



PJM Interconnection
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March 19, 2012

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

Re: *PJM Interconnection, L.L.C.*, ER12-1284-000
PJM Tariff Attachment Q

Dear Ms. Bose:

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, PJM Interconnection, L.L.C. (“PJM LLC”) and PJM Settlement, Inc. (“Settlement”) (collectively, “PJM”) hereby submits non-substantive administrative revisions to Attachment Q of PJM’s Open Access Transmission Tariff (“PJM Tariff”) to re-instate a missing passage which had previously been approved by the Commission in a prior filing and, until recently, had been set forth in Attachment Q of the PJM Tariff. The missing passage was inadvertently excluded during PJM’s transition to eTariff¹ during the latter part of 2010.² PJM respectfully request that the Commission accept these administrative corrections to Attachment Q of PJM’s Tariff, and re-instate the missing passage in the currently effective PJM Tariff, as well as in all prior eTariff versions.

I. Background

Attachment Q to PJM’s Tariff sets forth the rules and regulations relative to the evaluation of Member creditworthiness and administration of PJM’s credit policy and has been included as part of PJM’s Tariff since 2003.³ As part of that credit policy, Section II.E

¹ *Electronic Tariff Filings*, Order No. 714, 124 FERC ¶ 61,270.

² Capitalized terms not otherwise defined herein have the meaning specified in the PJM Tariff or PJM Operating Agreement, as appropriate.

³ *See, Outback Power Marketing, Inc., et al. v. PJM Interconnection, L.L.C.*, 105 FERC ¶ 61,106 (October 23, 2003).

(Working Credit Limit)⁴ specifies the rules by which PJM is to establish a Working Credit Limit for each Participant against which its Total Net Obligations to PJM will be monitored.

Section II.E had remained largely unchanged in the PJM Tariff since 2003, albeit with some minor modifications, but was included in a subsequent filing in docket number ER10-1196-000 during May of 2010 to facilitate the formation of Settlement as the administrator of PJM's credit policy. As part of that filing, changes to Section II.E, as it existed at that time, were proposed, and accepted by the Commission in an Order issued on September 3, 2010, to become effective on January 1, 2011.⁵

Shortly after the issuance of the September 3 Order, PJM submitted its baseline eTariff filing to the Commission on September 17, 2010, per Order No. 714, which included the then currently effective Attachment Q. However, the text of Attachment Q Section II.E which was set forth on former PJM Tariff sheet 523H.01, was inadvertently excluded from that filing. Compounding the issue further, the accepted text of Section II.E which was accepted by the Commission in the September 3 Order was not merged into PJM's Tariff on January 1, 2011. Accordingly, PJM submits this filing to correct all the eTariff versions of Attachment Q by re-instating the inadvertently redacted text set forth in Section II.E which was previously filed with, and accepted by, the Commission.

II. Description of Filing

PJM hereby submits this administrative filing to re-instate the inadvertently redacted provision to Section II.E of Attachment Q.

III. Waiver and Effective Date

To the extent required, or appropriate, PJM requests a waiver of the Commission's notice requirements so as to permit effective dates consistent with the effective dates of the intervening Attachment Q eTariff versions filed on, and since, September 17, 2010. The chart attached to this transmittal letter as Attachment A sets forth the various filed eTariff versions of Attachment Q since September 17, 2010, and their respective effective dates.

Good cause exists to grant such a waiver because the revisions submitted herein merely incorporate language previously accepted by the Commission.

⁴ Section II.E (Working Credit Limit) was originally identified as Section II.D in the original filing of Attachment Q. Subsequent revisions to Attachment Q necessitated the re-identification of these provisions as Section II.E.

⁵ See, *PJM Interconnection, L.L.C.*, 132 FERC ¶ 61,205 (September 3, 2010) (the "September 3 Order").

IV. Documents Submitted

Along with this transmittal letter, PJM submits the following attachments:

- Attachment A: Chart setting forth the various eTariff versions of Attachment Q filed on, and since, September 17, 2010, along with their respective effective dates;
- Attachment B: electronic versions of Attachment Q of the PJM Tariff in redline format (*i.e.* reflecting changes), and;
- Attachment C: electronic versions of Attachment Q of the PJM Tariff in clean format.

