettlement will consider:

1) Rating Agency Reports

In evaluating credit strength, PJMSettlement will review rating agency reports from Standard & Poor's, Moody's Investors Service, Fitch Ratings, or other nationally known rating agencies. The focus of the review will be on senior unsecured debt ratings; however, PJMSettlement will consider other ratings if senior unsecured debt ratings are not available.

2) Financial Statements and Related Information

Each Participant must submit audited annual financial statements as soon as they become available and no later than 120 days after fiscal year end. Each Participant is also required to provide PJMSettlement with quarterly financial statements promptly upon their issuance, but no later than 60 days after the end of each quarter. All financial and related information considered for a Credit Score must be audited by an outside entity, and must be accompanied by an unqualified audit letter acceptable to PJMSettlement. If financial statements are not provided within the timeframe required, the Participant may not be granted an Unsecured Credit Allowance.

The information should include, but not be limited to, the following:

- a. If publicly traded:
 - i. Annual and quarterly reports on Form 10-K and Form 10-Q, respectively.
 - ii. Form 8-K reports disclosing Material changes, if any, immediately upon issuance.
- b. If privately held:
 - i. Management's Discussion & Analysis
 - ii. Report of Independent Accountants
 - iii. Financial Statements, including:
 - Balance Sheet
 - Income Statement
 - Statement of Cash Flows
 - Statement of Stockholder's Equity
 - iv. Notes to Financial Statements

If the above information is available on the Internet, the Participant may provide a letter stating where such statements may be located and retrieved by PJMSettlement. For certain Participants, some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJMSettlement.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness. For Cooperatives and Municipalities, PJMSettlement will consider qualitative factors such as the following in its credit evaluation: taxing authority, independent ratemaking authority, financial strength of members that have contractual commitments to pay a cooperative's expenses, and other measures of size besides Tangible Net Worth.

3) Material Changes

Each Participant is responsible for informing PJMSettlement immediately, in writing, of any Material change in its financial condition. However, PJMSettlement may also independently establish from available information that a Participant has experienced a Material change in its

financial condition without regard to whether such Participant has informed PJMSettlement of the same.

For the purpose of this policy, a Material change in financial condition may include, but not be limited to, any of the following:

- a. a downgrade of any debt rating by any rating agency;
- b. being placed on a credit watch with negative implications by any rating agency;
- c. a bankruptcy filing;
- d. insolvency;
- e. a report of a quarterly or annual loss or a decline in earnings of ten percent or more compared to the prior period;
- f. restatement of prior financial statements;
- g. the resignation of key officer(s);
- h. the filing of a lawsuit that could adversely impact any current or future financial results by ten percent or more;
- i. financial default in another organized wholesale electric market futures exchange or clearing house;
- j. revocation of a license or other authority by any Federal or State regulatory agency; where such license or authority is necessary or important to the Participants continued business for example, FERC market-based rate authority, or State license to serve retail load; or
- k. a significant change in credit default spreads, market capitalization, or other market-based risk measurement criteria, such as a recent increase in Moody's KMV Expected Default Frequency (EDFtm) that is noticeably greater than the increase in its peers' EDFtm rates, or a collateral default swap (CDS) premium normally associated with an entity rated lower than investment grade.

If PJMSettlement determines that a Material change in the financial condition of the Participant has occurred, it may require the Participant to provide Financial Security within two Business Days, in an amount and form approved by PJMSettlement. If the Participant fails to provide the required Financial Security, the Participant shall be in default under this credit policy.

In the event that PJMSettlement determines that a Material change in the financial condition of a Participant warrants a requirement to provide Financial Security, PJMSettlement shall provide the Participant with a written explanation of why such determination was made. However, under no circumstances shall the requirement that a Participant provide the requisite Financial Security be deferred pending the issuance of such written explanation.

4) Litigation, Commitments, and Contingencies

Each Participant is also required to provide information as to any known Material litigation, commitments or contingencies as well as any prior bankruptcy declarations or Material defalcations by the Participant or its predecessors, subsidiaries or Affiliates, if any. These disclosures shall be made upon initiation or change or as requested by PJMSettlement.

5) Other Disclosures

Each Participant is required to disclose any Affiliates that are currently Members of PJM or are applying for membership within PJM. Each Participant is also required to disclose the existence of any ongoing investigations by the SEC, FERC, CFTC or any other governing, regulatory, or standards body. These disclosures shall be made upon initiation or change, or as requested by PJMSettlement.

C. Corporate Guaranty

If a Corporate Guaranty is being utilized to establish credit for a Participant, the Guarantor will be evaluated and the Unsecured Credit Allowance or Financial Security requirement will be based on the financial strength of the Guarantor.

An irrevocable and unconditional Corporate Guaranty may be utilized as part of the credit evaluation process, but will not be considered a form of Financial Security. The Corporate Guaranty will be considered a transfer of credit from the Guarantor to the Participant. The Corporate Guaranty must guarantee the (i) full and prompt payment of all amounts payable by the Participant under the Agreements, and (ii) performance by the Participant under this policy.

The Corporate Guaranty should clearly state the identities of the “Guarantor,” “Beneficiary” (PJMSettlement) and “Obligor” (Participant). The Corporate Guaranty must be signed by an officer of the Guarantor, and must demonstrate that it is duly authorized in a manner acceptable to PJMSettlement. Such demonstration may include either a Corporate Seal on the Guaranty itself, or an accompanying executed and sealed Secretary’s Certificate noting that the Guarantor was duly authorized to provide such Corporate Guaranty and that the person signing the Corporate Guaranty is duly authorized, or other manner acceptable to PJMSettlement.

A Participant supplying a Corporate Guaranty must provide the same information regarding the Guarantor as is required in the “Initial Credit Evaluation” §I.A. and the “Ongoing Evaluation” §I.B. of this policy, including providing the Rating Agency Reports, Financial Statements and Related Information, References, Litigation Commitments and Contingencies, and Other Disclosures. A Participant supplying a Foreign or Canadian Guaranty must also satisfy the requirements of §I.C.1 or §I.C.2, as appropriate.

If there is a Material change in the financial condition of the Guarantor or if the Corporate Guaranty comes within 30 days of expiring without renewal, the Participant will be required to provide Financial Security either in the form of a cash deposit or a letter of credit. Failure to provide the required Financial Security within two Business Days after request by PJMSettlement will constitute an event of default under this credit policy. A Participant may request PJMSettlement to perform a credit evaluation in order to determine creditworthiness and to establish an Unsecured Credit Allowance, if applicable. If PJMSettlement determines that a Participant does qualify for a sufficient Unsecured Credit Allowance, then Financial Security will not be required.

The PJMSettlement Credit Application contains an acceptable form of Corporate Guaranty that should be utilized by a Participant choosing to establish its credit with a Corporate Guaranty. If the Corporate Guaranty varies in any way from the PJMSettlement format, it must first be reviewed and approved by PJMSettlement. All costs associated with obtaining and maintaining a Corporate Guaranty and meeting the policy provisions are the responsibility of the Participant.

1) Foreign Guaranties

A Foreign Guaranty is a Corporate Guaranty that is provided by an Affiliate entity that is domiciled in a country other than the United States or Canada. The entity providing a Foreign Guaranty on behalf of a Participant is a Foreign Guarantor. A Participant may provide a Foreign Guaranty in satisfaction of part of its credit obligations or voluntary credit provision at PJMSettlement provided that all of the following conditions are met:

PJMSettlement reserves the right to deny, reject, or terminate acceptance of any Foreign Guaranty at any time, including for material adverse circumstances or occurrences.

- a. A Foreign Guaranty:
 - i. Must contain provisions equivalent to those contained in PJMSettlement's standard form of Foreign Guaranty with any modifications subject to review and approval by PJMSettlement counsel.
 - ii. Must be denominated in US currency.
 - iii. Must be written and executed solely in English, including any duplicate originals.
 - iv. Will not be accepted towards a Participant's Unsecured Credit Allowance for more than the following limits, depending on the Foreign Guarantor's credit rating:

Rating of Foreign Guarantor	Maximum Accepted Guaranty if Country Rating is AAA	Maximum Accepted Guaranty if Country Rating is AA+
A- and above	USD50,000,000	USD30,000,000
BBB+	USD30,000,000	USD20,000,000
BBB	USD10,000,000	USD10,000,000
BBB- or below	USD 0	USD 0

- v. May not exceed 50% of the Participant's total credit, if the Foreign Grantor is rated less than BBB+.
- b. A Foreign Guarantor:
 - i. Must satisfy all provisions of the PJM credit policy applicable to domestic Guarantors.
 - ii. Must be an Affiliate of the Participant.

- iii. Must maintain an agent for acceptance of service of process in the United States; such agent shall be situated in the Commonwealth of Pennsylvania, absent legal constraint.
- iv. Must be rated by at least one Rating Agency acceptable to PJMSettlement; the credit strength of a Foreign Guarantor may not be determined based on an evaluation of its financials without an actual credit rating as well.
- v. Must have a Senior Unsecured (or equivalent, in PJMSettlement's sole discretion) rating of BBB (one notch above BBB-) or greater by any and all agencies that provide rating coverage of the entity.
- vi. Must provide financials in GAAP format or other format acceptable to PJMSettlement with clear representation of net worth, intangible assets, and any other information PJMSettlement may require in order to determine the entity's Unsecured Credit Allowance
- vii. Must provide a Secretary's Certificate certifying the adoption of Corporate Resolutions:
 - 1. Authorizing and approving the Guaranty; and
 - 2. Authorizing the Officers to execute and deliver the Guaranty on behalf of the Guarantor.
- viii. Must be domiciled in a country with a minimum long-term sovereign (or equivalent) rating of AA+/Aa1, with the following conditions:
 - 1. Sovereign ratings must be available from at least two rating agencies acceptable to PJMSettlement (e.g. S&P, Moody's, Fitch, DBRS).
 - 2. Each agency's sovereign rating for the domicile will be considered to be the lowest of: country ceiling, senior unsecured government debt, long-term foreign currency sovereign rating, long-term local currency sovereign rating, or other equivalent measures, at PJMSettlement's sole discretion.
 - 3. Whether ratings are available from two or three agencies, the lowest of the two or three will be used.
- ix. Must be domiciled in a country that recognizes and enforces judgments of US courts.
- x. Must demonstrate financial commitment to activity in the United States as evidenced by one of the following:
 - 1. American Depositary Receipts (ADR) are traded on the New York Stock Exchange, American Stock Exchange, or NASDAQ.
 - 2. Equity ownership worth over USD100,000,000 in the wholly-owned or majority owned subsidiaries in the United States.
- xi. Must satisfy all other applicable provisions of the PJM Tariff and/or Operating Agreement, including this credit policy.
- xii. Must pay for all expenses incurred by PJMSettlement related to reviewing and accepting a foreign guaranty beyond nominal in-house credit and legal review.
- xiii. Must, at its own cost, provide PJMSettlement with independent legal opinion from an attorney/solicitor of PJMSettlement's choosing and licensed to practice law in the United States and/or Guarantor's domicile, in form and substance acceptable to PJMSettlement in its sole discretion, confirming the enforceability of the Foreign Guaranty, the Guarantor's legal authorization to grant the

Guaranty, the conformance of the Guaranty, Guarantor, and Guarantor's domicile to all of these requirements, and such other matters as PJMSettlement may require in its sole discretion.

2) Canadian Guaranties

A Canadian Guaranty is a Corporate Guaranty that is provided by an Affiliate entity that is domiciled in Canada and satisfies all of the provisions below. The entity providing a Canadian Guaranty on behalf of a Participant is a Canadian Guarantor. A Participant may provide a Canadian Guaranty in satisfaction of part of its credit obligations or voluntary credit provision at PJMSettlement provided that all of the following conditions are met.

PJMSettlement reserves the right to deny, reject, or terminate acceptance of any Canadian Guaranty at any time for reasonable cause, including adverse material circumstances.

- a. A Canadian Guaranty:
 - i. Must contain provisions equivalent to those contained in PJMSettlement's standard form of Foreign Guaranty with any modifications subject to review and approval by PJMSettlement counsel.
 - ii. Must be denominated in US currency.
 - iii. Must be written and executed solely in English, including any duplicate originals.
- b. A Canadian Guarantor:
 - i. Must satisfy all provisions of the PJM credit policy applicable to domestic Guarantors.
 - ii. Must be an Affiliate of the Participant.
 - iii. Must maintain an agent for acceptance of service of process in the United States; such agent shall be situated in the Commonwealth of Pennsylvania, absent legal constraint.
 - iv. Must be rated by at least one Rating Agency acceptable to PJMSettlement; the credit strength of a Canadian Guarantor may not be determined based on an evaluation of its financials without an actual credit rating as well.
 - v. Must provide financials in GAAP format or other format acceptable to PJMSettlement with clear representation of net worth, intangible assets, and any other information PJMSettlement may require in order to determine the entity's Unsecured Credit Allowance.
 - vi. Must satisfy all other applicable provisions of the PJM Tariff and/or Operating Agreement, including this Credit Policy.

Ia. MINIMUM PARTICIPATION REQUIREMENTS

A. Risk Management and Verification

All Participants shall provide to PJMSettlement an executed copy of the annual certification set forth in Appendix 1 to this Attachment Q. This certification shall be provided before an entity is

eligible to participate in the PJM Markets and shall be initially submitted to PJMSettlement together with the entity's Credit Application. Thereafter, it shall be submitted each calendar year by all Participants during a period beginning on January 1 and ending April 30, except that new Participants who became eligible to participate in PJM markets during the period of January through April shall not be required to resubmit such certification until the following calendar year. Except for certain FTR Participants (discussed below) or in cases of manifest error, PJMSettlement will accept such certifications as a matter of course and Participants will not need further notice from PJMSettlement before commencing or maintaining their eligibility to participate in PJM markets. A Participant that fails to provide its annual certification by April 30 shall be ineligible to transact in the PJM markets and PJM will disable the Participant's access to the PJM markets until such time as PJMSettlement receives the Participant's certification.

Participants acknowledge and understand that the annual certification constitutes a representation upon which PJMSettlement will rely. Such representation is additionally made under the PJM Tariff, filed with and accepted by FERC, and any inaccurate or incomplete statement may subject the Participant to action by FERC. Failure to comply with any of the criteria or requirements listed herein or in the certification may result in suspension of a Participant's transaction rights in the PJM markets.

Certain FTR Participants (those providing representations found in paragraph 3.b of the annual certification set forth in Appendix 1 to this Attachment Q) are additionally required to submit to PJMSettlement (at the time they make their annual certification) a copy of their current governing risk control policies, procedures and controls applicable to their FTR trading activities. PJMSettlement will review such documentation to verify that it appears generally to conform to prudent risk management practices for entities trading in FTR-type markets. If principles or best practices relating to risk management in FTR-type markets are published, as may be modified from time to time, by a third-party industry association, such as the Committee of Chief Risk Officers, PJMSettlement may, following stakeholder discussion and with no less than six months prior notice to stakeholders, apply such principles or best practices in determining the fundamental sufficiency of the FTR Participant's risk controls. Those FTR Participants subject to this provision shall make a one-time payment of \$1,000.00 to PJMSettlement to cover costs associated with review and verification. Thereafter, if such FTR Participant's risk policies, procedures and controls applicable to its FTR trading activities change substantively, it shall submit such modified documentation, without charge, to PJMSettlement for review and verification at the time it makes its annual certification. Such FTR Participant's continued eligibility to participate in the PJM FTR markets is conditioned on PJMSettlement notifying such FTR Participant that its annual certification, including the submission of its risk policies, procedures and controls, has been accepted by PJMSettlement. PJMSettlement may retain outside expertise to perform the review and verification function described in this paragraph, however, in all circumstances, PJMSettlement and any third-party it may retain will treat as confidential the documentation provided by an FTR Participant under this paragraph, consistent with the applicable provisions of PJM's Operating Agreement.

An FTR Participant that makes the representation in paragraph 3.a of the annual certification understand that PJMSettlement, given the visibility it has over a Participant's overall market activity in performing billing and settlement functions, may at any time request the FTR

Participant provide additional information demonstrating that it is in fact eligible to make the representation in paragraph 3.a of the annual certification. If such additional information is not provided or does not, in PJMSettlement's judgment, demonstrate eligibility to make the representation in paragraph 3.a of the annual certification, PJMSettlement will require the FTR Participant to instead make the representations required in paragraph 3.b of the annual certification, including representing that it has submitted a copy of its current governing risk control policies, procedures and controls applicable to its FTR trading activities. If the FTR Participant cannot or does not make those representations as required in paragraph 3.b of the annual certification, then PJM will terminate the FTR Participant's rights to purchase FTRs in the FTR market and may terminate the FTR Participant's rights to sell FTRs in the PJM FTR market.

Through a periodic compliance verification process, PJMSettlement shall review and verify, as applicable, a Participant's risk management policies, practices, and procedures pertaining to the Participant's activities in the PJM markets. Such review shall include verification that:

1. The risk management framework is documented in a risk policy addressing market, credit and liquidity risks.
2. The Participant maintains an organizational structure with clearly defined roles and responsibilities that clearly segregates trading and risk management functions.
3. There is clarity of authority specifying the types of transactions into which traders are allowed to enter.
4. The Participant has requirements that traders have adequate training relative to their authority in the systems and PJM markets in which they transact.
5. As appropriate, risk limits are in place to control risk exposures.
6. Reporting is in place to ensure that risks and exceptions are adequately communicated throughout the organization.
7. Processes are in place for qualified independent review of trading activities.
8. As appropriate, there is periodic valuation or mark-to-market of risk positions.

If principles or best practices relating to risk management in PJM-type markets are published, as may be modified from time to time, by a third-party industry association, PJMSettlement may, following stakeholder discussion and with no less than six months prior notice to stakeholders, apply such principles or best practices in determining the sufficiency of the Participant's risk controls. PJMSettlement may select Participants for review on a random basis and/or based on identified risk factors such as, but not limited to, the PJM markets in which the Participant is transacting, the magnitude of the Participant's transactions in the PJM markets, or the volume of the Participant's open positions in the PJM markets. Those Participants notified by PJMSettlement that they have been selected for review shall, upon 14 calendar days notice, provide a copy of their current governing risk control policies, procedures and controls

applicable to their PJM market activities and shall also provide such further information or documentation pertaining to the Participants' activities in the PJM markets as PJMSettlement may reasonably request. Participants selected for risk management verification through a random process and satisfactorily verified by PJMSettlement shall be excluded from such verification process based on a random selection for the subsequent two years. PJMSettlement shall annually randomly select for review no more than 20% of the Participants in each member sector.