V. Correspondence and Communication

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VI. Service

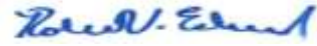
PJM has served a copy of this filing on all PJM Members and on all state utility regulatory commissions in the PJM Region by posting this filing electronically. In accordance with the Commission's regulations,⁶ PJM will post a copy of this filing to the FERC filings section of its internet site, located 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 Region⁷ alerting them that this filing has been made by PJM and is available by following such link. 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.

⁶ See 18C.F.R §§ 35.2(e) and 385.2010(f)(3).

⁷ PJM already maintains, updates and regularly uses e-mail lists for all PJM Members and affected state commissions.

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Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Robert V. Eckenrod".

Robert V. Eckenrod
Senior Counsel
PJM Interconnection, L.L.C.

Attachment A

Chart of PJM Tariff Attachment Q Versions filed in eTariff



PJM Tariff Attachment Q - Tariff Record ID 957
Versions filed in eTariff

No.	Date Initially Filed	Docket Initially Filed	Version Initially Filed	Order Accepting Initial Filing	Effective Date for Initial Filing and Proposed Substitute Versions	Substitute Version	Priority Code
1.	9/17/2010	ER10-2710-000	0.0.0	Letter Order dated December 20, 2010	9/17/2010	0.1.0	600
2.	11/1/2010	ER11-1987-000	1.0.0	Letter Order dated December 30, 2010	1/1/2011 (Version 1.0.0 is combined with Version 2.0.0 creating substitute Version 2.1.0 effective 1/1/2011)	NA	NA
3.	11/5/2010	ER11-1988-001	2.0.0	Letter Order dated December 30, 2010	1/1/2011	2.1.0	600
4.	12/2/2010	ER11-2287-000	3.0.0	Order dated January 31, 2011, 134 FERC ¶ 61,065	1/31/2011	3.1.0	600
5.	12/22/2010	ER11-2491-000	4.0.0	Letter Order dated February 4, 2011	3/1/2011	4.1.0	600
6.	12/22/2010	ER11-2492-000	5.0.0	Rejected by Order dated February 28, 2011, 134 FERC ¶ 61,142	3/1/2011 This Version is not being refiled due to rejection.	NA	NA
7.	2/18/2011	ER11-2913-000	6.0.0	Letter Order dated April 13, 2011	4/20/2011	6.1.0	600
8.	4/26/2011	ER11-2492-001	7.0.0	Letter Order dated July 12, 2011	4/26/2011	7.1.0	600
9.	6/30/2011	ER11-3972-000	8.0.0	Order dated September 15, 2011, 136 FERC ¶ 61,190	10/1/2011	8.1.0	600
10.	11/29/2011	ER11-3972-002	8.0.1 SQUEEZE	Order dated March 15, 2012 accepting Compliance Filing, 138 FERC ¶ 61,183	12/13/2011	8.1.1	600
11.	9/23/2011	ER11-4628-000	9.0.0	Order dated December 14, 2011 Accepting and Suspending Proposed Tariff Changes, Subject to Refund and the Outcome of a Staff Technical Conference, 137 FERC ¶ 61,204	5/15/2012 (Squeeze Version 8.0.1 is combined with Version 9.0.0 creating substitute Version 9.1.0 effective 5/15/2012)	9.1.0	600

Attachment B

PJM Open Access Transmission Tariff

Attachment Q

Effective 09-17-2010, Version 0.1.0

Marked/Redline Version

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 PJM’s credit requirements.

Prior to becoming a Market Participant, Transmission Customer, and/or Member of PJM, PJM must accept and approve a Credit Application (including Credit Agreement) from such entity and establish a Working Credit Limit with PJM. PJM 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 PJM’s ability to apply such designated credit to any obligation(s) in case of a default.

PJM may post on its 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. PJM 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. PJM 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 PJM 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 PJM in writing that it does not seek any Unsecured Credit Allowance. PJM will identify any necessary Financial Security requirements and establish a Working Credit Limit for each Participant. In addition, PJM 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.

PJM will provide a Participant, upon request, with a written explanation for any change in credit levels or collateral requirements. PJM 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 PJM's Treasury Department. Such a request should include:

- A citation to the applicable section(s) of the PJM 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

PJM's Treasury Department 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 PJM's Chief Financial Officer, and should contain:

- A complete copy of the Participant's earlier request for reconsideration, including citations and calculations
- A copy of the PJM Treasury Department'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

PJM's Chief Financial Officer 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, PJM will consider:

1) Rating Agency Reports

In evaluating credit strength, PJM 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, PJM 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 PJM.

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 PJM. For certain Participants, some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJM.

In the credit evaluation of Cooperatives and Municipalities, PJM may request additional information as part of the overall financial review process and will consider other alternative measures in determining financial strength and creditworthiness. For Cooperatives and Municipalities, PJM 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

PJM 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 PJM.

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 Securities and Exchange Commission ("SEC"), Federal Energy Regulatory Commission ("FERC"), 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 PJM.

B. Ongoing Credit Evaluation

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

1) Rating Agency Reports

In evaluating credit strength, PJM 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, PJM 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 PJM 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 PJM. 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 PJM. For certain Participants, some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJM.

In the credit evaluation of Cooperatives and Municipalities, PJM may request additional information as part of the overall financial review process and will consider other alternative measures in determining financial strength and creditworthiness. For Cooperatives and Municipalities, PJM 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 PJM immediately, in writing, of any Material change in its financial condition.

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); or
- h. The filing of a lawsuit that could adversely impact any current or future financial results by ten percent or more.

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

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 PJM.

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 Securities and Exchange Commission ("SEC"), Federal Energy Regulatory Commission ("FERC"), or any other governing, regulatory, or standards body. These disclosures shall be made upon initiation or change, or as requested by PJM.

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 obtained from a third party ("Guarantor") 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" (PJM) 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 PJM. 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 PJM.

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 PJM will constitute an event of default under this credit policy. A Participant may request PJM to perform a credit evaluation in order to determine creditworthiness and to establish an Unsecured Credit Allowance, if applicable. If PJM determines that a Participant does qualify for a sufficient Unsecured Credit Allowance, then Financial Security will not be required.

The PJM 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 PJM format, it must first be reviewed and approved by PJM. 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 PJM provided that all of the following conditions are met:

PJM 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 PJM's standard form of Foreign Guaranty with any modifications subject to review and approval by PJM 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 PJM; 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 PJM'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 PJM with clear representation of net worth, intangible assets, and any other information PJM 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 PJM (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 PJM'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 PJM related to reviewing and accepting a foreign guaranty beyond nominal in-house credit and legal review.
- xiii. Must, at its own cost, provide PJM with independent legal opinion from an attorney/solicitor of PJM's choosing and licensed to practice law in the United States and/or Guarantor's domicile, in form and substance acceptable to PJM 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 PJM 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 PJM provided that all of the following conditions are met.

PJM 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 PJM's standard form of Foreign Guaranty with any modifications subject to review and approval by PJM 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 PJM; 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 PJM with clear representation of net worth, intangible assets, and any other information PJM 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.

II. CREDIT ALLOWANCE AND WORKING CREDIT LIMIT

PJM'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 the credit evaluation of Cooperatives and Municipalities, PJM may request additional information as part of the overall financial review process and will consider other alternative measures in determining financial strength and creditworthiness. For Cooperatives and Municipalities, PJM 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, PJM 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 PJM'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. PJM 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

PJM 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.

PJM 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.

PJM 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, PJM will notify the Participant. PJM's responsibility to notify the Participant will be satisfied if it sends an email notification to either a primary or secondary Members Committee Representative for the Participant. It is the Participant's responsibility to ensure that such a representative exists, and that contact information is correct.

C. Seller Credit

Participants that have maintained a Net Sell Position in PJM 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 at PJM, less any Financial Security or other sources of credit provided.

For every participant receiving Seller Credit, PJM 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 PJM, such as, but not limited to, known generator outages, changes in load responsibility, and bilateral transactions impacting the Participant. If PJM'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 at PJM, less any Financial Security or other sources of credit provided, then PJM 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 PJM 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.

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.

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

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

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

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

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

PJM may, at its discretion, adjust a Participant's Financial Security Requirement if PJM determines that the Peak Market Activity is not representative of such Participant's expected activity, as a consequence of known, measurable, and sustained changes. Such changes may include the loss (without replacement) of short-term load contracts, when such contracts had

terms of three months or more and were acquired through state-sponsored retail load programs, but shall not include short-term buying and selling or virtual bidding.

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

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

E. Working Credit Limit

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

Example: After a credit evaluation by PJM, a Participant is deemed able to support an Unsecured Credit Allowance of \$10.0 million. The Participant will be assigned a Working Credit Limit of \$8.5 million. PJM will monitor the Participant's Total Net Obligations against the Working Credit Limit.