Each selected Participant's continued eligibility to participate in the PJM markets is conditioned upon PJMSettlement notifying the Participant of successful completion of PJMSettlement's verification, provided, however, that if PJMSettlement notifies the Participant in writing that it could not successfully complete the verification process, PJMSettlement shall allow such Participant 14 calendar days to provide sufficient evidence for verification prior to declaring the Participant as ineligible to continue to participate in PJM's markets, which declaration shall be in writing with an explanation of why PJMSettlement could not complete the verification. If, prior to the expiration of such 14 calendar days, the Participant demonstrates to PJMSettlement that it has filed with the Federal Energy Regulatory Commission an appeal of PJMSettlement's risk management verification determination, then the Participant shall retain its transaction rights, pending the Commission's determination on the Participant's appeal. PJMSettlement may retain outside expertise to perform the review and verification function described in this paragraph. PJMSettlement and any third party it may retain will treat as confidential the documentation provided by a Participant under this paragraph, consistent with the applicable provisions of the Operating Agreement. If PJMSettlement retains such outside expertise, a Participant may direct in writing that PJMSettlement perform the risk management review and verification for such Participant instead of utilizing a third party, provided however, that employees and contract employees of PJMSettlement and PJM shall not be considered to be such outside expertise or third parties.

Participants are solely responsible for the positions they take and the obligations they assume in PJM markets. PJMSettlement hereby disclaims any and all responsibility to any Participant or PJM Member associated with Participant's submitting or failure to submit its annual certification or PJMSettlement's review and verification of an FTR Participant's risk policies, procedures and controls. Such review and verification is limited to demonstrating basic compliance by an FTR Participant with the representation it makes under paragraph 3.b of its annual certification showing the existence of written policies, procedures and controls to limit its risk in PJM's FTR markets and does not constitute an endorsement of the efficacy of such policies, procedures or controls.

B. Capitalization

In addition to the Annual Certification requirements in Appendix 1 to this Attachment Q, a Participant must demonstrate that it meets the minimum financial requirements appropriate for the PJM market(s) in which it transacts by satisfying either the Minimum Capitalization or the Provision of Collateral requirements listed below:

1. Minimum Capitalization

FTR Participants must demonstrate a tangible net worth in excess of \$1 million or tangible assets in excess of \$10 million. Other Participants must demonstrate a tangible net worth in excess of \$500,000 or tangible assets in excess of \$5 million.

- a. In either case, consideration of “tangible” assets and net worth shall exclude assets (net of any matching liabilities, assuming the result is a positive value) which PJMSettlement reasonably believes to be restricted, highly risky, or potentially unavailable to settle a claim in the event of default. Examples include, but are not limited to, restricted assets and Affiliate assets, derivative assets, goodwill, and other intangible assets.
- b. Demonstration of “tangible” assets and net worth may be satisfied through presentation of an acceptable Corporate Guaranty, provided that both:
 - (i) the guarantor is an affiliate company that satisfies the tangible net worth or tangible assets requirements herein, and;
 - (ii) the Corporate Guaranty is either unlimited or at least \$500,000.

If the Corporate Guaranty presented by the Participant to satisfy these Capitalization requirements is limited in value, then the Participant’s resulting Unsecured Credit Allowance shall be the lesser of:

- (1) the applicable Unsecured Credit Allowance available to the Participant by the Corporate Guaranty pursuant to the creditworthiness provisions of this Credit Policy, or:
- (2) the face value of the Corporate Guaranty, reduced by \$500,000 and further reduced by 10%. (For example, a \$10.5 million Corporate Guaranty would be reduced first by \$500,000 to \$10 million and then further reduced 10% more to \$9 million. The resulting \$9 million would be the Participant’s Unsecured Credit Allowance available through the Corporate Guaranty).

In the event that a Participant provides collateral in addition to a limited Corporate Guaranty to increase its available credit, the value of such collateral shall be reduced by 10%. This reduced value shall be deemed Financial Security and available to satisfy the requirements of this Credit Policy.

Demonstrations of capitalization must be presented in the form of audited financial statements for the Participant's most recent fiscal year.

2. Provision of Collateral

If a Participant does not demonstrate compliance with its applicable Minimum Capitalization Requirements above, it may still qualify to participate in PJM's markets by posting additional collateral, subject to the terms and conditions set forth herein.

Any collateral provided by a Participant unable to satisfy the Minimum Capitalization Requirements above will be restricted in the following manner:

- i. Collateral provided by FTR Participants shall be reduced by \$500,000 and then further reduced by 10%. This reduced amount shall be considered the Financial Security provided by the Participant and available to satisfy requirements of this Credit Policy.
- ii. Collateral provided by other Participants that engage in virtual bidding shall be reduced by \$200,000 and then further reduced by 10%. This reduced value shall be considered Financial Security available to satisfy requirements of this Credit Policy.
- iii. Collateral provided by other Participants that do not engage in virtual bidding shall be reduced by 10%, and this reduced value shall be considered Financial Security available to satisfy requirements of this Credit Policy.

In the event a Participant that satisfies the Minimum Participation Requirements through provision of collateral also provides a Corporate Guaranty to increase its available credit, then the Participant's resulting Unsecured Credit Allowance conveyed through such Guaranty shall be the lesser of:

- (1) the applicable Unsecured Credit Allowance available to the Participant by the Corporate Guaranty pursuant to the creditworthiness provisions of this credit policy, or,
- (2) the face value of the Guaranty, reduced by 10%.

II. CREDIT ALLOWANCE AND WORKING CREDIT LIMIT

PJMSettlement's credit evaluation process will include calculating a Credit Score for each Participant. The credit score will be utilized to determine a Participant's Unsecured Credit Allowance.

Participants who do not qualify for an Unsecured Credit Allowance will be required to provide Financial Security based on their Peak Market Activity, as provided below.

A corresponding Working Credit Limit will be established based on the Unsecured Credit Allowance and/or the Financial Security provided.

Where Participant of PJM are considered Affiliates, Unsecured Credit Allowances and Working Credit Limits will be established for each individual Participant, subject to an aggregate maximum amount for all Affiliates as provided for in §II.F of this policy.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness. For Cooperatives and Municipalities, PJMSettlement will consider qualitative factors such as the following in its credit evaluation: taxing authority, independent ratemaking authority, financial strength of members that have contractual commitments to pay a cooperative's expenses, and other measures of size besides Tangible Net Worth.

A. Credit Score

For participants with credit ratings, a Credit Score will be assigned based on their senior unsecured credit rating and credit watch status as shown in the table below. If an explicit senior unsecured rating is not available, PJMSettlement may impute an equivalent rating from other ratings that are available. For Participants without a credit rating, but who wish to be considered for unsecured Credit, a Credit Score will be generated from PJMSettlement's review and analysis of various factors that are predictors of financial strength and creditworthiness. Key factors in the scoring process include, financial ratios, and years in business. PJMSettlement will consistently apply the measures it uses in determining Credit Scores. The credit scoring methodology details are included in a supplementary document available on OASIS.

Rated Entities Credit Scores

Rating	Score	Score Modifier	
		Credit Watch Negative	Credit Watch Positive
AAA	100	-1.0	0.0
AA+	99	-1.0	0.0
AA	99	-1.0	0.0
AA-	98	-1.0	0.0
A+	97	-1.0	0.0
A	96	-2.0	0.0
A-	93	-3.0	1.0
BBB+	88	-4.0	2.0
BBB	78	-4.0	2.0
BBB-	65	-4.0	2.0
BB+ and below	0	0.0	0.0

B. Unsecured Credit Allowance

PJMSettlement will determine a Participant's Unsecured Credit Allowance based on its Credit Score and the parameters in the table below. The maximum Unsecured Credit Allowance is the lower of:

- 1) A percentage of the Participant's Tangible Net Worth, as stated in the table below, with the percentage based on the Participant's credit score; and
- 2) A dollar cap based on the credit score, as stated in the table below:

Credit Score	Tangible Net Worth Factor	Maximum Unsecured Credit Allowance (\$ Million)
91-100	2.125 – 2.50%	\$50
81-90	1.708 – 2.083%	\$42
71-80	1.292 – 1.667%	\$33
61-70	0.875 – 1.25%	\$7
51-60	0.458 – 0.833%	\$0-\$2
50 and Under	0%	\$0

If a Corporate Guaranty is utilized to establish an Unsecured Credit Allowance for a Participant, the value of a Corporate Guaranty will be the lesser of:

- The limit imposed in the Corporate Guaranty;
- The Unsecured Credit Allowance calculated for the Guarantor; and
- A portion of the Unsecured Credit Allowance calculated for the Guarantor in the case of Affiliated Participants.

PJMSettlement has the right at any time to modify any Unsecured Credit Allowance and/or require additional Financial Security as may be deemed reasonably necessary to support current market activity. Failure to pay the required amount of additional Financial Security within two Business Days shall be an event of default.

PJMSettlement will maintain a posting of each Participant's unsecured Credit Allowance, along with certain other credit related parameters, 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 small changes that may occur. However, in case of a reduction in Unsecured Credit Allowance of greater than 25% within a 30-day period, PJMSettlement will notify the Participant. PJMSettlement'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.

C. Seller Credit

Participants that have maintained a Net Sell Position for each of the prior 12 months are eligible for Seller Credit, which is an additional form of Unsecured Credit. A Participant's Seller Credit will be equal to sixty percent of the Participant's thirteenth smallest weekly Net Sell Position invoiced in the past 52 weeks.

Each Participant receiving Seller Credit must maintain both its Seller Credit and its Total Net Sell Position equal to or greater than the Participant's aggregate credit requirements, less any Financial Security or other sources of credit provided.

For every participant receiving Seller Credit, PJMSettlement will maintain a forecast of the Participant's Total Net Sell Position considering the Participant's current Total Net Sell Position, recent trends in the Participant's Total Net Sell Position, and other information available to PJMSettlement, such as, but not limited to, known generator outages, changes in load responsibility, and bilateral transactions impacting the Participant. If PJMSettlement's forecast ever indicates that the Participant's Total Net Sell Position may in the future be less than the Participant's aggregate credit requirements, less any Financial Security or other sources of credit provided, then PJMSettlement may require Financial Security as needed to cover the difference. Failure to pay the required amount of additional Financial Security within two Business Days shall be an event of default.

Any Financial Security required by PJMSettlement pursuant to these provisions for Seller Credit will be returned once the requirement for such Financial Security has ended. Seller Credit may not be conveyed to another entity through use of a guaranty. Seller Credit shall be subject to the cap on available Unsecured Credit set forth in Section II.F.

D. Peak Market Activity and Financial Security Requirement

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. However, Peak Market Activity shall not exceed 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 in the prior 52 weeks.

The initial Peak Market Activity for Applicants will be determined by PJMSettlement 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 PJMSettlement.

The initial Peak Market Activity for Participants, calculated at the beginning of each respective semi-annual period, shall be the three-week 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 PJMSettlement) 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.

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

PJMSettlement 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.

PJMSettlement 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, PJMSettlement will notify the Participant. PJMSettlement'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 PJMSettlement's authority to require Financial Security under other provisions of the credit policy.

E. Working Credit Limit

PJMSettlement 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 75% of the Financial Security provided to PJMSettlement and/or 75% of the Unsecured Credit Allowance determined by PJMSettlement based on a credit evaluation. A Participant's Total Net Obligation should not exceed its Working Credit Limit.

F. Credit Limit Setting For Affiliates

If two or more Participants are Affiliates and each is being granted an Unsecured Credit Allowance and a corresponding Working Credit Limit, PJMSettlement will consider the overall creditworthiness of the Affiliated Participants when determining the Unsecured Credit Allowances and Working Credit Limits in order not to grant more Unsecured Credit than the overall corporation could support.

Example: Participants A and B each have a \$10.0 million Corporate Guaranty from their common parent, a holding company with an Unsecured Credit Allowance calculation of \$12.0 million. PJMSettlement may limit the Unsecured Credit Allowance for each Participant to \$6.0 million, so the total Unsecured Credit Allowance does not exceed the corporate total of \$12.0 million.

PJMSettlement will work with Affiliated Participants to allocate the total Unsecured Credit Allowance among the Affiliates while assuring that no individual Participant, nor common guarantor, exceeds the Unsecured Credit Allowance appropriate for its credit strength. The aggregate Unsecured Credit for a Participant, including Unsecured Credit Allowance granted based on its own creditworthiness and any Unsecured Credit Allowance conveyed through a Guaranty shall not exceed \$50 million. The aggregate Unsecured Credit for a group of Affiliates shall not exceed \$50 million. A group of Affiliates subject to this cap shall request PJMSettlement to allocate the maximum Unsecured Credit and Working Credit Limit amongst the group, assuring that no individual Participant or common guarantor, shall exceed the Unsecured Credit level appropriate for its credit strength and activity.

G. Working Credit Limit Violations

1) Notification

A Participant is subject to notification when its Total Net Obligation to PJMSettlement approaches the Participant's established Working Credit Limit.

2) Suspension

A Participant that exceeds its Working Credit Limit is subject to suspension from participation in the PJM markets and from scheduling any future Transmission Service unless and until Participant's credit standing is brought within acceptable limits. A Participant will have two Business Days from notification to remedy the situation in a manner deemed acceptable by PJMSettlement. Additionally, PJMSettlement, in coordination with PJM, will take such actions

as may be required or permitted under the Agreements, including but not limited to the termination of the Participant's ongoing Transmission Service and participation in PJM Markets. Failure to comply with this policy will be considered an event of default under this credit policy.

H. PJM Administrative Charges

Financial Security held by PJMSettlement shall also secure obligations to PJM for PJM administrative charges.

I. Pre-existing Financial Security

PJMSettlement's credit requirements are applicable as of the effective date of the filing on May 5, 2010 by PJM and PJMSettlement of amendments to Attachment Q. Financial Security held by PJM prior to the effective date of such amendments shall be held by PJM for the benefit of PJMSettlement.

III. VIRTUAL BID SCREENING

A. Credit and Financial Security

PJMSettlement does not require a Participant to establish separate or additional credit for virtual bidding. A Participant's ability to submit virtual bids into the spot market will be governed, however, by the terms of this section, so a Participant may choose to establish such additional credit in order to expand its ability to undertake virtual bidding in the PJM spot market.

If a Participant chooses to provide additional Financial Security in order to increase its **Credit Available for Virtual Bidding PJMSettlement** may establish a reasonable timeframe, not to exceed three months, for which such Financial Security must be maintained. PJMSettlement will not impose such restriction on a deposit unless a Participant is notified prior to making the deposit. Such restriction, if applied, shall be applied to all future deposits by all virtual bidding participants.

A Participant wishing to increase its Credit Available for Virtual Bidding by providing additional Financial Security may make the appropriate arrangements with PJMSettlement. PJMSettlement will make a good faith effort to make new Financial Security available as Credit Available for Virtual Bidding as soon as practicable after confirmation of receipt. In any event, however, Financial Security received and confirmed by noon on a business day will be applied (as provided under this policy) to Credit Available for Virtual Bidding no later than 10:00 am on the following business day. Receipt and acceptance of wired funds for cash deposit shall mean actual receipt by PJMSettlement's bank, deposit into PJMSettlement's customer deposit account, and confirmation by PJMSettlement that such wire has been received and deposited. Receipt and acceptance of letters of credit shall mean receipt of the original letter of credit or amendment thereto, and confirmation from PJMSettlement's credit and legal staffs that such letter of credit or amendment thereto conforms to PJMSettlement's requirements, which confirmation shall be made in a reasonable and practicable timeframe. To facilitate this process, bidders wiring funds

for the purpose of increasing their Credit Available for Virtual Bidding are advised to specifically notify PJMSettlement that a wire is being sent for such purpose.

B. Market Activity Review

Each month, PJMSettlement will update the **Nodal Reference Price** for each node and each aggregated price point based on a rank ordering of historical price differentials. The Nodal Reference Price at each location will be the 97th percentile price differential between hourly Day-ahead and Real-time prices experienced over the corresponding two-month reference period in the prior calendar year. In order to capture seasonality effects and maintain a two-month reference period, reference months will be grouped by two, starting with January (e.g., Jan-Feb, Mar-Apr, ... , Jul-Aug, ... Nov-Dec). For any given current-year month, the reference period months will be the set of two months in the prior calendar year that include the month corresponding to the current month. For example, July and August 2003 would each use July-August 2002 as their reference period.

On a daily basis, PJMSettlement will perform an analysis for each market participant to determine if **Virtual Bid Screening** is required for bidding in the Day-ahead market. This analysis will be performed as follows:

1. For each participant account, PJMSettlement will calculate an **Uncleared Bid Exposure**. $\text{Uncleared Bid Exposure} = \text{sum of (not-cleared bids and offers} \times \text{the Nodal Reference Price)}$ summed over all nodes for the prior two days of actual bids. If a participant submits uncleared bids and uncleared offers at the same node or aggregated price point, only the higher of the two megawatt quantities (i.e., either the sum of all of the participant's bids at such node or the sum of all of the participant's offers at such node) shall be considered for purposes of this calculation.

2. If the Uncleared Bid Exposure exceeds the Participant's Unsecured Credit and/or Financial Security, less any credit required for FTR or other credit requirement determinants as defined in this policy, then Virtual Bid Screening will be required.

3. PJMSettlement will initially look at historical activity beginning May 1, 2003 to determine which participants will require Virtual Bid Screening upon implementation of this procedure.

C. Virtual Bid Screening Process

If it is determined that Virtual Bid Screening is required for a market participant, the screening process will be conducted in the PJM eMKT web interface. The process will automatically reject all virtual bids and offers submitted by the PJM market participant if the participant's Credit Available for Virtual Bidding is exceeded by the **Virtual Credit Exposure** that is calculated based on the participant's submitted bids and offers as described below.

A Participant's Virtual Credit Exposure will be calculated on a daily basis for all virtual bids submitted by the market participant for the next operating day using the following equation:

Virtual Credit Exposure = the lesser of:

(i) ((total MWh bid or offered, whichever is greater, hourly at each node) x Nodal Reference Price x 2 days) summed over all nodes and all hours; or

(ii) (a) ((the total MWh bid or offered, whichever is greater, hourly at each node) x the Nodal Reference Price x 1 day) summed over all nodes and all hours; plus (b) ((the difference between the total bid MWh cleared and total offered MWh cleared hourly at each node) x Nodal Reference Price) summed over all nodes and all hours for the previous three cleared day-ahead markets.

A Participant's Credit Available for Virtual Bidding will be the Participant's Working Credit Limit less any unpaid billed and unbilled amounts owed to PJMSettlement, plus any current period unbilled amounts owed by PJMSettlement to the Participant, less any credit required for FTR or other credit requirement determinants as defined in this policy.

Each PJM Market Participant that is identified as requiring Virtual Bid Screening based on bidding history will be screened in the following manner: If the participant's Virtual Credit Exposure exceeds its Credit Available for Virtual Bidding, the Market Participant will be notified via an eMKT error message, and the submitted bids will be rejected. Upon such notification, the Market Participant may alter its virtual bids and offers so that its Virtual Credit Exposure does not exceed its Credit Available for Virtual Bidding, and may resubmit them. Bids may be submitted in one or more groups during a day. If one or more groups of bids is submitted and accepted, and a subsequent group of submitted bids causes the total submitted bids to exceed the Virtual Credit Exposure, then only that subsequent set of bids will be rejected. Previously accepted bids will not be affected, though the Market Participant may choose to withdraw them voluntarily.