A Participant with an Unsecured Credit Allowance may choose to provide Financial Security in order to increase its Working Credit Limit. A Participant with no Unsecured Credit Allowance may also choose to increase its Working Credit Limit by providing Financial Security in an amount greater than its Peak Market Activity.

If a Participant's Total Net Obligation approaches its Working Credit Limit, PJM may require the Participant to make an advance payment or increase its Financial Security in order to maintain its Total Net Obligation below its Working Credit Limit. Except as explicitly provided below, advance payments shall not serve to reduce the Participant's Peak Market Activity for the purpose of calculating credit requirements.

Example: After 10 days, and with 5 days remaining before the bill is due to be paid, a Participant approaches its \$4.0 million Working Credit Limit. PJM may require a prepayment of \$2.0 million in order that the Total Net Obligation will not exceed the Working Credit Limit.

If a Participant exceeds its Working Credit Limit or is required to make advance payments four or more times during a 52-week period, PJM may require Financial Security in an amount as may be deemed reasonably necessary to support its Total Net Obligation.

A Participant receiving unsecured credit may make early payments up to ten times in a rolling 52-week period in order to reduce its Peak Market Activity for credit requirement purposes. Imputed Peak Market Activity reductions for credit purposes will be applied to the billing period for which the payment was received. Payments used as the basis for such reductions must be received prior to issuance or posting of the invoice for the relevant billing period. The imputed Peak Market Activity reduction attributed to any payment may not exceed the amount of Unsecured Credit for which the Participant is eligible.

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, PJM 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. PJM 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.

PJM 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 group of Affiliates shall not exceed \$150 million. A group of Affiliates subject to this cap shall request PJM 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 appropriate for its credit strength.

G. Working Credit Limit Violations

1) Notification

A Participant is subject to notification when its Total Net Obligation to PJM 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 PJM. Additionally, 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.

III. VIRTUAL BID SCREENING

A. Credit and Financial Security

PJM 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** PJM may establish a reasonable timeframe, not to exceed three months, for which such Financial Security must be maintained. PJM 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 the PJM Treasury Department. PJM 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 PJM's bank, deposit into PJM's customer deposit account, and confirmation by PJM Treasury 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 PJM's credit and legal staffs that such letter of credit or amendment thereto conforms to PJM'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 PJM Treasury that a wire is being sent for such purpose.

B. Market Activity Review

Each month, PJM 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, PJM 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, PJM 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. PJM 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 PJM, plus any current period

unbilled amounts owed by PJM 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

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. As set forth in Section IV.D, the Auction Credit Requirement shall be determined separately for each Delivery Year. 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.

C. Reduction in Credit Requirement

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. As specified in Section IV.D, the RPM Auction Credit Rate also 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. 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 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 PJM will count as available Unsecured Credit twice the average of that participant's total net monthly PJM bills over the past 12 months.

F. Credit Responsibility for Traded Planned RPM Capacity Resources

PJM 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 PJM and agrees by providing written notice to the PJM Treasury Department 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.

PJM 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, PJM 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 PJM 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 PJM 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 PJM the return of any collateral no longer required for the FTR auctions. PJM is permitted to limit the frequency of such requested collateral returns, provided that collateral returns shall be made by PJM 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.

PJM 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 PJM 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, PJM 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, PJM 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. PJM 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, PJM 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, PJM shall remove 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 shall require affected Participants to establish additional credit.

H. FTR Administrative Charge Credit Requirement

In addition to any other credit requirements, PJM 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 PJM 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 PJM 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 PJM form of Financial Security for another PJM approved form of Financial Security of equal value. The Participant must provide three (3) Business Days notice to PJM of its intent to substitute the Financial Security. PJM 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 PJM with interest earned at PJM'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. PJM 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 PJM, and may include obligations issued by the federal government and/or federal government sponsored enterprises. These investment options will reside in accounts held in PJM's name in a banking or financial institution acceptable to PJM. Where practicable, PJM 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 PJM account in which its Financial Security is held. PJM 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. PJM 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 PJM 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 PJM.

- 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. PJM 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 PJM 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 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 PJM, 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" (PJM), 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 PJM 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 PJM format, it must first be reviewed and approved by PJM. All costs associated with obtaining and maintaining a letter of credit and meeting the policy provisions are the responsibility of the Participant
- PJM 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 PJM, 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 PJM. 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 PJM 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 § I.7.3 of the PJM Open Access Transmission Tariff, non-compliance with the PJM 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, 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. PJM has the right to liquidate all or a portion of a Participant's Financial Security at its discretion to satisfy Total Net Obligations to PJM in the event of default under this credit policy or one or more of the Agreements.