IV. RELIABILITY PRICING MODEL AUCTION CREDIT REQUIREMENTS

Settlement during any Delivery Year of cleared positions resulting or expected to result from any Reliability Pricing Model Auction shall be included as appropriate in Peak Market Activity, and the provisions of this Attachment Q shall apply to any such activity and obligations arising therefrom. In addition, the provisions of this section shall apply to any entity seeking to participate in any RPM Auction, to address credit risks unique to such auctions.

A. Applicability

A Market Seller seeking to submit a Sell Offer in any Reliability Pricing Model Auction based on any Capacity Resource for which there is a materially increased risk of non-performance must satisfy the credit requirement specified in section IV.B before submitting such Sell Offer. Credit must be maintained until such risk of non-performance is substantially eliminated, but may be reduced commensurate with the reduction in such risk, as set forth in Section IV.C.

For purposes of this provision, a resource for which there is a materially increased risk of non-performance shall mean: (i) a Planned Generation Capacity Resource; (ii) a Planned Demand Resource or an Energy Efficiency Resource; (iii) a Qualifying Transmission Upgrade; or (iv) an existing or Planned Generation Capacity Resource located outside the PJM Region that at the time it is submitted in a Sell Offer has not secured firm transmission service to the border of the PJM Region sufficient to satisfy the deliverability requirements of the Reliability Assurance Agreement.

B. Reliability Pricing Model Auction Credit Requirement

Except as provided for Credit-Limited Offers below, for any resource specified in Section IV.A, the credit requirement shall be the RPM Auction Credit Rate, as provided in Section IV.D, times the megawatts to be offered for sale from such resource in a Reliability Pricing Model Auction. The RPM Auction Credit Requirement for each Market Seller shall be the sum of the credit requirements for all such resources to be offered by such Market Seller in the auction or, as applicable, cleared by such Market Seller from the relevant auctions.

Except for Credit-Limited Offers, the RPM Auction Credit Requirement for a Market Seller will be reduced for any Delivery Year to the extent less than all of such Market Seller's offers clear in the Base Residual Auction or any Incremental Auction for such Delivery Year. Such reduction shall be proportional to the quantity, in megawatts, that failed to clear in such Delivery Year.

A Sell Offer based on a Planned Generation Capacity Resource, Planned Demand Resource, or Energy Efficiency Resource may be submitted as a Credit-Limited Offer. A Market Seller electing this option shall specify a maximum amount of Unforced Capacity, in megawatts, and a maximum credit requirement, in dollars, applicable to the Sell Offer. A Credit-Limited Offer shall clear the RPM Auction in which it is submitted (to the extent it otherwise would clear based on the other offer parameters and the system's need for the offered capacity) only to the extent of the lesser of: (i) the quantity of Unforced Capacity that is the quotient of the division of the specified maximum credit requirement by the Auction Credit Rate resulting from section IV.D.b.; and (ii) the maximum amount of Unforced Capacity specified in the Sell Offer. For a Market Seller electing this alternative, the RPM Auction Credit Requirement applicable prior to the posting of results of the auction shall be the maximum credit requirement specified in its Credit-Limited Offer, and the RPM Auction Credit Requirement subsequent to posting of the results will be the Auction Credit Rate, as provided in Section IV.D.b, c. or d., as applicable, times the amount of Unforced Capacity from such Sell Offer that cleared in the auction. The availability and operational details of Credit-Limited Offers shall be as described in the PJM Manuals.

As set forth in Section IV.D, a Market Seller's Auction Credit Requirement shall be determined separately for each Delivery Year.

C. Reduction in Credit Requirement

As specified in Section IV.D, the RPM Auction Credit Rate may be reduced under certain circumstances after the auction has closed.

In addition, the RPM Auction Credit Requirement for a Participant for any given Delivery Year shall be reduced periodically, provided the Participant successfully meets progress milestones that reduce the risk of non-performance, as follows:

- a. For Planned Demand Resources and Energy Efficiency Resources, the RPM Auction Credit Requirement will be reduced in direct proportion to the megawatts of such Demand Resource or ILR that the Resource Provider qualifies as a Capacity Resource, in accordance with the procedures established under the Reliability Assurance Agreement.
- b. For Existing Generation Capacity Resources located outside the PJM Region that have not secured sufficient firm transmission to the border of the PJM Region prior to the auction in which such resource is first offered, the RPM Credit Requirement shall be reduced in direct proportion to the megawatts of firm transmission service secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement.
- c. For Planned Generation Capacity Resources, the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B beginning as of the effective date of an Interconnection Service Agreement, and shall be reduced to zero on the date of commencement of Interconnection Service.
- d. For Planned Generation Capacity Resources located outside the PJM Region, the RPM Credit Requirement shall be reduced once the conditions in both b and c above are met, i.e., the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B when 1) beginning as of the effective date of the equivalent Interconnection Service Agreement, and 2) when 50% or more megawatts of firm transmission service have been secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement. The RPM Credit Requirement for a Planned Generation Capacity Resource located outside the PJM Region shall be reduced to zero when 1) the resource commences Interconnection Service and 2) 100% of the megawatts of firm transmission service have been secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement.
- e. For Qualifying Transmission Upgrades, the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B beginning as of the effective date of the latest associated Interconnection Service Agreement (or, when a project will have no such agreement, an Upgrade Construction Service Agreement), and shall be reduced to zero on the date the Qualifying Transmission Upgrade is placed in service. In addition, a Qualifying Transmission Upgrade will be allowed a reduction in its RPM Credit Requirement equal to the amount of collateral currently posted with PJM for the facility construction when the Qualifying Transmission Upgrade meets the following requirements: the Upgrade Construction Service Agreement has been fully executed, the full estimated cost to complete as most recently determined or updated by PJM has been fully paid or collateralized, and all regulatory and other

required approvals (except those that must await construction completion) have been obtained. Such reduction in RPM Credit Requirement may not be transferred across different projects.

D. RPM Auction Credit Rate

As set forth in the PJM Manuals, a separate Auction Credit Rate shall be calculated for each Delivery year prior to each Reliability Pricing Model Auction for such Delivery Year, as follows:

For Delivery Years through the Delivery Year that ends on May 31, 2012, the Auction Credit Rate for any resource for a Delivery Year shall be (the greater of \$20/MW-day or 0.24 times the Capacity Resource Clearing Price in the Base Residual Auction for such Delivery Year for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year.

For Delivery Years beginning with the Delivery Year that commences on June 1, 2012:

- a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the Auction Credit Rate shall be (the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) \$20 per MW-day) times the number of days in such Delivery Year.
- b. Subsequent to the posting of the results from a Base Residual Auction, the Auction Credit Rate used for ongoing credit requirements for supply committed in such auction shall be (the greater of \$20/MW-day or 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year; provided, however, that the Auction Credit Rate for Capacity Resources to the extent committed in the Base Residual Auction for the 2012-2013 Delivery Year shall be as determined under the provisions of this Attachment Q in effect at the time of such Base Residual Auction.
- c. For any resource not previously committed for a Delivery Year that seeks to participate in an Incremental Auction, the Auction Credit Rate shall be (the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) 0.24 times the Capacity Resource Clearing Price in the Base Residual Auction for such Delivery Year for the Locational Deliverability Area within which the resource is located or (iii) \$20 per MW-day) times the number of days in such Delivery Year.
- d. Subsequent to the posting of the results of an Incremental Auction, the Auction Credit Rate used for ongoing credit requirements for supply committed in such auction shall be (the greater of \$20/MW-day or 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located, but no greater than the Auction Credit Rate previously established for such resource's participation in such Incremental Auction pursuant to subsection (c) above) times the number of days in such Delivery Year.

E. RPM Seller Credit - Additional Form of Unsecured Credit for RPM

In addition to the forms of credit specified elsewhere in this Attachment Q, RPM Seller Credit shall be available to Market Sellers, but solely for purposes of satisfying RPM Auction Credit Requirements. If a supplier has a history of being a net seller into PJM markets, on average, over the past 12 months, then PJMSettlement will count as available Unsecured Credit twice the average of that participant's total net monthly PJMSettlement bills over the past 12 months. This RPM Seller Credit shall be subject to the cap on available Unsecured Credit as established in Section II.F.

F. Credit Responsibility for Traded Planned RPM Capacity Resources

PJMSettlement may require that credit and financial responsibility for planned RPM Capacity Resources that are traded remain with the original party (which for these purposes, means the party bearing credit responsibility for the planned RPM Capacity Resource immediately prior to trade) unless the receiving party independently establishes consistent with the PJM credit policy, that it has sufficient credit with PJMSettlement and agrees by providing written notice to PJMSettlement that it will fully assume the credit responsibility associated with the traded planned RPM Capacity Resource.

V. FINANCIAL TRANSMISSION RIGHT AUCTIONS

A. FTR Credit Limit.

PJMSettlement will establish an FTR Credit Limit for each Participant. Participants must maintain their FTR Credit Limit at a level equal to or greater than their FTR Credit Requirement. FTR Credit Limits will be established only by a Participant providing Financial Security.

B. FTR Credit Requirement.

For each Participant with FTR activity, PJMSettlement shall calculate an FTR Credit Requirement based on FTR cost less a discounted historical value. FTR Credit Requirements shall be further adjusted by ARR credits available and by an amount based on portfolio diversification, if applicable. The requirement will be based on individual monthly exposures which are then used to derive a total requirement.

The FTR Credit Requirement shall be calculated by first adding for each month the FTR Monthly Credit Requirement Contribution for each submitted, accepted, and cleared FTR and then subtracting the prorated value of any ARRs held by the Participant for that month. The resulting twelve monthly subtotals represent the expected value of net payments between PJMSettlement and the Participant for FTR activity each month during the Planning Period. Subject to later adjustment by an amount based on portfolio diversification, if applicable, the FTR Credit Requirement shall be the sum of the individual positive monthly subtotals, representing months in which net payments to PJMSettlement are expected.

C. Rejection of FTR Bids.

Bids submitted into an auction will be rejected if the Participant's FTR Credit Requirement including such submitted bids would exceed the Participant's FTR Credit Limit, or if the Participant fails to establish additional credit as required pursuant to provisions related to portfolio diversification.

D. FTR Credit Collateral Returns.

A Market Participant may request from PJMSettlement the return of any collateral no longer required for the FTR auctions. PJMSettlement is permitted to limit the frequency of such requested collateral returns, provided that collateral returns shall be made by PJMSettlement at least once per calendar quarter, if requested by a Market Participant.

E. Effective Period for Credit for Multi-Month FTR Auction Products.

Credit for all FTR auction products must remain in effect for the entire duration of the FTR auction product. If a Corporate Guaranty or Financial Security provided for FTR credit has a termination date, such termination date must be at least 10 days after the date upon which payment is due for the last month of the FTR auction product.

F. Credit Responsibility for Traded FTRs.

PJMSettlement may require that credit responsibility associated with an FTR traded within PJM's eFTR system remain with the original party (which for these purposes, means the party bearing credit responsibility for the FTR immediately prior to trade) unless and until the receiving party independently establishes, consistent with the PJM credit policy, sufficient credit with PJMSettlement and agrees through confirmation of the FTR trade within the eFTR system that it will meet in full the credit requirements associated with the traded FTR.

G. Portfolio Diversification.

Subsequent to calculating a tentative cleared solution for an FTR auction (or auction round), PJM shall both:

1. Determine the FTR Portfolio Auction Value, including the tentative cleared solution. Any Participants with such FTR Portfolio Auction Values that are negative shall be deemed FTR Flow Undiversified.
2. Measure the geographic concentration of the FTR Flow Undiversified portfolios by testing such portfolios using a simulation model including, one at a time, each planned transmission outage or other network change which would substantially affect the network for the specific auction period. A list of such planned outages or changes anticipated to be modeled shall be posted prior to commencement of the auction (or auction round). Any FTR Flow Undiversified portfolio that experiences a net reduction in calculated congestion credits as a result of any one or more of such modeled outages or changes shall be deemed FTR Geographically Undiversified.

For portfolios that are FTR Flow Undiversified but not FTR Geographically Undiversified, PJMSettlement shall increment the FTR Credit Requirement by an amount equal to twice the absolute value of the FTR Portfolio Auction Value, including the tentative cleared solution. For Participants with portfolios that are both FTR Flow Undiversified and FTR Geographically Undiversified, PJMSettlement shall increment the FTR Credit Requirement by an amount equal to three times the absolute value of the FTR Portfolio Auction Value, including the tentative cleared solution. For portfolios that are FTR Flow Undiversified in months subsequent to the current planning year, these incremental amounts, calculated on a monthly basis, shall be reduced (but not below zero) by an amount up to 25% of the monthly value of ARR credits that are held by a Participant. Subsequent to the ARR allocation process preceding an annual FTR auction, such ARR credits shall be reduced to zero for months associated with that ARR allocation process. PJMSettlement may recalculate such ARR credits at any time, but at a minimum shall do so subsequent to each annual FTR auction. If a reduction in such ARR credits at any time increases the amount of credit required for the Participant beyond its credit available for FTR activity, the Participant must increase its credit to eliminate the shortfall.

If the FTR Credit Requirement for any Participant exceeds its credit available for FTRs as a result of these diversification requirements for the tentatively cleared portfolio of FTRs, PJMSettlement shall immediately issue a demand for additional credit, and such demand must be fulfilled before 4:00 p.m. on the business day following the demand. If any Participant does not timely satisfy such demand, PJMSettlement, in coordination with PJM, shall cause the removal that Participant's entire set of bids for that FTR auction (or auction round) and a new cleared solution shall be calculated for the entire auction (or auction round).

If necessary, PJM shall repeat the auction clearing calculation. PJM shall repeat these portfolio diversification calculations subsequent to any such secondary clearing calculation, and PJMSettlement shall require affected Participants to establish additional credit.

H. FTR Administrative Charge Credit Requirement

In addition to any other credit requirements, PJMSettlement may apply a credit requirement to cover the maximum administrative fees that may be charged to a Participant for its bids and offers.

I. Long-Term FTR Credit Recalculation

Long-term FTR Credit Requirement calculations shall be updated annually for known history, consistent with updating of historical values used for FTR Credit Requirement calculations in the annual auctions.

VI. FORMS OF FINANCIAL SECURITY

Participants that provide Financial Security must provide the security in a PJMSettlement approved form and amount according to the guidelines below.

Financial Security which is no longer required to be maintained under provisions of the Agreements shall be returned at the request of a participant no later than two Business Days following determination by PJMSettlement within a commercially reasonable period of time that such collateral is not required.

Except when an event of default has occurred, a Participant may substitute an approved PJMSettlement form of Financial Security for another PJMSettlement approved form of Financial Security of equal value. The Participant must provide three (3) Business Days notice to PJMSettlement of its intent to substitute the Financial Security. PJMSettlement will release the replaced Financial Security with interest, if applicable, within (3) Business Days of receiving an approved form of substitute Financial Security.

A. Cash Deposit

Cash provided by a Participant as Financial Security will be held in a depository account by PJMSettlement with interest earned at PJMSettlement's overnight bank rate, and accrued to the Participant. Interest shall be paid to the Participant upon written request, but not more often than quarterly. PJMSettlement also may establish an array of investment options among which a Participant may choose to invest its cash deposited as Financial Security. Such investment options shall be comprised of high quality debt instruments, as determined by PJMSettlement, and may include obligations issued by the federal government and/or federal government sponsored enterprises. These investment options will reside in accounts held in PJMSettlement's name in a banking or financial institution acceptable to PJMSettlement. Where practicable, PJMSettlement may establish a means for the Participant to communicate directly with the bank or financial institution to permit the Participant to direct certain activity in the PJMSettlement account in which its Financial Security is held. PJMSettlement will establish and publish procedural rules, identifying the investment options and respective discounts in collateral value that will be taken to reflect any liquidation, market and/or credit risk presented by such investments. PJMSettlement has the right to liquidate all or a portion of the account balances at its discretion to satisfy a Participant's Total Net Obligation to PJMSettlement in the event of default under this credit policy or one or more of the Agreements.

B. Letter Of Credit

An unconditional, irrevocable standby letter of credit can be utilized to meet the Financial Security requirement. As stated below, the form, substance, and provider of the letter of credit must all be acceptable to PJMSettlement.

- The letter of credit will only be accepted from U.S.-based financial institutions or U.S. branches of foreign financial institutions ("financial institutions") that have a minimum corporate debt rating of "A" by Standard & Poor's or Fitch Ratings, or "A2" from Moody's Investors Service, or an equivalent short term rating from one of these agencies. PJMSettlement will consider the lowest applicable rating to be the rating of the financial institution. If the rating of a financial institution providing a letter of credit is lowered below A/A2 by any rating agency, then PJMSettlement may require the Participant to provide a letter of credit from another financial institution that is rated A/A2 or better, or

to provide a cash deposit. If a letter of credit is provided from a U.S. branch of a foreign institution, the U.S. branch must itself comply with the terms of this credit policy, including having its own acceptable credit rating.

- The letter of credit shall state that it shall renew automatically for successive one-year periods, until terminated upon at least ninety (90) days prior written notice from the issuing financial institution. If PJM or PJMSettlement receives notice from the issuing financial institution that the current letter of credit is being cancelled, the Participant will be required to provide evidence, acceptable to PJMSettlement, that such letter of credit will be replaced with appropriate Financial Security, effective as of the cancellation date of the letter of credit, no later than thirty (30) days before the cancellation date of the letter of credit. Failure to do so will constitute a default under this credit policy and one of more of the Agreements.
- The letter of credit must clearly state the full names of the "Issuer", "Account Party" and "Beneficiary" (PJMSettlement), the dollar amount available for drawings, and shall specify that funds will be disbursed upon presentation of the drawing certificate in accordance with the instructions stated in the letter of credit. The letter of credit should specify any statement that is required to be on the drawing certificate, and any other terms and conditions that apply to such drawings.
- The PJMSettlement Credit Application contains an acceptable form of a letter of credit that should be utilized by a Participant choosing to meet its Financial Security requirement with a letter of credit. If the letter of credit varies in any way from the PJMSettlement format, it must first be reviewed and approved by PJMSettlement. All costs associated with obtaining and maintaining a letter of credit and meeting the policy provisions are the responsibility of the Participant
- PJMSettlement may accept a letter of credit from a Financial Institution that does not meet the credit standards of this policy provided that the letter of credit has third-party support, in a form acceptable to PJMSettlement, from a financial institution that does meet the credit standards of this policy.

VII. POLICY BREACH AND EVENTS OF DEFAULT

A Participant will have two Business Days from notification of Breach (including late payment notice) or notification of a Collateral Call to remedy the Breach or satisfy the Collateral Call in a manner deemed acceptable by PJMSettlement. Failure to remedy the Breach or satisfy such Collateral Call within such two Business Days will be considered an event of default. If a Participant fails to meet the requirements of this policy but then remedies the Breach or satisfies a Collateral Call within the two Business Day cure period, then the Participant shall be deemed to have complied with the policy. Any such two Business Day cure period will expire at 4:00 p.m. eastern prevailing time on the final day.

Only one cure period shall apply to a single event giving rise to a breach or default. Application of Financial Security towards a non-payment Breach shall not be considered a satisfactory cure of the Breach if the Participant fails to meet all requirements of this policy after such application.

Failure to comply with this policy (except for the responsibility of a Participant to notify PJMSettlement of a Material change) shall be considered an event of default. Pursuant to § 15.1.3(a) of the Operating Agreement of PJM Interconnection, L.L.C. and § 1.7.3 of the PJM Open Access Transmission Tariff, non-compliance with the PJMSettlement credit policy is an event of default under those respective Agreements. In event of default under this credit policy or one or more of the Agreements, PJMSettlement, in coordination with PJM, will take such actions as may be required or permitted under the Agreements, including but not limited to the termination of the Participant's ongoing Transmission Service and participation in PJM Markets. PJMSettlement has the right to liquidate all or a portion of a Participant's Financial Security at its discretion to satisfy Total Net Obligations to PJMSettlement in the event of default under this credit policy or one or more of the Agreements.

PJMSettlement may hold a defaulting Participant's Financial Security for as long as such party's positions exist and consistent with the PJM credit policy in this Attachment Q, in order to protect PJM's membership from default.

No payments shall be due to a Participant, nor shall any payments be made to a Participant, while the Participant is in default or has been declared in Breach of this policy or the Agreements, or while a Collateral Call is outstanding. PJMSettlement may apply towards an ongoing default any amounts that are held or later become available or due to the defaulting Participant through PJM's markets and systems.

In order to cover Obligations, PJMSettlement may hold a Participant's Financial Security through the end of the billing period which includes the 90th day following the last day a Participant had activity, open positions, or accruing obligations (other than reconciliations and true-ups), and until such Participant has satisfactorily paid any obligations invoiced through such period. Obligations incurred or accrued through such period shall survive any withdrawal from PJM. In event of non-payment, PJMSettlement may apply such Financial Security to such Participant's Obligations, even if Participant had previously announced and effected its withdrawal from PJM.

VIII. DEFINITIONS:

Affiliate

Affiliate is defined in the PJM Operating Agreement, §1.2.

Agreements

Agreements are the Operating Agreement of PJM Interconnection, L.L.C., the PJM Open Access Transmission Tariff, the Reliability Assurance Agreement, the Reliability Assurance Agreement – West, and/or other agreements between PJM Interconnection, L.L.C. and its Members.

Applicant

Applicant is an entity desiring to become a PJM Member, or to take Transmission Service that has submitted the PJMSettlement Credit Application, PJMSettlement Credit Agreement and other required submittals as set forth in this policy.

Breach

Breach is the status of a Participant that does not currently meet the requirements of this policy or other provisions of the Agreements.

Business Day

A Business Day is a day in which the Federal Reserve System is open for business and is not a scheduled PJM holiday.

Canadian Guaranty

Canadian Guaranty is a Corporate Guaranty provided by an Affiliate of a Participant that is domiciled in Canada, and meets all of the provisions of this credit policy.

Capacity

Capacity is the installed capacity requirement of the Reliability Assurance Agreement or similar such requirements as may be established.

Collateral Call

Collateral Call is a notice to a Participant that additional Financial Security, or possibly early payment, is required in order to remain in, or to regain, compliance with this policy.

Corporate Guaranty

Corporate Guaranty is a legal document used by one entity to guaranty the obligations of another entity.

Credit Available for Virtual Bidding

Credit Available for Virtual Bidding is a Participant's Working Credit Limit, less its Total Net Obligation.

Credit-Limited Offer

Credit-Limited Offer shall mean a Sell Offer that is submitted by a Market Seller in an RPM Auction subject to a maximum credit requirement specified by such Market Seller.

Credit Score

Credit Score is a composite numerical score scaled from 0-100 as calculated by PJMSettlement that incorporates various predictors of creditworthiness.

Financial Security

Financial Security is a cash deposit or letter of credit in an amount and form determined by and acceptable to PJMSettlement, provided by a Participant to PJMSettlement as security in order to participate in the PJM Markets or take Transmission Service.

Foreign Guaranty

Foreign Guaranty is a Corporate Guaranty provided by an Affiliate of a Participant that is domiciled in a foreign country, and meets all of the provisions of this credit policy.

FTR Credit Limit

FTR Credit Limit will be equal to the amount of credit established with PJMSettlement that a Participant has specifically designated to PJMSettlement to be set aside and used for FTR activity. Any such credit so set aside shall not be considered available to satisfy any other credit requirement the Participant may have with PJMSettlement.

FTR Credit Requirement

FTR Credit Requirement is the amount of credit that a Participant must provide in order to support the FTR positions that it holds and/or is bidding for. The FTR Credit Requirement shall not include months for which the invoicing has already been completed, provided that PJMSettlement shall have up to two Business Days following the date of the invoice completion to make such adjustments in its credit systems.

FTR Flow Undiversified

FTR Flow Undiversified shall have the meaning established in section V.G of this Attachment Q.

FTR Geographically Undiversified

FTR Geographically Undiversified shall have the meaning established in section V.G of this Attachment Q.

FTR Historical Value

FTR Historical Value – For each FTR for each month, this is the historical weighted average value over three years for the FTR path using the following weightings: 50% - most recent year; 30% - second year; 20% - third year. FTR Historical Values shall be calculated separately for on-peak, off-peak, and 24-hour FTRs for each month of the year. FTR Historical Values shall be adjusted by plus or minus ten percent (10%) for cleared counterflow or normal flow FTRs, respectively, in order to mitigate exposure due to uncertainty and fluctuations in actual FTR value.

FTR Monthly Credit Requirement Contribution

FTR Monthly Credit Requirement Contribution - For each FTR for each month, this is the total FTR cost for the month, prorated on a daily basis, less the FTR Historical Value for the month. For cleared FTRs, this contribution may be negative; prior to clearing, FTRs with negative contribution shall be deemed to have zero contribution.

FTR Net Activity

FTR Net Activity shall mean the aggregate net value of the billing line items for auction revenue rights credits, FTR auction charges, FTR auction credits, and FTR congestion credits, and shall also include day-ahead and balancing/real-time congestion charges up to a maximum net value of the sum of the foregoing auction revenue rights credits, FTR auction charges, FTR auction credits and FTR congestion credits.

FTR Participant

FTR Participant shall mean any Market Participant that is required to provide Financial Security in order to participate in PJM's FTR auctions.

FTR Portfolio Auction Value

FTR Portfolio Auction Value shall mean for each Participant (or Participant account), the sum, calculated on a monthly basis, across all FTRs, of the FTR price times the FTR volume in MW.

Market Participant

Market Participant shall have the meaning provided in the Operating Agreement.

Material

For these purposes, material is defined in §I.B.3, Material Changes. For the purposes herein, the use of the term "material" is not necessarily synonymous with use of the term by governmental agencies and regulatory bodies.

Member

Member shall have the meaning provided in the Operating Agreement.

Minimum Participation Requirements

A set of minimum training, risk management, communication and capital or collateral requirements required for Participants in the PJM markets, as set forth herein and in the Form of Annual Certification set forth as Appendix 1 to this Attachment Q. Participants transacting in FTRs in certain circumstances will be required to demonstrate additional risk management procedures and controls as further set forth in the Annual Certification found in Appendix 1 to this Attachment Q.

Net Obligation

Net Obligation is the amount owed to PJMSettlement and 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 pursuant to the Agreements, after applying a deduction for amounts owed to a Participant by PJMSettlement as it pertains to monthly market activity and services. 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.

Net Sell Position

Net Sell Position is the amount of Net Obligation when Net Obligation is negative.

Nodal Reference Price

Nodal Reference Price is a probabilistic (97%) maximum price differential historically experienced between day-ahead and real-time market prices at a given location as defined in this policy period. This number is used in Virtual Bid Screening.

Obligation

Obligation is all amounts owed to PJMSettlement 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

PJMSettlement 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 Participant is a Market Participant and/or Transmission Customer and/or Applicant.

Peak Market Activity

Peak Market Activity is 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 Markets are 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 PJMSettlement.

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 the definition of the Reliability Assurance Agreement (“R.A.A.”) in the Operating Agreement.

RPM Seller Credit

RPM Seller Credit is an additional form of Unsecured Credit defined in section IV of this document.

Seller Credit

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

Tangible Net Worth

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

Total Net Obligation

Total Net Obligation is all unpaid billed Net Obligations plus any unbilled Net Obligation incurred to date, as determined by PJMSettlement on a daily basis, plus any other Obligations owed to PJMSettlement at the time.

Total Net Sell Position

Total Net Sell Position is all unpaid billed Net Sell Positions plus any unbilled Net Sell Positions accrued to date, as determined by PJMSettlement on a daily basis.

Transmission Customer

Transmission Customer is an entity taking service under Part II or Part III of the O.A.T.T.

Transmission Service

Transmission Service is any or all of the transmission services provided by PJM pursuant to Part II or Part III of the O.A.T.T.

Uncleared Bid Exposure

Uncleared Bid Exposure is a measure of exposure from virtual bidding activity relative to a Participant's established credit as defined in this policy. It is used only as a pre-screen to determine whether a Participant's virtual bids should be subject to Virtual Bid Screening.

Unsecured Credit

Unsecured Credit is any credit granted by PJMSettlement to a Participant that is not secured by a form of Financial Security.

Unsecured Credit Allowance

Unsecured Credit Allowance is Unsecured Credit extended by PJMSettlement in an amount determined by PJMSettlement's evaluation of the creditworthiness of a Participant. This is also defined as the amount of credit that a Participant qualifies for based on the strength of its own financial condition without having to provide Financial Security. See also: "Working Credit Limit."

Virtual Bid Screening

Virtual Bid Screening is 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

Virtual Credit Exposure is 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

Working Credit Limit amount is 75% of the Participant's Unsecured Credit Allowance and/or 75% of the Financial Security provided by the Participant to PJMSettlement. The Working Credit Limit establishes the maximum amount of Total Net Obligation that a Participant may have outstanding at any time.

Appendix 1 to Attachment Q

**PJM MINIMUM PARTICIPATION CRITERIA
OFFICER CERTIFICATION FORM**

Participant Name: _____ ("Participant")

I, _____, a duly authorized officer of Participant, understanding that PJM Interconnection, L.L.C. and PJM Settlement, Inc. ("PJMSettlement") are relying on this certification as evidence that Participant meets the minimum participation requirements set forth in Attachment Q to the PJM Open Access Transmission Tariff ("PJM Tariff"), hereby certify that I have full authority to represent on behalf of Participant and further represent as follows, as evidenced by my initialing each representation in the space provided below:

1. All employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Amended and Restated Operating Agreement ("PJM Operating Agreement") on behalf of the Participant have received appropriate¹ training and are authorized to transact on behalf of Participant. _____
2. Participant has written risk management policies, procedures, and controls, approved by Participant's independent risk management function² and applicable to transactions in the PJM markets in which it participates and for which employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Operating Agreement have been trained, that provide an appropriate, comprehensive risk management framework that, at a minimum, clearly identifies and documents the range of risks to which Participant is exposed, including, but not limited to credit risks, liquidity risks and market risks. _____
3. An FTR Participant (as defined in Attachment Q to the PJM Tariff) must make either the following 3.a. or 3.b. additional representations, evidenced by the undersigned officer initialing either the one 3.a. representation or the five 3.b. representations in the spaces provided below:
 - 3.a. Participant transacts in PJM's FTR markets with the sole intent to hedge congestion risk in connection with either obligations Participant has to serve load or rights Participant has to generate electricity in the PJM Region ("physical transactions") and monitors all of the Participant's FTR market activity to endeavor to ensure that its FTR positions, considering both the size and pathways of the positions, are either generally

¹ As used in this representation, the term "appropriate" as used with respect to training means training that is (i) comparable to generally accepted practices in the energy trading industry, and (ii) commensurate and proportional in sophistication, scope and frequency to the volume of transactions and the nature and extent of the risk taken by the participant.

² As used in this representation, a Participant's "independent risk management function" can include appropriate corporate persons or bodies that are independent of the Participant's trading functions, such as a risk management committee, a risk officer, a Participant's board or board committee, or a board or committee of the Participant's parent company.

proportionate to or generally do not exceed the Participant's physical transactions, and remain generally consistent with the Participant's intention to hedge its physical transactions._____

- 3.b. On no less than a weekly basis, Participant values its FTR positions and engages in a probabilistic assessment of the hypothetical risk of such positions using analytically based methodologies, predicated on the use of industry accepted valuation methodologies._____

Such valuation and risk assessment functions are performed either by persons within Participant's organization independent from those trading in PJM's FTR markets or by an outside firm qualified and with expertise in this area of risk management._____

Having valued its FTR positions and quantified their hypothetical risks, Participant applies its written policies, procedures and controls to limit its risks using industry recognized practices, such as value-at-risk limitations, concentration limits, or other controls designed to prevent Participant from purposefully or unintentionally taking on risk that is not commensurate or proportional to Participant's financial capability to manage such risk._____

Exceptions to Participant's written risk policies, procedures and controls applicable to Participant's FTR positions are documented and explain a reasoned basis for the granting of any exception._____

Participant has provided to PJMSettlement, in accordance with Section II A. of Attachment Q to the PJM Tariff, a copy of its current governing risk management policies, procedures and controls applicable to its FTR trading activities._____

4. Participant has appropriate personnel resources, operating procedures and technical abilities to promptly and effectively respond to all PJM communications and directions._____
5. Participant has demonstrated compliance with the Minimum Capitalization criteria set forth in Attachment Q of the PJM Open Access Transmission Tariff that are applicable to the PJM market(s) in which Participant transacts, and is not aware of any change having occurred or being imminent that would invalidate such compliance._____
6. I acknowledge that I have read and understood the provisions of Attachment Q of the PJM Tariff applicable to Participant's business in the PJM markets, including those provisions describing PJM's minimum participation requirements and the enforcement

actions available to PJMSettlement of a Participant not satisfying those requirements. I acknowledge that the information provided herein is true and accurate to the best of my belief and knowledge after due investigation. In addition, by signing this Certification, I acknowledge the potential consequences of making incomplete or false statements in this Certification. _____

Date: _____

(Signature)

Print Name: _____

Title: _____

Subscribed and sworn before me _____, a notary public of the State of _____, in and for the County of _____, this _____ day of _____, 20____.

(Notary Public Signature)

My commission expires: ____ / ____ / ____

Attachment B

**Revisions to Attachment Q of the PJM Tariff
(Redlined Format)**

ATTACHMENT Q
PJM CREDIT POLICY

POLICY STATEMENT:

It is the policy of PJM Interconnection, LLC (“PJM”) that prior to an entity participating in the PJM Markets, or in order to take Transmission Service, the entity must demonstrate its ability to meet PJMSettlement’s credit requirements.

Prior to becoming a Market Participant, Transmission Customer, and/or Member of PJM, PJMSettlement must accept and approve a Credit Application (including Credit Agreement) from such entity and establish a Working Credit Limit with PJMSettlement. PJMSettlement shall approve or deny an accepted Credit Application on the basis of a complete credit evaluation including, but not be limited to, a review of financial statements, rating agency reports, and other pertinent indicators of credit strength.

POLICY INTENT:

This credit policy describes requirements for: (1) the establishment and maintenance of credit by Market Participants, Transmission Customers, and entities seeking either such status (collectively “Participants”), pursuant to one or more of the Agreements, and (2) forms of security that will be deemed acceptable (hereinafter the “Financial Security”) in the event that the Participant does not satisfy the financial or other requirements to establish Unsecured Credit.

This policy also sets forth the credit limitations that will be imposed on Participants in order to minimize the possibility of failure of payment for services rendered pursuant to the Agreements, and conditions that will be considered an event of default pursuant to this policy and the Agreements.

These credit rules may establish certain set-asides of credit for designated purposes (such as for FTR or RPM activity). Such set-asides shall be construed to be applicable to calculation of credit requirements only, and shall not restrict PJMSettlement’s ability to apply such designated credit to any obligation(s) in case of a default.

PJMSettlement may post on PJM's web site, and may reference on OASIS, a supplementary document which contains additional business practices (such as algorithms for credit scoring) that are not included in this document. Changes to the supplementary document will be subject to stakeholder review and comment prior to implementation. PJMSettlement will notify any individual Participant that will have its Unsecured Credit Allowance reduced by 25% or more, or its Financial Security requirement increased by 25% or more by such change. PJMSettlement may specify a required compliance date, not less than 15 days from notification, by which time all Participants must comply with provisions that have been revised in the supplementary document.

APPLICABILITY:

This policy applies to all Participants.

IMPLEMENTATION:

I. CREDIT EVALUATION

Each Participant will be subject to a complete credit evaluation in order for PJMSettlement to determine creditworthiness and to establish an **Unsecured Credit Allowance**, if applicable; provided, however, that a Participant need not provide the information specified in section I.A or I.B if it notifies PJMSettlement in writing that it does not seek any Unsecured Credit Allowance. PJMSettlement will identify any necessary Financial Security requirements and establish a Working Credit Limit for each Participant. In addition, PJMSettlement will perform follow-up credit evaluations on at least an annual basis.

If a **Corporate Guaranty** is being utilized to establish credit for a Participant, the guarantor will be evaluated and the Unsecured Credit Allowance or Financial Security requirement will be based on the financial strength of the Guarantor.

PJMSettlement will provide a Participant, upon request, with a written explanation for any change in credit levels or collateral requirements. PJMSettlement will provide such explanation within ten Business Days.

If a Participant believes that either its level of unsecured credit or its collateral requirement has been incorrectly determined, according to this credit policy, then the Participant may send a request for reconsideration in writing to PJMSettlement. Such a request should include:

- A citation to the applicable section(s) of the PJMSettlement credit policy along with an explanation of how the respective provisions of the credit policy were not carried out in the determination as made
- A calculation of what the Participant believes should be the correct credit level or collateral requirement, according to terms of the credit policy

PJMSettlement will reconsider the determination and will provide a written response as promptly as practical, but no longer than ten Business Days of receipt of the request. If the Participant still feels that the determination is incorrect, then the Participant may contest that determination. Such contest should be in written form, addressed to PJMSettlement, and should contain:

- ◆ A complete copy of the Participant's earlier request for reconsideration, including citations and calculations
- ◆ A copy of PJMSettlement's written response to its request for reconsideration

- ◆ An explanation of why it believes that the determination still does not comply with the credit policy

PJMSettlement will investigate and will respond to the Participant with a final determination on the matter as promptly as practical, but no longer than 20 Business Days.