PJM may hold a defaulting Participant's Financial Security for as long as such party's positions exist at PJM 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. PJM 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, PJM 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) at PJM, 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, PJM may apply such Financial Security to such Participant's Obligations, even if Participant had previously announced and effected its withdrawal from PJM.

VII. 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 PJM Credit Application, PJM 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 Score

Credit Score is a composite numerical score scaled from 0-100 as calculated by PJM 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 PJM, provided by a Participant to PJM 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 PJM that a Participant has specifically designated to PJM 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 at PJM.

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 PJM 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 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. For the purpose of determining portfolio diversification and the associated FTR credit requirement for a load serving Participant, negatively priced FTRs that sink at their load location (as determined from the effective ARR allocation) shall be excluded from this calculation. However, for the purposes of this calculation, the MW quantity of FTRs shall not exceed the peak load of the load serving Participant at each location.

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.

Net Obligation

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

markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

Operating Agreement of PJM Interconnection, L.L.C., (“Operating Agreement”)

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

Participant

A 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 PJM.

PJM Open Access Transmission Tariff (“O.A.T.T.”)

The Open Access Transmission Tariff of PJM Interconnection, L.L.C., on file with the Federal Energy Regulatory Commission, and as revised from time to time.

Reliability Assurance Agreement (“R.A.A.”)

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

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, 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 PJM 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 PJM on a daily basis, plus any other Obligations owed to PJM 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 PJM 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 PJM to a Participant that is not secured by a form of Financial Security.

Unsecured Credit Allowance

Unsecured Credit Allowance is Unsecured Credit extended by PJM in an amount determined by PJM's evaluation of the creditworthiness of a Participant. This is also defined as the amount of credit that 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 PJM. The Working Credit Limit establishes the maximum amount of Total Net Obligation that a Participant may have outstanding at any time.

Attachment C

PJM Open Access Transmission Tariff

Attachment Q

Effective 09-17-2010, Version 0.1.0

Clean Version

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 PJM’s credit requirements.

Prior to becoming a Market Participant, Transmission Customer, and/or Member of PJM, PJM must accept and approve a Credit Application (including Credit Agreement) from such entity and establish a Working Credit Limit with PJM. PJM 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 PJM’s ability to apply such designated credit to any obligation(s) in case of a default.

PJM may post on its 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. PJM 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. PJM 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 PJM 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 PJM in writing that it does not seek any Unsecured Credit Allowance. PJM will identify any necessary Financial Security requirements and establish a Working Credit Limit for each Participant. In addition, PJM 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.

PJM will provide a Participant, upon request, with a written explanation for any change in credit levels or collateral requirements. PJM 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 PJM's Treasury Department. Such a request should include:

- A citation to the applicable section(s) of the PJM 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

PJM's Treasury Department 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 PJM's Chief Financial Officer, and should contain:

- A complete copy of the Participant's earlier request for reconsideration, including citations and calculations
- A copy of the PJM Treasury Department'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

PJM's Chief Financial Officer 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, PJM will consider:

1) Rating Agency Reports

In evaluating credit strength, PJM 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, PJM 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 PJM.

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 PJM. For certain Participants, some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJM.

In the credit evaluation of Cooperatives and Municipalities, PJM may request additional information as part of the overall financial review process and will consider other alternative measures in determining financial strength and creditworthiness. For Cooperatives and Municipalities, PJM 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

PJM 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 PJM.

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 Securities and Exchange Commission ("SEC"), Federal Energy Regulatory Commission ("FERC"), 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 PJM.

B. Ongoing Credit Evaluation

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

1) Rating Agency Reports

In evaluating credit strength, PJM 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, PJM 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 PJM 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 PJM. 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 PJM. For certain Participants, some of the above financial submittals may not be applicable, and alternate requirements may be specified by PJM.

In the credit evaluation of Cooperatives and Municipalities, PJM may request additional information as part of the overall financial review process and will consider other alternative measures in determining financial strength and creditworthiness. For Cooperatives and Municipalities, PJM 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 PJM immediately, in writing, of any Material change in its financial condition.

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); or
- h. The filing of a lawsuit that could adversely impact any current or future financial results by ten percent or more.

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

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 PJM.

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 Securities and Exchange Commission (“SEC”), Federal Energy Regulatory Commission (“FERC”), or any other governing, regulatory, or standards body. These disclosures shall be made upon initiation or change, or as requested by PJM.

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 obtained from a third party (“Guarantor”) 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” (PJM) 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 PJM. 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 PJM.

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 PJM will constitute an event of default under this credit policy. A Participant may request PJM to perform a credit evaluation in order to determine creditworthiness and to establish an Unsecured Credit Allowance, if applicable. If PJM determines that a Participant does qualify for a sufficient Unsecured Credit Allowance, then Financial Security will not be required.

The PJM 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 PJM format, it must first be reviewed and approved by PJM. 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 PJM provided that all of the following conditions are met:

PJM 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 PJM's standard form of Foreign Guaranty with any modifications subject to review and approval by PJM 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 PJM; 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 PJM'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 PJM with clear representation of net worth, intangible assets, and any other information PJM 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 PJM (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 PJM'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 PJM related to reviewing and accepting a foreign guaranty beyond nominal in-house credit and legal review.
- xiii. Must, at its own cost, provide PJM with independent legal opinion from an attorney/solicitor of PJM's choosing and licensed to practice law in the United States and/or Guarantor's domicile, in form and substance acceptable to PJM 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 PJM 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 PJM provided that all of the following conditions are met.

PJM 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 PJM's standard form of Foreign Guaranty with any modifications subject to review and approval by PJM 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 PJM; 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 PJM with clear representation of net worth, intangible assets, and any other information PJM 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.

II. CREDIT ALLOWANCE AND WORKING CREDIT LIMIT

PJM'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 the credit evaluation of Cooperatives and Municipalities, PJM may request additional information as part of the overall financial review process and will consider other alternative measures in determining financial strength and creditworthiness. For Cooperatives and Municipalities, PJM 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, PJM 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 PJM'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. PJM 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

PJM 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.

PJM 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.

PJM 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, PJM will notify the Participant. PJM's responsibility to notify the Participant will be satisfied if it sends an email notification to either a primary or secondary Members Committee Representative for the Participant. It is the Participant's responsibility to ensure that such a representative exists, and that contact information is correct.

C. Seller Credit

Participants that have maintained a Net Sell Position in PJM 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 at PJM, less any Financial Security or other sources of credit provided.

For every participant receiving Seller Credit, PJM 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 PJM, such as, but not limited to, known generator outages, changes in load responsibility, and bilateral transactions impacting the Participant. If PJM'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 at PJM, less any Financial Security or other sources of credit provided, then PJM 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 PJM 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.

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.

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

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

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

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

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

PJM may, at its discretion, adjust a Participant's Financial Security Requirement if PJM determines that the Peak Market Activity is not representative of such Participant's expected activity, as a consequence of known, measurable, and sustained changes. Such changes may include the loss (without replacement) of short-term load contracts, when such contracts had

terms of three months or more and were acquired through state-sponsored retail load programs, but shall not include short-term buying and selling or virtual bidding.

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

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

E. Working Credit Limit

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

Example: After a credit evaluation by PJM, a Participant is deemed able to support an Unsecured Credit Allowance of \$10.0 million. The Participant will be assigned a Working Credit Limit of \$8.5 million. PJM will monitor the Participant's Total Net Obligations against the Working Credit Limit.

A Participant with an Unsecured Credit Allowance may choose to provide Financial Security in order to increase its Working Credit Limit. A Participant with no Unsecured Credit Allowance may also choose to increase its Working Credit Limit by providing Financial Security in an amount greater than its Peak Market Activity.

If a Participant's Total Net Obligation approaches its Working Credit Limit, PJM may require the Participant to make an advance payment or increase its Financial Security in order to maintain its Total Net Obligation below its Working Credit Limit. Except as explicitly provided below, advance payments shall not serve to reduce the Participant's Peak Market Activity for the purpose of calculating credit requirements.

Example: After 10 days, and with 5 days remaining before the bill is due to be paid, a Participant approaches its \$4.0 million Working Credit Limit. PJM may require a prepayment of \$2.0 million in order that the Total Net Obligation will not exceed the Working Credit Limit.

If a Participant exceeds its Working Credit Limit or is required to make advance payments four or more times during a 52-week period, PJM may require Financial Security in an amount as may be deemed reasonably necessary to support its Total Net Obligation.