Neither requesting reconsideration nor contesting the determination following such request shall relieve or delay Participant's responsibility to comply with all provisions of this credit policy.

A. Initial Credit Evaluation

In completing the initial credit evaluation, PJMSettlement will consider:

1) Rating Agency Reports

In evaluating credit strength, PJMSettlement will review rating agency reports from Standard & Poor's, Moody's Investors Service, Fitch Ratings, or other nationally known rating agencies. The focus of the review will be on senior unsecured debt ratings; however, PJMSettlement will consider other ratings if senior unsecured debt ratings are not available.

2) Financial Statements and Related Information

Each Participant must submit with its application audited financial statements for the most recent fiscal quarter, as well as the most recent three fiscal years, or the period of existence of the Participant, if shorter. All financial and related information considered for a Credit Score must be audited by an outside entity, and must be accompanied by an unqualified audit letter acceptable to PJMSettlement.

The information should include, but not be limited to, the following:

- a. If publicly traded:
 - i. Annual and quarterly reports on Form 10-K and Form 10-Q, respectively.
 - ii. Form 8-K reports disclosing Material changes, if any.
- b. If privately held:
 - i. Management's Discussion & Analysis
 - ii. Report of Independent Accountants
 - iii. Financial Statements, including:
 - Balance Sheet
 - Income Statement
 - Statement of Cash Flows
 - Statement of Stockholder's Equity
 - iv. Notes to Financial Statements

If the above information is available on the Internet, the Participant may provide a letter stating where such statements may be located and retrieved by PJMSettlement. For certain Participants,

some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJMSettlement.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness. For Cooperatives and Municipalities, PJMSettlement will consider qualitative factors such as the following in its credit evaluation: taxing authority, independent ratemaking authority, financial strength of members that have contractual commitments to pay a cooperative's expenses, and other measures of size besides Tangible Net Worth.

3) References

PJMSettlement may request Participants to provide with their applications at least one (1) bank and three (3) utility credit references. In the case where a Participant does not have the required utility references, trade payable vendor references may be substituted.

4) Litigation, Commitments and Contingencies

Each Participant is also required to provide with its application information as to any known Material litigation, commitments or contingencies as well as any prior bankruptcy declarations or Material defalcations by the Participant or its predecessors, subsidiaries or Affiliates, if any. These disclosures shall be made upon application, upon initiation or change, and at least annually thereafter, or as requested by PJMSettlement.

5) Other Disclosures

Each Participant is required to disclose any Affiliates that are currently Members of PJMSettlement or are applying for membership with PJMSettlement. Each Participant is also required to disclose the existence of any ongoing investigations by the Securities and Exchange Commission ("SEC"), Federal Energy Regulatory Commission ("FERC"), Commodity Futures Trading Commission ("CFTC"), or any other governing, regulatory, or standards body. These disclosures shall be made upon application, upon initiation or change, and at least annually thereafter, or as requested by PJMSettlement.

B. Ongoing Credit Evaluation

On at least an annual basis, PJMSettlement will perform follow-up credit evaluations on all Participants. In completing the credit evaluation, PJMSettlement will consider:

1) Rating Agency Reports

In evaluating credit strength, PJMSettlement will review rating agency reports from Standard & Poor's, Moody's Investors Service, Fitch Ratings, or other nationally known rating agencies. The focus of the review will be on senior unsecured debt ratings; however, PJMSettlement will consider other ratings if senior unsecured debt ratings are not available.

2) Financial Statements and Related Information

Each Participant must submit audited annual financial statements as soon as they become available and no later than 120 days after fiscal year end. Each Participant is also required to provide PJMSettlement with quarterly financial statements promptly upon their issuance, but no later than 60 days after the end of each quarter. All financial and related information considered for a Credit Score must be audited by an outside entity, and must be accompanied by an unqualified audit letter acceptable to PJMSettlement. If financial statements are not provided within the timeframe required, the Participant may not be granted an Unsecured Credit Allowance.

The information should include, but not be limited to, the following:

- a. If publicly traded:
 - i. Annual and quarterly reports on Form 10-K and Form 10-Q, respectively.
 - ii. Form 8-K reports disclosing Material changes, if any, immediately upon issuance.
- b. If privately held:
 - i. Management's Discussion & Analysis
 - ii. Report of Independent Accountants
 - iii. Financial Statements, including:
 - Balance Sheet
 - Income Statement
 - Statement of Cash Flows
 - Statement of Stockholder's Equity
 - iv. Notes to Financial Statements

If the above information is available on the Internet, the Participant may provide a letter stating where such statements may be located and retrieved by PJMSettlement. For certain Participants, some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJMSettlement.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness. For Cooperatives and Municipalities, PJMSettlement will consider qualitative factors such as the following in its credit evaluation: taxing authority, independent ratemaking authority, financial strength of members that have contractual commitments to pay a cooperative's expenses, and other measures of size besides Tangible Net Worth.

3) Material Changes

Each Participant is responsible for informing PJMSettlement immediately, in writing, of any Material change in its financial condition. However, PJMSettlement may also independently establish from available information that a Participant has experienced a Material change in its

financial condition without regard to whether such Participant has informed PJMSettlement of the same.

For the purpose of this policy, a Material change in financial condition may include, but not be limited to, any of the following:

- a. a downgrade of any debt rating by any rating agency;
- b. being placed on a credit watch with negative implications by any rating agency;
- c. a bankruptcy filing;
- d. insolvency;
- e. a report of a quarterly or annual loss or a decline in earnings of ten percent or more compared to the prior period;
- f. restatement of prior financial statements;
- g. the resignation of key officer(s);
- h. the filing of a lawsuit that could adversely impact any current or future financial results by ten percent or more;
- i. financial default in another organized wholesale electric market futures exchange or clearing house;
- j. revocation of a license or other authority by any Federal or State regulatory agency; where such license or authority is necessary or important to the Participants continued business for example, FERC market-based rate authority, or State license to serve retail load; or
- k. a significant change in credit default spreads, market capitalization, or other market-based risk measurement criteria, such as a recent increase in Moody's KMV Expected Default Frequency (EDFtm) that is noticeably greater than the increase in its peers' EDFtm rates, or a collateral default swap (CDS) premium normally associated with an entity rated lower than investment grade.

If PJMSettlement determines that a Material change in the financial condition of the Participant has occurred, it may require the Participant to provide Financial Security within two Business Days, in an amount and form approved by PJMSettlement. If the Participant fails to provide the required Financial Security, the Participant shall be in default under this credit policy.

In the event that PJMSettlement determines that a Material change in the financial condition of a Participant warrants a requirement to provide Financial Security, PJMSettlement shall provide the Participant with a written explanation of why such determination was made. However, under no circumstances shall the requirement that a Participant provide the requisite Financial Security be deferred pending the issuance of such written explanation.

4) Litigation, Commitments, and Contingencies

Each Participant is also required to provide information as to any known Material litigation, commitments or contingencies as well as any prior bankruptcy declarations or Material defalcations by the Participant or its predecessors, subsidiaries or Affiliates, if any. These disclosures shall be made upon initiation or change or as requested by PJMSettlement.

5) Other Disclosures

Each Participant is required to disclose any Affiliates that are currently Members of PJM or are applying for membership within PJM. Each Participant is also required to disclose the existence of any ongoing investigations by the SEC, FERC, CFTC or any other governing, regulatory, or standards body. These disclosures shall be made upon initiation or change, or as requested by PJMSettlement.

C. Corporate Guaranty

If a Corporate Guaranty is being utilized to establish credit for a Participant, the Guarantor will be evaluated and the Unsecured Credit Allowance or Financial Security requirement will be based on the financial strength of the Guarantor.

An irrevocable and unconditional Corporate Guaranty may be utilized as part of the credit evaluation process, but will not be considered a form of Financial Security. The Corporate Guaranty will be considered a transfer of credit from the Guarantor to the Participant. The Corporate Guaranty must guarantee the (i) full and prompt payment of all amounts payable by the Participant under the Agreements, and (ii) performance by the Participant under this policy.

The Corporate Guaranty should clearly state the identities of the “Guarantor,” “Beneficiary” (PJMSettlement) and “Obligor” (Participant). The Corporate Guaranty must be signed by an officer of the Guarantor, and must demonstrate that it is duly authorized in a manner acceptable to PJMSettlement. Such demonstration may include either a Corporate Seal on the Guaranty itself, or an accompanying executed and sealed Secretary’s Certificate noting that the Guarantor was duly authorized to provide such Corporate Guaranty and that the person signing the Corporate Guaranty is duly authorized, or other manner acceptable to PJMSettlement.

A Participant supplying a Corporate Guaranty must provide the same information regarding the Guarantor as is required in the “Initial Credit Evaluation” §I.A. and the “Ongoing Evaluation” §I.B. of this policy, including providing the Rating Agency Reports, Financial Statements and Related Information, References, Litigation Commitments and Contingencies, and Other Disclosures. A Participant supplying a Foreign or Canadian Guaranty must also satisfy the requirements of §I.C.1 or §I.C.2, as appropriate.

If there is a Material change in the financial condition of the Guarantor or if the Corporate Guaranty comes within 30 days of expiring without renewal, the Participant will be required to provide Financial Security either in the form of a cash deposit or a letter of credit. Failure to provide the required Financial Security within two Business Days after request by PJMSettlement will constitute an event of default under this credit policy. A Participant may request PJMSettlement to perform a credit evaluation in order to determine creditworthiness and to establish an Unsecured Credit Allowance, if applicable. If PJMSettlement determines that a Participant does qualify for a sufficient Unsecured Credit Allowance, then Financial Security will not be required.

The PJMSettlement Credit Application contains an acceptable form of Corporate Guaranty that should be utilized by a Participant choosing to establish its credit with a Corporate Guaranty. If the Corporate Guaranty varies in any way from the PJMSettlement format, it must first be reviewed and approved by PJMSettlement. All costs associated with obtaining and maintaining a Corporate Guaranty and meeting the policy provisions are the responsibility of the Participant.

1) Foreign Guaranties

A Foreign Guaranty is a Corporate Guaranty that is provided by an Affiliate entity that is domiciled in a country other than the United States or Canada. The entity providing a Foreign Guaranty on behalf of a Participant is a Foreign Guarantor. A Participant may provide a Foreign Guaranty in satisfaction of part of its credit obligations or voluntary credit provision at PJMSettlement provided that all of the following conditions are met:

PJMSettlement reserves the right to deny, reject, or terminate acceptance of any Foreign Guaranty at any time, including for material adverse circumstances or occurrences.

- a. A Foreign Guaranty:
 - i. Must contain provisions equivalent to those contained in PJMSettlement's standard form of Foreign Guaranty with any modifications subject to review and approval by PJMSettlement counsel.
 - ii. Must be denominated in US currency.
 - iii. Must be written and executed solely in English, including any duplicate originals.
 - iv. Will not be accepted towards a Participant's Unsecured Credit Allowance for more than the following limits, depending on the Foreign Guarantor's credit rating:

Rating of Foreign Guarantor	Maximum Accepted Guaranty if Country Rating is AAA	Maximum Accepted Guaranty if Country Rating is AA+
A- and above	USD50,000,000	USD30,000,000
BBB+	USD30,000,000	USD20,000,000
BBB	USD10,000,000	USD10,000,000
BBB- or below	USD 0	USD 0

- v. May not exceed 50% of the Participant's total credit, if the Foreign Grantor is rated less than BBB+.
- b. A Foreign Guarantor:
 - i. Must satisfy all provisions of the PJM credit policy applicable to domestic Guarantors.
 - ii. Must be an Affiliate of the Participant.

- iii. Must maintain an agent for acceptance of service of process in the United States; such agent shall be situated in the Commonwealth of Pennsylvania, absent legal constraint.
- iv. Must be rated by at least one Rating Agency acceptable to PJMSettlement; the credit strength of a Foreign Guarantor may not be determined based on an evaluation of its financials without an actual credit rating as well.
- v. Must have a Senior Unsecured (or equivalent, in PJMSettlement's sole discretion) rating of BBB (one notch above BBB-) or greater by any and all agencies that provide rating coverage of the entity.
- vi. Must provide financials in GAAP format or other format acceptable to PJMSettlement with clear representation of net worth, intangible assets, and any other information PJMSettlement may require in order to determine the entity's Unsecured Credit Allowance
- vii. Must provide a Secretary's Certificate certifying the adoption of Corporate Resolutions:
 - 1. Authorizing and approving the Guaranty; and
 - 2. Authorizing the Officers to execute and deliver the Guaranty on behalf of the Guarantor.
- viii. Must be domiciled in a country with a minimum long-term sovereign (or equivalent) rating of AA+/Aa1, with the following conditions:
 - 1. Sovereign ratings must be available from at least two rating agencies acceptable to PJMSettlement (e.g. S&P, Moody's, Fitch, DBRS).
 - 2. Each agency's sovereign rating for the domicile will be considered to be the lowest of: country ceiling, senior unsecured government debt, long-term foreign currency sovereign rating, long-term local currency sovereign rating, or other equivalent measures, at PJMSettlement's sole discretion.
 - 3. Whether ratings are available from two or three agencies, the lowest of the two or three will be used.
- ix. Must be domiciled in a country that recognizes and enforces judgments of US courts.
- x. Must demonstrate financial commitment to activity in the United States as evidenced by one of the following:
 - 1. American Depositary Receipts (ADR) are traded on the New York Stock Exchange, American Stock Exchange, or NASDAQ.
 - 2. Equity ownership worth over USD100,000,000 in the wholly-owned or majority owned subsidiaries in the United States.
- xi. Must satisfy all other applicable provisions of the PJM Tariff and/or Operating Agreement, including this credit policy.
- xii. Must pay for all expenses incurred by PJMSettlement related to reviewing and accepting a foreign guaranty beyond nominal in-house credit and legal review.
- xiii. Must, at its own cost, provide PJMSettlement with independent legal opinion from an attorney/solicitor of PJMSettlement's choosing and licensed to practice law in the United States and/or Guarantor's domicile, in form and substance acceptable to PJMSettlement in its sole discretion, confirming the enforceability of the Foreign Guaranty, the Guarantor's legal authorization to grant the

Guaranty, the conformance of the Guaranty, Guarantor, and Guarantor's domicile to all of these requirements, and such other matters as PJMSettlement may require in its sole discretion.

2) Canadian Guaranties

A Canadian Guaranty is a Corporate Guaranty that is provided by an Affiliate entity that is domiciled in Canada and satisfies all of the provisions below. The entity providing a Canadian Guaranty on behalf of a Participant is a Canadian Guarantor. A Participant may provide a Canadian Guaranty in satisfaction of part of its credit obligations or voluntary credit provision at PJMSettlement provided that all of the following conditions are met.

PJMSettlement reserves the right to deny, reject, or terminate acceptance of any Canadian Guaranty at any time for reasonable cause, including adverse material circumstances.

- a. A Canadian Guaranty:
 - i. Must contain provisions equivalent to those contained in PJMSettlement's standard form of Foreign Guaranty with any modifications subject to review and approval by PJMSettlement counsel.
 - ii. Must be denominated in US currency.
 - iii. Must be written and executed solely in English, including any duplicate originals.
- b. A Canadian Guarantor:
 - i. Must satisfy all provisions of the PJM credit policy applicable to domestic Guarantors.
 - ii. Must be an Affiliate of the Participant.
 - iii. Must maintain an agent for acceptance of service of process in the United States; such agent shall be situated in the Commonwealth of Pennsylvania, absent legal constraint.
 - iv. Must be rated by at least one Rating Agency acceptable to PJMSettlement; the credit strength of a Canadian Guarantor may not be determined based on an evaluation of its financials without an actual credit rating as well.
 - v. Must provide financials in GAAP format or other format acceptable to PJMSettlement with clear representation of net worth, intangible assets, and any other information PJMSettlement may require in order to determine the entity's Unsecured Credit Allowance.
 - vi. Must satisfy all other applicable provisions of the PJM Tariff and/or Operating Agreement, including this Credit Policy.

Ia. MINIMUM PARTICIPATION REQUIREMENTS

A. Risk Management and Verification

All Participants shall provide to PJMSettlement an executed copy of the annual certification set forth in Appendix 1 to this Attachment Q. This certification shall be provided before an entity is

eligible to participate in the PJM Markets and shall be initially submitted to PJMSettlement together with the entity's Credit Application. Thereafter, it shall be submitted each calendar year by all Participants during a period beginning on January 1 and ending April 30, except that new Participants who became eligible to participate in PJM markets during the period of January through April shall not be required to resubmit such certification until the following calendar year. Except for certain FTR Participants (discussed below) or in cases of manifest error, PJMSettlement will accept such certifications as a matter of course and Participants will not need further notice from PJMSettlement before commencing or maintaining their eligibility to participate in PJM markets. A Participant that fails to provide its annual certification by April 30 shall be ineligible to transact in the PJM markets and PJM will disable the Participant's access to the PJM markets until such time as PJMSettlement receives the Participant's certification.

Participants acknowledge and understand that the annual certification constitutes a representation upon which PJMSettlement will rely. Such representation is additionally made under the PJM Tariff, filed with and accepted by FERC, and any inaccurate or incomplete statement may subject the Participant to action by FERC. Failure to comply with any of the criteria or requirements listed herein or in the certification may result in suspension of a Participant's transaction rights in the PJM markets.

Certain FTR Participants (those providing representations found in paragraph 3.b of the annual certification set forth in Appendix 1 to this Attachment Q) are additionally required to submit to PJMSettlement (at the time they make their annual certification) a copy of their current governing risk control policies, procedures and controls applicable to their FTR trading activities. PJMSettlement will review such documentation to verify that it appears generally to conform to prudent risk management practices for entities trading in FTR-type markets. If principles or best practices relating to risk management in FTR-type markets are published, as may be modified from time to time, by a third-party industry association, such as the Committee of Chief Risk Officers, PJMSettlement ~~will~~may, following stakeholder discussion and with no less than six months prior notice to stakeholders, apply such principles or best practices in determining the fundamental sufficiency of the FTR Participant's risk controls. Those FTR Participants subject to this provision shall make a one-time payment of \$1,000.00 to PJMSettlement to cover costs associated with review and verification. Thereafter, if such FTR Participant's risk policies, procedures and controls applicable to its FTR trading activities change substantively, it shall submit such modified documentation, without charge, to PJMSettlement for review and verification at the time it makes its annual certification. Such FTR Participant's continued eligibility to participate in the PJM FTR markets is conditioned on PJMSettlement notifying such FTR Participant that its annual certification, including the submission of its risk policies, procedures and controls, has been accepted by PJMSettlement. PJMSettlement may retain outside expertise to perform the review and verification function described in this paragraph, however, in all circumstances, PJMSettlement and any third-party it may retain will treat as confidential the documentation provided by an FTR Participant under this paragraph, consistent with the applicable provisions of PJM's Operating Agreement.

An FTR Participant that makes the representation in paragraph 3.a of the annual certification understand that PJMSettlement, given the visibility it has over a Participant's overall market activity in performing billing and settlement functions, may at any time request the FTR

Participant provide additional information demonstrating that it is in fact eligible to make the representation in paragraph 3.a of the annual certification. If such additional information is not provided or does not, in PJMSettlement's judgment, demonstrate eligibility to make the representation in paragraph 3.a of the annual certification, PJMSettlement will require the FTR Participant to instead make the representations required in paragraph 3.b of the annual certification, including representing that it has submitted a copy of its current governing risk control policies, procedures and controls applicable to its FTR trading activities. If the FTR Participant cannot or does not make those representations as required in paragraph 3.b of the annual certification, then PJM will terminate the FTR Participant's rights to purchase FTRs in the FTR market and may terminate the FTR Participant's rights to sell FTRs in the PJM FTR market.

Through a periodic compliance verification process, PJMSettlement shall review and verify, as applicable, a Participant's risk management policies, practices, and procedures pertaining to the Participant's activities in the PJM markets. Such review shall include verification that:

1. The risk management framework is documented in a risk policy addressing market, credit and liquidity risks.
2. The Participant maintains an organizational structure with clearly defined roles and responsibilities that clearly segregates trading and risk management functions.
3. There is clarity of authority specifying the types of transactions into which traders are allowed to enter.
4. The Participant has requirements that traders have adequate training relative to their authority in the systems and PJM markets in which they transact.
5. As appropriate, risk limits are in place to control risk exposures.
6. Reporting is in place to ensure that risks and exceptions are adequately communicated throughout the organization.
7. Processes are in place for qualified independent review of trading activities.
8. As appropriate, there is periodic valuation or mark-to-market of risk positions.

If principles or best practices relating to risk management in PJM-type markets are published, as may be modified from time to time, by a third-party industry association, PJMSettlement may, following stakeholder discussion and with no less than six months prior notice to stakeholders, apply such principles or best practices in determining the sufficiency of the Participant's risk controls. PJMSettlement may select Participants for review on a random basis and/or based on identified risk factors such as, but not limited to, the PJM markets in which the Participant is transacting, the magnitude of the Participant's transactions in the PJM markets, or the volume of the Participant's open positions in the PJM markets. Those Participants notified by PJMSettlement that they have been selected for review shall, upon 14 calendar days notice, provide a copy of their current governing risk control policies, procedures and controls

applicable to their PJM market activities and shall also provide such further information or documentation pertaining to the Participants' activities in the PJM markets as PJMSettlement may reasonably request. Participants selected for risk management verification through a random process and satisfactorily verified by PJMSettlement shall be excluded from such verification process based on a random selection for the subsequent two years. PJMSettlement shall annually randomly select for review no more than 20% of the Participants in each member sector.

Each selected Participant's continued eligibility to participate in the PJM markets is conditioned upon PJMSettlement notifying the Participant of successful completion of PJMSettlement's verification, provided, however, that if PJMSettlement notifies the Participant in writing that it could not successfully complete the verification process, PJMSettlement shall allow such Participant 14 calendar days to provide sufficient evidence for verification prior to declaring the Participant as ineligible to continue to participate in PJM's markets, which declaration shall be in writing with an explanation of why PJMSettlement could not complete the verification. If, prior to the expiration of such 14 calendar days, the Participant demonstrates to PJMSettlement that it has filed with the Federal Energy Regulatory Commission an appeal of PJMSettlement's risk management verification determination, then the Participant shall retain its transaction rights, pending the Commission's determination on the Participant's appeal. PJMSettlement may retain outside expertise to perform the review and verification function described in this paragraph. PJMSettlement and any third party it may retain will treat as confidential the documentation provided by a Participant under this paragraph, consistent with the applicable provisions of the Operating Agreement. If PJMSettlement retains such outside expertise, a Participant may direct in writing that PJMSettlement perform the risk management review and verification for such Participant instead of utilizing a third party, provided however, that employees and contract employees of PJMSettlement and PJM shall not be considered to be such outside expertise or third parties.

Participants are solely responsible for the positions they take and the obligations they assume in PJM markets. PJMSettlement hereby disclaims any and all responsibility to any Participant or PJM Member associated with Participant's submitting or failure to submit its annual certification or PJMSettlement's review and verification of an FTR Participant's risk policies, procedures and controls. Such review and verification is limited to demonstrating basic compliance by an FTR Participant with the representation it makes under paragraph 3.b of its annual certification showing the existence of written policies, procedures and controls to limit its risk in PJM's FTR markets and does not constitute an endorsement of the efficacy of such policies, procedures or controls.

B. Capitalization

In addition to the Annual Certification requirements in Appendix 1 to this Attachment Q, a Participant must demonstrate that it meets the minimum financial requirements appropriate for the PJM market(s) in which it transacts by satisfying either the Minimum Capitalization or the Provision of Collateral requirements listed below:

1. Minimum Capitalization

FTR Participants must demonstrate a tangible net worth in excess of \$1 million or tangible assets in excess of \$10 million. Other Participants must demonstrate a tangible net worth in excess of \$500,000 or tangible assets in excess of \$5 million.

- a. In either case, consideration of “tangible” assets and net worth shall exclude assets (net of any matching liabilities, assuming the result is a positive value) which PJMSettlement reasonably believes to be restricted, highly risky, or potentially unavailable to settle a claim in the event of default. Examples include, but are not limited to, restricted assets and Affiliate assets, derivative assets, goodwill, and other intangible assets.
- b. Demonstration of “tangible” assets and net worth may be satisfied through presentation of an acceptable Corporate Guaranty, provided that both:
 - (i) the guarantor is an affiliate company that satisfies the tangible net worth or tangible assets requirements herein, and;
 - (ii) the Corporate Guaranty is either unlimited or at least \$500,000.

If the Corporate Guaranty presented by the Participant to satisfy these Capitalization requirements is limited in value, then the Participant’s resulting Unsecured Credit Allowance shall be the lesser of:

- (1) the applicable Unsecured Credit Allowance available to the Participant by the Corporate Guaranty pursuant to the creditworthiness provisions of this Credit Policy, or:
- (2) the face value of the Corporate Guaranty, reduced by \$500,000 and further reduced by 10%. (For example, a \$10.5 million Corporate Guaranty would be reduced first by \$500,000 to \$10 million and then further reduced 10% more to \$9 million. The resulting \$9 million would be the Participant’s Unsecured Credit Allowance available through the Corporate Guaranty).

In the event that a Participant provides collateral in addition to a limited Corporate Guaranty to increase its available credit, the value of such collateral shall be reduced by 10%. This reduced value shall be deemed Financial Security and available to satisfy the requirements of this Credit Policy.

Demonstrations of capitalization must be presented in the form of audited financial statements for the Participant's most recent fiscal year.

2. Provision of Collateral

If a Participant does not demonstrate compliance with its applicable Minimum Capitalization Requirements above, it may still qualify to participate in PJM's markets by posting additional collateral, subject to the terms and conditions set forth herein.

Any collateral provided by a Participant unable to satisfy the Minimum Capitalization Requirements above will be restricted in the following manner:

- i. Collateral provided by FTR Participants shall be reduced by \$500,000 and then further reduced by 10%. This reduced amount shall be considered the Financial Security provided by the Participant and available to satisfy requirements of this Credit Policy.
- ii. Collateral provided by other Participants that engage in virtual bidding shall be reduced by \$200,000 and then further reduced by 10%. This reduced value shall be considered Financial Security available to satisfy requirements of this Credit Policy.
- iii. Collateral provided by other Participants that do not engage in virtual bidding shall be reduced by 10%, and this reduced value shall be considered Financial Security available to satisfy requirements of this Credit Policy.

In the event a Participant that satisfies the Minimum Participation Requirements through provision of collateral also provides a Corporate Guaranty to increase its available credit, then the Participant's resulting Unsecured Credit Allowance conveyed through such Guaranty shall be the lesser of:

- (1) the applicable Unsecured Credit Allowance available to the Participant by the Corporate Guaranty pursuant to the creditworthiness provisions of this credit policy, or,
- (2) the face value of the Guaranty, reduced by 10%.

II. CREDIT ALLOWANCE AND WORKING CREDIT LIMIT

PJMSettlement's credit evaluation process will include calculating a Credit Score for each Participant. The credit score will be utilized to determine a Participant's Unsecured Credit Allowance.

Participants who do not qualify for an Unsecured Credit Allowance will be required to provide Financial Security based on their Peak Market Activity, as provided below.

A corresponding Working Credit Limit will be established based on the Unsecured Credit Allowance and/or the Financial Security provided.

Where Participant of PJM are considered Affiliates, Unsecured Credit Allowances and Working Credit Limits will be established for each individual Participant, subject to an aggregate maximum amount for all Affiliates as provided for in §II.F of this policy.

In its credit evaluation of Cooperatives and Municipalities, PJMSettlement may request additional information as part of the overall financial review process and may also consider qualitative factors in determining financial strength and creditworthiness. For Cooperatives and Municipalities, PJMSettlement will consider qualitative factors such as the following in its credit evaluation: taxing authority, independent ratemaking authority, financial strength of members that have contractual commitments to pay a cooperative's expenses, and other measures of size besides Tangible Net Worth.

A. Credit Score

For participants with credit ratings, a Credit Score will be assigned based on their senior unsecured credit rating and credit watch status as shown in the table below. If an explicit senior unsecured rating is not available, PJMSettlement may impute an equivalent rating from other ratings that are available. For Participants without a credit rating, but who wish to be considered for unsecured Credit, a Credit Score will be generated from PJMSettlement's review and analysis of various factors that are predictors of financial strength and creditworthiness. Key factors in the scoring process include, financial ratios, and years in business. PJMSettlement will consistently apply the measures it uses in determining Credit Scores. The credit scoring methodology details are included in a supplementary document available on OASIS.

Rated Entities Credit Scores

Rating	Score	Score Modifier	
		Credit Watch Negative	Credit Watch Positive
AAA	100	-1.0	0.0
AA+	99	-1.0	0.0
AA	99	-1.0	0.0
AA-	98	-1.0	0.0
A+	97	-1.0	0.0
A	96	-2.0	0.0
A-	93	-3.0	1.0
BBB+	88	-4.0	2.0
BBB	78	-4.0	2.0
BBB-	65	-4.0	2.0
BB+ and below	0	0.0	0.0

B. Unsecured Credit Allowance

PJMSettlement will determine a Participant's Unsecured Credit Allowance based on its Credit Score and the parameters in the table below. The maximum Unsecured Credit Allowance is the lower of:

- 1) A percentage of the Participant's Tangible Net Worth, as stated in the table below, with the percentage based on the Participant's credit score; and
- 2) A dollar cap based on the credit score, as stated in the table below:

Credit Score	Tangible Net Worth Factor	Maximum Unsecured Credit Allowance (\$ Million)
91-100	2.125 – 2.50%	\$50
81-90	1.708 – 2.083%	\$42
71-80	1.292 – 1.667%	\$33
61-70	0.875 – 1.25%	\$7
51-60	0.458 – 0.833%	\$0-\$2
50 and Under	0%	\$0

If a Corporate Guaranty is utilized to establish an Unsecured Credit Allowance for a Participant, the value of a Corporate Guaranty will be the lesser of:

- The limit imposed in the Corporate Guaranty;
- The Unsecured Credit Allowance calculated for the Guarantor; and
- A portion of the Unsecured Credit Allowance calculated for the Guarantor in the case of Affiliated Participants.

PJMSettlement has the right at any time to modify any Unsecured Credit Allowance and/or require additional Financial Security as may be deemed reasonably necessary to support current market activity. Failure to pay the required amount of additional Financial Security within two Business Days shall be an event of default.

PJMSettlement will maintain a posting of each Participant's unsecured Credit Allowance, along with certain other credit related parameters, 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 small changes that may occur. However, in case of a reduction in Unsecured Credit Allowance of greater than 25% within a 30-day period, PJMSettlement will notify the Participant. PJMSettlement'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.

C. Seller Credit

Participants that have maintained a Net Sell Position for each of the prior 12 months are eligible for Seller Credit, which is an additional form of Unsecured Credit. A Participant's Seller Credit will be equal to sixty percent of the Participant's thirteenth smallest weekly Net Sell Position invoiced in the past 52 weeks.

Each Participant receiving Seller Credit must maintain both its Seller Credit and its Total Net Sell Position equal to or greater than the Participant's aggregate credit requirements, less any Financial Security or other sources of credit provided.

For every participant receiving Seller Credit, PJMSettlement will maintain a forecast of the Participant's Total Net Sell Position considering the Participant's current Total Net Sell Position, recent trends in the Participant's Total Net Sell Position, and other information available to PJMSettlement, such as, but not limited to, known generator outages, changes in load responsibility, and bilateral transactions impacting the Participant. If PJMSettlement's forecast ever indicates that the Participant's Total Net Sell Position may in the future be less than the Participant's aggregate credit requirements, less any Financial Security or other sources of credit provided, then PJMSettlement may require Financial Security as needed to cover the difference. Failure to pay the required amount of additional Financial Security within two Business Days shall be an event of default.

Any Financial Security required by PJMSettlement pursuant to these provisions for Seller Credit will be returned once the requirement for such Financial Security has ended. Seller Credit may not be conveyed to another entity through use of a guaranty. Seller Credit shall be subject to the cap on available Unsecured Credit set forth in Section II.F.

D. Peak Market Activity and Financial Security Requirement

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. However, Peak Market Activity shall not exceed 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 in the prior 52 weeks.

The initial Peak Market Activity for Applicants will be determined by PJMSettlement 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 PJMSettlement.

The initial Peak Market Activity for Participants, calculated at the beginning of each respective semi-annual period, shall be the three-week 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 PJMSettlement) 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.

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

PJMSettlement 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.

PJMSettlement 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, PJMSettlement will notify the Participant. PJMSettlement'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 PJMSettlement's authority to require Financial Security under other provisions of the credit policy.

E. Working Credit Limit

PJMSettlement 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 75% of the Financial Security provided to PJMSettlement and/or 75% of the Unsecured Credit Allowance determined by PJMSettlement based on a credit evaluation. A Participant's Total Net Obligation should not exceed its Working Credit Limit.

F. Credit Limit Setting For Affiliates

If two or more Participants are Affiliates and each is being granted an Unsecured Credit Allowance and a corresponding Working Credit Limit, PJMSettlement will consider the overall creditworthiness of the Affiliated Participants when determining the Unsecured Credit Allowances and Working Credit Limits in order not to grant more Unsecured Credit than the overall corporation could support.

Example: Participants A and B each have a \$10.0 million Corporate Guaranty from their common parent, a holding company with an Unsecured Credit Allowance calculation of \$12.0 million. PJMSettlement may limit the Unsecured Credit Allowance for each Participant to \$6.0 million, so the total Unsecured Credit Allowance does not exceed the corporate total of \$12.0 million.

PJMSettlement will work with Affiliated Participants to allocate the total Unsecured Credit Allowance among the Affiliates while assuring that no individual Participant, nor common guarantor, exceeds the Unsecured Credit Allowance appropriate for its credit strength. The aggregate Unsecured Credit ~~Allowance~~ for a Participant, including Unsecured Credit Allowance granted based on its own creditworthiness and any Unsecured Credit Allowance conveyed through a Guaranty shall not exceed \$50 million. The aggregate Unsecured Credit ~~Allowance~~ for a group of Affiliates shall not exceed \$50 million. A group of Affiliates subject to this cap shall request PJMSettlement to allocate the maximum Unsecured Credit ~~Allowance~~ and Working Credit Limit amongst the group, assuring that no individual Participant, nor common guarantor, shall exceed the Unsecured Credit ~~Allowance-level~~ appropriate for its credit strength and activity.

G. Working Credit Limit Violations

1) Notification

A Participant is subject to notification when its Total Net Obligation to PJMSettlement approaches the Participant's established Working Credit Limit.

2) Suspension

A Participant that exceeds its Working Credit Limit is subject to suspension from participation in the PJM markets and from scheduling any future Transmission Service unless and until Participant's credit standing is brought within acceptable limits. A Participant will have two Business Days from notification to remedy the situation in a manner deemed acceptable by

PJMSettlement. Additionally, PJMSettlement, in coordination with PJM, will take such actions as may be required or permitted under the Agreements, including but not limited to the termination of the Participant's ongoing Transmission Service and participation in PJM Markets. Failure to comply with this policy will be considered an event of default under this credit policy.

H. PJM Administrative Charges

Financial Security held by PJMSettlement shall also secure obligations to PJM for PJM administrative charges.

I. Pre-existing Financial Security

PJMSettlement's credit requirements are applicable as of the effective date of the filing on May 5, 2010 by PJM and PJMSettlement of amendments to Attachment Q. Financial Security held by PJM prior to the effective date of such amendments shall be held by PJM for the benefit of PJMSettlement.

III. VIRTUAL BID SCREENING

A. Credit and Financial Security

PJMSettlement does not require a Participant to establish separate or additional credit for virtual bidding. A Participant's ability to submit virtual bids into the spot market will be governed, however, by the terms of this section, so a Participant may choose to establish such additional credit in order to expand its ability to undertake virtual bidding in the PJM spot market.

If a Participant chooses to provide additional Financial Security in order to increase its **Credit Available for Virtual Bidding PJMSettlement** may establish a reasonable timeframe, not to exceed three months, for which such Financial Security must be maintained. PJMSettlement will not impose such restriction on a deposit unless a Participant is notified prior to making the deposit. Such restriction, if applied, shall be applied to all future deposits by all virtual bidding participants.

A Participant wishing to increase its Credit Available for Virtual Bidding by providing additional Financial Security may make the appropriate arrangements with PJMSettlement. PJMSettlement will make a good faith effort to make new Financial Security available as Credit Available for Virtual Bidding as soon as practicable after confirmation of receipt. In any event, however, Financial Security received and confirmed by noon on a business day will be applied (as provided under this policy) to Credit Available for Virtual Bidding no later than 10:00 am on the following business day. Receipt and acceptance of wired funds for cash deposit shall mean actual receipt by PJMSettlement's bank, deposit into PJMSettlement's customer deposit account, and confirmation by PJMSettlement that such wire has been received and deposited. Receipt and acceptance of letters of credit shall mean receipt of the original letter of credit or amendment thereto, and confirmation from PJMSettlement's credit and legal staffs that such letter of credit or amendment thereto conforms to PJMSettlement's requirements, which confirmation shall be made in a reasonable and practicable timeframe. To facilitate this process, bidders wiring funds

for the purpose of increasing their Credit Available for Virtual Bidding are advised to specifically notify PJMSettlement that a wire is being sent for such purpose.

B. Market Activity Review

Each month, PJMSettlement will update the **Nodal Reference Price** for each node and each aggregated price point based on a rank ordering of historical price differentials. The Nodal Reference Price at each location will be the 97th percentile price differential between hourly Day-ahead and Real-time prices experienced over the corresponding two-month reference period in the prior calendar year. In order to capture seasonality effects and maintain a two-month reference period, reference months will be grouped by two, starting with January (e.g., Jan-Feb, Mar-Apr, ... , Jul-Aug, ... Nov-Dec). For any given current-year month, the reference period months will be the set of two months in the prior calendar year that include the month corresponding to the current month. For example, July and August 2003 would each use July-August 2002 as their reference period.

On a daily basis, PJMSettlement will perform an analysis for each market participant to determine if **Virtual Bid Screening** is required for bidding in the Day-ahead market. This analysis will be performed as follows:

1. For each participant account, PJMSettlement will calculate an **Uncleared Bid Exposure**. $\text{Uncleared Bid Exposure} = \text{sum of (not-cleared bids and offers} \times \text{the Nodal Reference Price)}$ summed over all nodes for the prior two days of actual bids. If a participant submits uncleared bids and uncleared offers at the same node or aggregated price point, only the higher of the two megawatt quantities (i.e., either the sum of all of the participant's bids at such node or the sum of all of the participant's offers at such node) shall be considered for purposes of this calculation.
2. If the Uncleared Bid Exposure exceeds the Participant's Unsecured Credit and/or Financial Security, less any credit required for FTR or other credit requirement determinants as defined in this policy, then Virtual Bid Screening will be required.
3. PJMSettlement will initially look at historical activity beginning May 1, 2003 to determine which participants will require Virtual Bid Screening upon implementation of this procedure.

C. Virtual Bid Screening Process

If it is determined that Virtual Bid Screening is required for a market participant, the screening process will be conducted in the PJM eMKT web interface. The process will automatically reject all virtual bids and offers submitted by the PJM market participant if the participant's Credit Available for Virtual Bidding is exceeded by the **Virtual Credit Exposure** that is calculated based on the participant's submitted bids and offers as described below.

A Participant's Virtual Credit Exposure will be calculated on a daily basis for all virtual bids submitted by the market participant for the next operating day using the following equation:

Virtual Credit Exposure = the lesser of:

(i) ((total MWh bid or offered, whichever is greater, hourly at each node) x Nodal Reference Price x 2 days) summed over all nodes and all hours; or

(ii) (a) ((the total MWh bid or offered, whichever is greater, hourly at each node) x the Nodal Reference Price x 1 day) summed over all nodes and all hours; plus (b) ((the difference between the total bid MWh cleared and total offered MWh cleared hourly at each node) x Nodal Reference Price) summed over all nodes and all hours for the previous three cleared day-ahead markets.

A Participant's Credit Available for Virtual Bidding will be the Participant's Working Credit Limit less any unpaid billed and unbilled amounts owed to PJMSettlement, plus any current period unbilled amounts owed by PJMSettlement to the Participant, less any credit required for FTR or other credit requirement determinants as defined in this policy.

Each PJM Market Participant that is identified as requiring Virtual Bid Screening based on bidding history will be screened in the following manner: If the participant's Virtual Credit Exposure exceeds its Credit Available for Virtual Bidding, the Market Participant will be notified via an eMKT error message, and the submitted bids will be rejected. Upon such notification, the Market Participant may alter its virtual bids and offers so that its Virtual Credit Exposure does not exceed its Credit Available for Virtual Bidding, and may resubmit them. Bids may be submitted in one or more groups during a day. If one or more groups of bids is submitted and accepted, and a subsequent group of submitted bids causes the total submitted bids to exceed the Virtual Credit Exposure, then only that subsequent set of bids will be rejected. Previously accepted bids will not be affected, though the Market Participant may choose to withdraw them voluntarily.

IV. RELIABILITY PRICING MODEL AUCTION CREDIT REQUIREMENTS

Settlement during any Delivery Year of cleared positions resulting or expected to result from any Reliability Pricing Model Auction shall be included as appropriate in Peak Market Activity, and the provisions of this Attachment Q shall apply to any such activity and obligations arising therefrom. In addition, the provisions of this section shall apply to any entity seeking to participate in any RPM Auction, to address credit risks unique to such auctions.

A. Applicability

A Market Seller seeking to submit a Sell Offer in any Reliability Pricing Model Auction based on any Capacity Resource for which there is a materially increased risk of non-performance must satisfy the credit requirement specified in section IV.B before submitting such Sell Offer. Credit must be maintained until such risk of non-performance is substantially eliminated, but may be reduced commensurate with the reduction in such risk, as set forth in Section IV.C.

For purposes of this provision, a resource for which there is a materially increased risk of non-performance shall mean: (i) a Planned Generation Capacity Resource; (ii) a Planned Demand Resource or an Energy Efficiency Resource; (iii) a Qualifying Transmission Upgrade; or (iv) an existing or Planned Generation Capacity Resource located outside the PJM Region that at the time it is submitted in a Sell Offer has not secured firm transmission service to the border of the PJM Region sufficient to satisfy the deliverability requirements of the Reliability Assurance Agreement.

B. Reliability Pricing Model Auction Credit Requirement

Except as provided for Credit-Limited Offers below, for any resource specified in Section IV.A, the credit requirement shall be the RPM Auction Credit Rate, as provided in Section IV.D, times the megawatts to be offered for sale from such resource in a Reliability Pricing Model Auction. The RPM Auction Credit Requirement for each Market Seller shall be the sum of the credit requirements for all such resources to be offered by such Market Seller in the auction or, as applicable, cleared by such Market Seller from the relevant auctions.

Except for Credit-Limited Offers, the RPM Auction Credit Requirement for a Market Seller will be reduced for any Delivery Year to the extent less than all of such Market Seller's offers clear in the Base Residual Auction or any Incremental Auction for such Delivery Year. Such reduction shall be proportional to the quantity, in megawatts, that failed to clear in such Delivery Year.

A Sell Offer based on a Planned Generation Capacity Resource, Planned Demand Resource, or Energy Efficiency Resource may be submitted as a Credit-Limited Offer. A Market Seller electing this option shall specify a maximum amount of Unforced Capacity, in megawatts, and a maximum credit requirement, in dollars, applicable to the Sell Offer. A Credit-Limited Offer shall clear the RPM Auction in which it is submitted (to the extent it otherwise would clear based on the other offer parameters and the system's need for the offered capacity) only to the extent of the lesser of: (i) the quantity of Unforced Capacity that is the quotient of the division of the specified maximum credit requirement by the Auction Credit Rate resulting from section IV.D.b.; and (ii) the maximum amount of Unforced Capacity specified in the Sell Offer. For a Market Seller electing this alternative, the RPM Auction Credit Requirement applicable prior to the posting of results of the auction shall be the maximum credit requirement specified in its Credit-Limited Offer, and the RPM Auction Credit Requirement subsequent to posting of the results will be the Auction Credit Rate, as provided in Section IV.D.b, c. or d., as applicable, times the amount of Unforced Capacity from such Sell Offer that cleared in the auction. The availability and operational details of Credit-Limited Offers shall be as described in the PJM Manuals.

As set forth in Section IV.D, a Market Seller's Auction Credit Requirement shall be determined separately for each Delivery Year.

C. Reduction in Credit Requirement

As specified in Section IV.D, the RPM Auction Credit Rate may be reduced under certain circumstances after the auction has closed.

In addition, the RPM Auction Credit Requirement for a Participant for any given Delivery Year shall be reduced periodically, provided the Participant successfully meets progress milestones that reduce the risk of non-performance, as follows:

- a. For Planned Demand Resources and Energy Efficiency Resources, the RPM Auction Credit Requirement will be reduced in direct proportion to the megawatts of such Demand Resource or ILR that the Resource Provider qualifies as a Capacity Resource, in accordance with the procedures established under the Reliability Assurance Agreement.
- b. For Existing Generation Capacity Resources located outside the PJM Region that have not secured sufficient firm transmission to the border of the PJM Region prior to the auction in which such resource is first offered, the RPM Credit Requirement shall be reduced in direct proportion to the megawatts of firm transmission service secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement.
- c. For Planned Generation Capacity Resources, the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B beginning as of the effective date of an Interconnection Service Agreement, and shall be reduced to zero on the date of commencement of Interconnection Service.
- d. For Planned Generation Capacity Resources located outside the PJM Region, the RPM Credit Requirement shall be reduced once the conditions in both b and c above are met, i.e., the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B when 1) beginning as of the effective date of the equivalent Interconnection Service Agreement, and 2) when 50% or more megawatts of firm transmission service have been secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement. The RPM Credit Requirement for a Planned Generation Capacity Resource located outside the PJM Region shall be reduced to zero when 1) the resource commences Interconnection Service and 2) 100% of the megawatts of firm transmission service have been secured by the Market Seller that qualify such resource under the deliverability requirements of the Reliability Assurance Agreement.
- e. For Qualifying Transmission Upgrades, the RPM Credit Requirement shall be reduced to 50% of the amount calculated under Section IV.B beginning as of the effective date of the latest associated Interconnection Service Agreement (or, when a project will have no such agreement, an Upgrade Construction Service Agreement), and shall be reduced to zero on the date the Qualifying Transmission Upgrade is placed in service. In addition, a Qualifying Transmission Upgrade will be allowed a reduction in its RPM Credit Requirement equal to the amount of collateral currently posted with PJM for the facility construction when the Qualifying Transmission Upgrade meets the following requirements: the Upgrade Construction Service Agreement has been fully executed, the full estimated cost to complete as most recently determined or updated by PJM has been fully paid or collateralized, and all regulatory and other

required approvals (except those that must await construction completion) have been obtained. Such reduction in RPM Credit Requirement may not be transferred across different projects.

D. RPM Auction Credit Rate

As set forth in the PJM Manuals, a separate Auction Credit Rate shall be calculated for each Delivery year prior to each Reliability Pricing Model Auction for such Delivery Year, as follows:

For Delivery Years through the Delivery Year that ends on May 31, 2012, the Auction Credit Rate for any resource for a Delivery Year shall be (the greater of \$20/MW-day or 0.24 times the Capacity Resource Clearing Price in the Base Residual Auction for such Delivery Year for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year.

For Delivery Years beginning with the Delivery Year that commences on June 1, 2012:

- a. Prior to the posting of the results of a Base Residual Auction for a Delivery Year, the Auction Credit Rate shall be (the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) \$20 per MW-day) times the number of days in such Delivery Year.
- b. Subsequent to the posting of the results from a Base Residual Auction, the Auction Credit Rate used for ongoing credit requirements for supply committed in such auction shall be (the greater of \$20/MW-day or 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located) times the number of days in such Delivery Year; provided, however, that the Auction Credit Rate for Capacity Resources to the extent committed in the Base Residual Auction for the 2012-2013 Delivery Year shall be as determined under the provisions of this Attachment Q in effect at the time of such Base Residual Auction.
- c. For any resource not previously committed for a Delivery Year that seeks to participate in an Incremental Auction, the Auction Credit Rate shall be (the greater of (i) 0.3 times the Net Cost of New Entry for the PJM Region for such Delivery Year, in MW-day or (ii) 0.24 times the Capacity Resource Clearing Price in the Base Residual Auction for such Delivery Year for the Locational Deliverability Area within which the resource is located or (iii) \$20 per MW-day) times the number of days in such Delivery Year.
- d. Subsequent to the posting of the results of an Incremental Auction, the Auction Credit Rate used for ongoing credit requirements for supply committed in such auction shall be (the greater of \$20/MW-day or 0.2 times the Capacity Resource Clearing Price in such auction for the Locational Deliverability Area within which the resource is located, but no greater than the Auction Credit Rate previously established for such resource's participation in such Incremental Auction pursuant to subsection (c) above) times the number of days in such Delivery Year.

E. RPM Seller Credit - Additional Form of Unsecured Credit for RPM

In addition to the forms of credit specified elsewhere in this Attachment Q, ~~the following form of Unsecured Credit~~ RPM Seller Credit shall be available to Market Sellers, but solely for purposes of satisfying RPM Auction Credit Requirements. If a supplier has a history of being a net seller into PJM markets, on average, over the past 12 months, then PJMSettlement will count as available Unsecured Credit twice the average of that participant's total net monthly PJMSettlement bills over the past 12 months. This RPM Seller Credit shall be subject to the cap on available Unsecured Credit as established in Section II.F.

F. Credit Responsibility for Traded Planned RPM Capacity Resources

PJMSettlement may require that credit and financial responsibility for planned RPM Capacity Resources that are traded remain with the original party (which for these purposes, means the party bearing credit responsibility for the planned RPM Capacity Resource immediately prior to trade) unless the receiving party independently establishes consistent with the PJM credit policy, that it has sufficient credit with PJMSettlement and agrees by providing written notice to PJMSettlement that it will fully assume the credit responsibility associated with the traded planned RPM Capacity Resource.

V. FINANCIAL TRANSMISSION RIGHT AUCTIONS

A. FTR Credit Limit.

PJMSettlement will establish an FTR Credit Limit for each Participant. Participants must maintain their FTR Credit Limit at a level equal to or greater than their FTR Credit Requirement. FTR Credit Limits will be established only by a Participant providing Financial Security ~~or qualifying for Seller Credit as provided for in §II.C of this policy.~~

B. FTR Credit Requirement.

For each Participant with FTR activity, PJMSettlement shall calculate an FTR Credit Requirement based on FTR cost less a discounted historical value. FTR Credit Requirements shall be further adjusted by ARR credits available and by an amount based on portfolio diversification, if applicable. The requirement will be based on individual monthly exposures which are then used to derive a total requirement.

The FTR Credit Requirement shall be calculated by first adding for each month the FTR Monthly Credit Requirement Contribution for each submitted, accepted, and cleared FTR and then subtracting the prorated value of any ARRs held by the Participant for that month. The resulting twelve monthly subtotals represent the expected value of net payments between PJMSettlement and the Participant for FTR activity each month during the Planning Period. Subject to later adjustment by an amount based on portfolio diversification, if applicable, the FTR Credit Requirement shall be the sum of the individual positive monthly subtotals, representing months in which net payments to PJMSettlement are expected.

C. Rejection of FTR Bids.

Bids submitted into an auction will be rejected if the Participant's FTR Credit Requirement including such submitted bids would exceed the Participant's FTR Credit Limit, or if the Participant fails to establish additional credit as required pursuant to provisions related to portfolio diversification.

D. FTR Credit Collateral Returns.

A Market Participant may request from PJMSettlement the return of any collateral no longer required for the FTR auctions. PJMSettlement is permitted to limit the frequency of such requested collateral returns, provided that collateral returns shall be made by PJMSettlement at least once per calendar quarter, if requested by a Market Participant.

E. Effective Period for Credit for Multi-Month FTR Auction Products.

Credit for all FTR auction products must remain in effect for the entire duration of the FTR auction product. If a Corporate Guaranty or Financial Security provided for FTR credit has a termination date, such termination date must be at least 10 days after the date upon which payment is due for the last month of the FTR auction product.

F. Credit Responsibility for Traded FTRs.

PJMSettlement may require that credit responsibility associated with an FTR traded within PJM's eFTR system remain with the original party (which for these purposes, means the party bearing credit responsibility for the FTR immediately prior to trade) unless and until the receiving party independently establishes, consistent with the PJM credit policy, sufficient credit with PJMSettlement and agrees through confirmation of the FTR trade within the eFTR system that it will meet in full the credit requirements associated with the traded FTR.

G. Portfolio Diversification.

Subsequent to calculating a tentative cleared solution for an FTR auction (or auction round), PJM shall both:

1. Determine the FTR Portfolio Auction Value, including the tentative cleared solution. Any Participants with such FTR Portfolio Auction Values that are negative shall be deemed FTR Flow Undiversified.
2. Measure the geographic concentration of the FTR Flow Undiversified portfolios by testing such portfolios using a simulation model including, one at a time, each planned transmission outage or other network change which would substantially affect the network for the specific auction period. A list of such planned outages or changes anticipated to be modeled shall be posted prior to commencement of the auction (or auction round). Any FTR Flow Undiversified portfolio that experiences a net reduction in calculated congestion credits as a result of any one or more of such modeled outages or changes shall be deemed FTR Geographically Undiversified.

For portfolios that are FTR Flow Undiversified but not FTR Geographically Undiversified, PJMSettlement shall increment the FTR Credit Requirement by an amount equal to twice the absolute value of the FTR Portfolio Auction Value, including the tentative cleared solution. For Participants with portfolios that are both FTR Flow Undiversified and FTR Geographically Undiversified, PJMSettlement shall increment the FTR Credit Requirement by an amount equal to three times the absolute value of the FTR Portfolio Auction Value, including the tentative cleared solution. For portfolios that are FTR Flow Undiversified in months subsequent to the current planning year, these incremental amounts, calculated on a monthly basis, shall be reduced (but not below zero) by an amount up to 25% of the monthly value of ARR credits that are held by a Participant. Subsequent to the ARR allocation process preceding an annual FTR auction, such ARR credits shall be reduced to zero for months associated with that ARR allocation process. PJMSettlement may recalculate such ARR credits at any time, but at a minimum shall do so subsequent to each annual FTR auction. If a reduction in such ARR credits at any time increases the amount of credit required for the Participant beyond its credit available for FTR activity, the Participant must increase its credit to eliminate the shortfall.

If the FTR Credit Requirement for any Participant exceeds its credit available for FTRs as a result of these diversification requirements for the tentatively cleared portfolio of FTRs, PJMSettlement shall immediately issue a demand for additional credit, and such demand must be fulfilled before 4:00 p.m. on the business day following the demand. If any Participant does not timely satisfy such demand, PJMSettlement, in coordination with PJM, shall cause the removal that Participant's entire set of bids for that FTR auction (or auction round) and a new cleared solution shall be calculated for the entire auction (or auction round).

If necessary, PJM shall repeat the auction clearing calculation. PJM shall repeat these portfolio diversification calculations subsequent to any such secondary clearing calculation, and PJMSettlement shall require affected Participants to establish additional credit.

H. FTR Administrative Charge Credit Requirement

In addition to any other credit requirements, PJMSettlement may apply a credit requirement to cover the maximum administrative fees that may be charged to a Participant for its bids and offers.

I. Long-Term FTR Credit Recalculation

Long-term FTR Credit Requirement calculations shall be updated annually for known history, consistent with updating of historical values used for FTR Credit Requirement calculations in the annual auctions.

VI. FORMS OF FINANCIAL SECURITY

Participants that provide Financial Security must provide the security in a PJMSettlement approved form and amount according to the guidelines below.

Financial Security which is no longer required to be maintained under provisions of the Agreements shall be returned at the request of a participant no later than two Business Days following determination by PJMSettlement within a commercially reasonable period of time that such collateral is not required.

Except when an event of default has occurred, a Participant may substitute an approved PJMSettlement form of Financial Security for another PJMSettlement approved form of Financial Security of equal value. The Participant must provide three (3) Business Days notice to PJMSettlement of its intent to substitute the Financial Security. PJMSettlement will release the replaced Financial Security with interest, if applicable, within (3) Business Days of receiving an approved form of substitute Financial Security.

A. Cash Deposit

Cash provided by a Participant as Financial Security will be held in a depository account by PJMSettlement with interest earned at PJMSettlement's overnight bank rate, and accrued to the Participant. Interest shall be paid to the Participant upon written request, but not more often than quarterly. PJMSettlement also may establish an array of investment options among which a Participant may choose to invest its cash deposited as Financial Security. Such investment options shall be comprised of high quality debt instruments, as determined by PJMSettlement, and may include obligations issued by the federal government and/or federal government sponsored enterprises. These investment options will reside in accounts held in PJMSettlement's name in a banking or financial institution acceptable to PJMSettlement. Where practicable, PJMSettlement may establish a means for the Participant to communicate directly with the bank or financial institution to permit the Participant to direct certain activity in the PJMSettlement account in which its Financial Security is held. PJMSettlement will establish and publish procedural rules, identifying the investment options and respective discounts in collateral value that will be taken to reflect any liquidation, market and/or credit risk presented by such investments. PJMSettlement has the right to liquidate all or a portion of the account balances at its discretion to satisfy a Participant's Total Net Obligation to PJMSettlement in the event of default under this credit policy or one or more of the Agreements.

B. Letter Of Credit

An unconditional, irrevocable standby letter of credit can be utilized to meet the Financial Security requirement. As stated below, the form, substance, and provider of the letter of credit must all be acceptable to PJMSettlement.

- The letter of credit will only be accepted from U.S.-based financial institutions or U.S. branches of foreign financial institutions ("financial institutions") that have a minimum corporate debt rating of "A" by Standard & Poor's or Fitch Ratings, or "A2" from Moody's Investors Service, or an equivalent short term rating from one of these agencies. PJMSettlement will consider the lowest applicable rating to be the rating of the financial institution. If the rating of a financial institution providing a letter of credit is lowered below A/A2 by any rating agency, then PJMSettlement may require the Participant to provide a letter of credit from another financial institution that is rated A/A2 or better, or

to provide a cash deposit. If a letter of credit is provided from a U.S. branch of a foreign institution, the U.S. branch must itself comply with the terms of this credit policy, including having its own acceptable credit rating.

- The letter of credit shall state that it shall renew automatically for successive one-year periods, until terminated upon at least ninety (90) days prior written notice from the issuing financial institution. If PJM or PJMSettlement receives notice from the issuing financial institution that the current letter of credit is being cancelled, the Participant will be required to provide evidence, acceptable to PJMSettlement, that such letter of credit will be replaced with appropriate Financial Security, effective as of the cancellation date of the letter of credit, no later than thirty (30) days before the cancellation date of the letter of credit. Failure to do so will constitute a default under this credit policy and one of more of the Agreements.
- The letter of credit must clearly state the full names of the "Issuer", "Account Party" and "Beneficiary" (PJMSettlement), the dollar amount available for drawings, and shall specify that funds will be disbursed upon presentation of the drawing certificate in accordance with the instructions stated in the letter of credit. The letter of credit should specify any statement that is required to be on the drawing certificate, and any other terms and conditions that apply to such drawings.
- The PJMSettlement Credit Application contains an acceptable form of a letter of credit that should be utilized by a Participant choosing to meet its Financial Security requirement with a letter of credit. If the letter of credit varies in any way from the PJMSettlement format, it must first be reviewed and approved by PJMSettlement. All costs associated with obtaining and maintaining a letter of credit and meeting the policy provisions are the responsibility of the Participant
- PJMSettlement may accept a letter of credit from a Financial Institution that does not meet the credit standards of this policy provided that the letter of credit has third-party support, in a form acceptable to PJMSettlement, from a financial institution that does meet the credit standards of this policy.

VII. POLICY BREACH AND EVENTS OF DEFAULT

A Participant will have two Business Days from notification of Breach (including late payment notice) or notification of a Collateral Call to remedy the Breach or satisfy the Collateral Call in a manner deemed acceptable by PJMSettlement. Failure to remedy the Breach or satisfy such Collateral Call within such two Business Days will be considered an event of default. If a Participant fails to meet the requirements of this policy but then remedies the Breach or satisfies a Collateral Call within the two Business Day cure period, then the Participant shall be deemed to have complied with the policy. Any such two Business Day cure period will expire at 4:00 p.m. eastern prevailing time on the final day.

Only one cure period shall apply to a single event giving rise to a breach or default. Application of Financial Security towards a non-payment Breach shall not be considered a satisfactory cure of the Breach if the Participant fails to meet all requirements of this policy after such application.

Failure to comply with this policy (except for the responsibility of a Participant to notify PJMSettlement of a Material change) shall be considered an event of default. Pursuant to § 15.1.3(a) of the Operating Agreement of PJM Interconnection, L.L.C. and § 1.7.3 of the PJM Open Access Transmission Tariff, non-compliance with the PJMSettlement credit policy is an event of default under those respective Agreements. In event of default under this credit policy or one or more of the Agreements, PJMSettlement, in coordination with PJM, will take such actions as may be required or permitted under the Agreements, including but not limited to the termination of the Participant's ongoing Transmission Service and participation in PJM Markets. PJMSettlement has the right to liquidate all or a portion of a Participant's Financial Security at its discretion to satisfy Total Net Obligations to PJMSettlement in the event of default under this credit policy or one or more of the Agreements.

PJMSettlement may hold a defaulting Participant's Financial Security for as long as such party's positions exist and consistent with the PJM credit policy in this Attachment Q, in order to protect PJM's membership from default.

No payments shall be due to a Participant, nor shall any payments be made to a Participant, while the Participant is in default or has been declared in Breach of this policy or the Agreements, or while a Collateral Call is outstanding. PJMSettlement may apply towards an ongoing default any amounts that are held or later become available or due to the defaulting Participant through PJM's markets and systems.

In order to cover Obligations, PJMSettlement may hold a Participant's Financial Security through the end of the billing period which includes the 90th day following the last day a Participant had activity, open positions, or accruing obligations (other than reconciliations and true-ups), and until such Participant has satisfactorily paid any obligations invoiced through such period. Obligations incurred or accrued through such period shall survive any withdrawal from PJM. In event of non-payment, PJMSettlement may apply such Financial Security to such Participant's Obligations, even if Participant had previously announced and effected its withdrawal from PJM.

VIII. DEFINITIONS:

Affiliate

Affiliate is defined in the PJM Operating Agreement, §1.2.

Agreements

Agreements are the Operating Agreement of PJM Interconnection, L.L.C., the PJM Open Access Transmission Tariff, the Reliability Assurance Agreement, the Reliability Assurance Agreement – West, and/or other agreements between PJM Interconnection, L.L.C. and its Members.

Applicant

Applicant is an entity desiring to become a PJM Member, or to take Transmission Service that has submitted the PJMSettlement Credit Application, PJMSettlement Credit Agreement and other required submittals as set forth in this policy.

Breach

Breach is the status of a Participant that does not currently meet the requirements of this policy or other provisions of the Agreements.

Business Day

A Business Day is a day in which the Federal Reserve System is open for business and is not a scheduled PJM holiday.

Canadian Guaranty

Canadian Guaranty is a Corporate Guaranty provided by an Affiliate of a Participant that is domiciled in Canada, and meets all of the provisions of this credit policy.

Capacity

Capacity is the installed capacity requirement of the Reliability Assurance Agreement or similar such requirements as may be established.

Collateral Call

Collateral Call is a notice to a Participant that additional Financial Security, or possibly early payment, is required in order to remain in, or to regain, compliance with this policy.

Corporate Guaranty

Corporate Guaranty is a legal document used by one entity to guaranty the obligations of another entity.

Credit Available for Virtual Bidding

Credit Available for Virtual Bidding is a Participant's Working Credit Limit, less its Total Net Obligation.

Credit-Limited Offer

Credit-Limited Offer shall mean a Sell Offer that is submitted by a Market Seller in an RPM Auction subject to a maximum credit requirement specified by such Market Seller.

Credit Score

Credit Score is a composite numerical score scaled from 0-100 as calculated by PJMSettlement that incorporates various predictors of creditworthiness.

Financial Security

Financial Security is a cash deposit or letter of credit in an amount and form determined by and acceptable to PJMSettlement, provided by a Participant to PJMSettlement as security in order to participate in the PJM Markets or take Transmission Service.

Foreign Guaranty

Foreign Guaranty is a Corporate Guaranty provided by an Affiliate of a Participant that is domiciled in a foreign country, and meets all of the provisions of this credit policy.

FTR Credit Limit

FTR Credit Limit will be equal to the amount of credit established with PJMSettlement that a Participant has specifically designated to PJMSettlement to be set aside and used for FTR activity. Any such credit so set aside shall not be considered available to satisfy any other credit requirement the Participant may have with PJMSettlement.

FTR Credit Requirement

FTR Credit Requirement is the amount of credit that a Participant must provide in order to support the FTR positions that it holds and/or is bidding for. The FTR Credit Requirement shall not include months for which the invoicing has already been completed, provided that PJMSettlement shall have up to two Business Days following the date of the invoice completion to make such adjustments in its credit systems.

FTR Flow Undiversified

FTR Flow Undiversified shall have the meaning established in section V.G of this Attachment Q.

FTR Geographically Undiversified

FTR Geographically Undiversified shall have the meaning established in section V.G of this Attachment Q.

FTR Historical Value

FTR Historical Value – For each FTR for each month, this is the historical weighted average value over three years for the FTR path using the following weightings: 50% - most recent year; 30% - second year; 20% - third year. FTR Historical Values shall be calculated separately for on-peak, off-peak, and 24-hour FTRs for each month of the year. FTR Historical Values shall be adjusted by plus or minus ten percent (10%) for cleared counterflow or normal flow FTRs, respectively, in order to mitigate exposure due to uncertainty and fluctuations in actual FTR value.

FTR Monthly Credit Requirement Contribution

FTR Monthly Credit Requirement Contribution - For each FTR for each month, this is the total FTR cost for the month, prorated on a daily basis, less the FTR Historical Value for the month. For cleared FTRs, this contribution may be negative; prior to clearing, FTRs with negative contribution shall be deemed to have zero contribution.

FTR Net Activity

FTR Net Activity shall mean the aggregate net value of the billing line items for auction revenue rights credits, FTR auction charges, FTR auction credits, and FTR congestion credits, and shall also include day-ahead and balancing/real-time congestion charges up to a maximum net value of the sum of the foregoing auction revenue rights credits, FTR auction charges, FTR auction credits and FTR congestion credits.

FTR Participant

FTR Participant shall mean any Market Participant that is required to provide Financial Security ~~or to utilize Seller Credit~~ in order to participate in PJM's FTR auctions.

FTR Portfolio Auction Value

FTR Portfolio Auction Value shall mean for each Participant (or Participant account), the sum, calculated on a monthly basis, across all FTRs, of the FTR price times the FTR volume in MW.

Market Participant

Market Participant shall have the meaning provided in the Operating Agreement.

Material

For these purposes, material is defined in §I.B.3, Material Changes. For the purposes herein, the use of the term "material" is not necessarily synonymous with use of the term by governmental agencies and regulatory bodies.

Member

Member shall have the meaning provided in the Operating Agreement.

Minimum Participation Requirements

A set of minimum training, risk management, communication and capital or collateral requirements required for Participants in the PJM markets, as set forth herein and in the Form of Annual Certification set forth as Appendix 1 to this Attachment Q. Participants transacting in FTRs in certain circumstances will be required to demonstrate additional risk management procedures and controls as further set forth in the Annual Certification found in Appendix 1 to this Attachment Q.

Net Obligation

Net Obligation is the amount owed to PJMSettlement and 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 pursuant to the Agreements, after applying a deduction for amounts owed to a Participant by PJMSettlement as it pertains to monthly market activity and services. 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.

Net Sell Position

Net Sell Position is the amount of Net Obligation when Net Obligation is negative.

Nodal Reference Price

Nodal Reference Price is a probabilistic (97%) maximum price differential historically experienced between day-ahead and real-time market prices at a given location as defined in this policy period. This number is used in Virtual Bid Screening.

Obligation

Obligation is all amounts owed to PJMSettlement 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

PJMSettlement 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 Participant is a Market Participant and/or Transmission Customer and/or Applicant.

Peak Market Activity

Peak Market Activity is 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 Markets are 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 PJMSettlement.

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 the definition of the Reliability Assurance Agreement (“R.A.A.”) in the Operating Agreement.

RPM Seller Credit

RPM Seller Credit is an additional form of Unsecured Credit defined in section IV of this document.

Seller Credit

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

Tangible Net Worth

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

Total Net Obligation

Total Net Obligation is all unpaid billed Net Obligations plus any unbilled Net Obligation incurred to date, as determined by PJMSettlement on a daily basis, plus any other Obligations owed to PJMSettlement at the time.

Total Net Sell Position

Total Net Sell Position is all unpaid billed Net Sell Positions plus any unbilled Net Sell Positions accrued to date, as determined by PJMSettlement on a daily basis.

Transmission Customer

Transmission Customer is a Transmission Customer is an entity taking service under Part II or Part III of the O.A.T.T.

Transmission Service

Transmission Service is any or all of the transmission services provided by PJM pursuant to Part II or Part III of the O.A.T.T.

Uncleared Bid Exposure

Uncleared Bid Exposure is a measure of exposure from virtual bidding activity relative to a Participant's established credit as defined in this policy. It is used only as a pre-screen to determine whether a Participant's virtual bids should be subject to Virtual Bid Screening.

Unsecured Credit

Unsecured Credit is any credit granted by PJMSettlement to a Participant that is not secured by a form of Financial Security.

Unsecured Credit Allowance

Unsecured Credit Allowance is Unsecured Credit extended by PJMSettlement in an amount determined by PJMSettlement's evaluation of the creditworthiness of a Participant. This is also defined as the amount of credit that a 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

Virtual Bid Screening is 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

Virtual Credit Exposure is 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

Working Credit Limit amount is 75% of the Participant's Unsecured Credit Allowance and/or 75% of the Financial Security provided by the Participant to PJMSettlement. The Working

Credit Limit establishes the maximum amount of Total Net Obligation that a Participant may have outstanding at any time.

Appendix 1 to Attachment Q

**PJM MINIMUM PARTICIPATION CRITERIA
OFFICER CERTIFICATION FORM**

Participant Name: _____ (**"Participant"**)

I, _____, a duly authorized officer of Participant, understanding that PJM Interconnection, L.L.C. and PJM Settlement, Inc. ("PJMSettlement") are relying on this certification as evidence that Participant meets the minimum participation requirements set forth in Attachment Q to the PJM Open Access Transmission Tariff ("PJM Tariff"), hereby certify that I have full authority to represent on behalf of Participant and further represent as follows, as evidenced by my initialing each representation in the space provided below:

1. All employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Amended and Restated Operating Agreement ("PJM Operating Agreement") on behalf of the Participant have received appropriate¹ training and are authorized to transact on behalf of Participant. _____
2. Participant has written risk management policies, procedures, and controls, approved by Participant's independent risk management function² and applicable to transactions in the PJM markets in which it participates and for which employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Operating Agreement have been trained, that provide an appropriate, comprehensive risk management framework that, at a minimum, clearly identifies and documents the range of risks to which Participant is exposed, including, but not limited to credit risks, liquidity risks and market risks. _____
3. An FTR Participant (as defined in Attachment Q to the PJM Tariff) must make either the following 3.a. or 3.b. additional representations, evidenced by the undersigned officer initialing either the one 3.a. representation or the five 3.b. representations in the spaces provided below:

- 3.a. Participant transacts in ~~the PJM's~~ FTR markets ~~solely with the sole intent~~ to hedge ~~the~~ congestion risk in connection with either obligations Participant has to serve load or rights Participant has to generate electricity in the PJM Region ("physical transactions") ~~related to the Participant's physical transactions as a load-serving entity or generation provider~~ and monitors all of the Participant's FTR market activity to endeavor to ensure that its FTR positions, considering both the ~~level-size~~ and pathways of the positions, are either generally

¹ As used in this representation, the term "appropriate" as used with respect to training means training that is (i) comparable to generally accepted practices in the energy trading industry, and (ii) commensurate and proportional in sophistication, scope and frequency to the volume of transactions and the nature and extent of the risk taken by the participant.

² As used in this representation, a Participant's "independent risk management function" can include appropriate corporate persons or bodies that are independent of the Participant's trading functions, such as a risk management committee, a risk officer, a Participant's board or board committee, or a board or committee of the Participant's parent company.

proportionate to ~~or generally do not exceed and appropriate for~~ the Participant's physical transactions ~~as a load serving entity or generation provider, and remain generally consistent with the Participant's intention to hedge its physical transactions.~~_____

- 3.b. On no less than a weekly basis, Participant values its FTR positions and engages in a probabilistic assessment of the hypothetical risk of such positions using analytically based methodologies, predicated on the use of industry accepted valuation methodologies._____

Such valuation and risk assessment functions are performed either by persons within Participant's organization independent from those trading in PJM's FTR markets or by an outside firm qualified and with expertise in this area of risk management._____

Having valued its FTR positions and quantified their hypothetical risks, Participant applies its written policies, procedures and controls to limit its risks using industry recognized practices, such as value-at-risk limitations, concentration limits, or other controls designed to prevent Participant from purposefully or unintentionally taking on risk that is not commensurate or proportional to Participant's financial capability to manage such risk._____

Exceptions to Participant's written risk policies, procedures and controls applicable to Participant's FTR positions are documented and explain a reasoned basis for the granting of any exception._____

Participant has provided to PJMSettlement, in accordance with Section II A. of Attachment Q to the PJM Tariff, a copy of its current governing risk management policies, procedures and controls applicable to its FTR trading activities._____

4. Participant has appropriate personnel resources, operating procedures and technical abilities to promptly and effectively respond to all PJM communications and directions._____
5. Participant has demonstrated compliance with the Minimum Capitalization criteria set forth in Attachment Q of the PJM Open Access Transmission Tariff that are applicable to the PJM market(s) in which Participant transacts, and is not aware of any change having occurred or being imminent that would invalidate such compliance._____
6. I acknowledge that I have read and understood the provisions of Attachment Q of the PJM Tariff applicable to Participant's business in the PJM markets, including those

provisions describing PJM's minimum participation requirements and the enforcement actions available to PJMSettlement of a Participant not satisfying those requirements. I acknowledge that the information provided herein is true and accurate to the best of my belief and knowledge after due investigation. In addition, by signing this Certification, I acknowledge the potential consequences of making incomplete or false statements in this Certification._____

Date: _____

(Signature)

Print Name: _____
Title: _____

Subscribed and sworn before me _____, a notary public of the State of _____, in and for the County of _____, this _____ day of _____, 20____.

(Notary Public Signature)
My commission expires: ____ / ____ / ____