A Participant receiving unsecured credit may make early payments up to ten times in a rolling 52-week period in order to reduce its Peak Market Activity for credit requirement purposes. Imputed Peak Market Activity reductions for credit purposes will be applied to the billing period for which the payment was received. Payments used as the basis for such reductions must be received prior to issuance or posting of the invoice for the relevant billing period. The imputed Peak Market Activity reduction attributed to any payment may not exceed the amount of Unsecured Credit for which the Participant is eligible.

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, PJM 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. PJM 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.

PJM 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 group of Affiliates shall not exceed \$150 million. A group of Affiliates subject to this cap shall request PJM 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 appropriate for its credit strength.

G. Working Credit Limit Violations

1) Notification

A Participant is subject to notification when its Total Net Obligation to PJM 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 PJM. Additionally, 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.

III. VIRTUAL BID SCREENING

A. Credit and Financial Security

PJM 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** PJM may establish a reasonable timeframe, not to exceed three months, for which such Financial Security must be maintained. PJM 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 the PJM Treasury Department. PJM 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 PJM's bank, deposit into PJM's customer deposit account, and confirmation by PJM Treasury 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 PJM's credit and legal staffs that such letter of credit or amendment thereto conforms to PJM'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 PJM Treasury that a wire is being sent for such purpose.

B. Market Activity Review

Each month, PJM 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, PJM 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, PJM 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. PJM 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 PJM, plus any current period

unbilled amounts owed by PJM 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

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. As set forth in Section IV.D, the Auction Credit Requirement shall be determined separately for each Delivery Year. 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.

C. Reduction in Credit Requirement

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. As specified in Section IV.D, the RPM Auction Credit Rate also 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. 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 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 PJM will count as available Unsecured Credit twice the average of that participant's total net monthly PJM bills over the past 12 months.

F. Credit Responsibility for Traded Planned RPM Capacity Resources

PJM 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 PJM and agrees by providing written notice to the PJM Treasury Department 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.

PJM 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, PJM 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 ARR's held by the Participant for that month. The resulting twelve monthly subtotals represent the expected value of net payments between PJM 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 PJM 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 PJM the return of any collateral no longer required for the FTR auctions. PJM is permitted to limit the frequency of such requested collateral returns, provided that collateral returns shall be made by PJM 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.

PJM 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 PJM 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, PJM 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, PJM 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 ARRs credits shall be reduced to zero for months associated with that ARR allocation process. PJM 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, PJM 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, PJM shall remove 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 shall require affected Participants to establish additional credit.

H. FTR Administrative Charge Credit Requirement

In addition to any other credit requirements, PJM 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 PJM 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 PJM 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 PJM form of Financial Security for another PJM approved form of Financial Security of equal value. The Participant must provide three (3) Business Days notice to PJM of its intent to substitute the Financial Security. PJM 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 PJM with interest earned at PJM'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. PJM 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 PJM, and may include obligations issued by the federal government and/or federal government sponsored enterprises. These investment options will reside in accounts held in PJM's name in a banking or financial institution acceptable to PJM. Where practicable, PJM 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 PJM account in which its Financial Security is held. PJM 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. PJM 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 PJM 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 PJM.

- 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. PJM 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 PJM 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 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 PJM, 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" (PJM), 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 PJM 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 PJM format, it must first be reviewed and approved by PJM. All costs associated with obtaining and maintaining a letter of credit and meeting the policy provisions are the responsibility of the Participant
- PJM 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 PJM, 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 PJM. 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 PJM 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 § I.7.3 of the PJM Open Access Transmission Tariff, non-compliance with the PJM 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, 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. PJM has the right to liquidate all or a portion of a Participant's Financial Security at its discretion to satisfy Total Net Obligations to PJM in the event of default under this credit policy or one or more of the Agreements.

PJM may hold a defaulting Participant's Financial Security for as long as such party's positions exist at PJM 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. PJM 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, PJM 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) at PJM, 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, PJM may apply such Financial Security to such Participant's Obligations, even if Participant had previously announced and effected its withdrawal from PJM.

VII. 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 PJM Credit Application, PJM 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 Score

Credit Score is a composite numerical score scaled from 0-100 as calculated by PJM 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 PJM, provided by a Participant to PJM 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 PJM that a Participant has specifically designated to PJM 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 at PJM.

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 PJM 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 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. For the purpose of determining portfolio diversification and the associated FTR credit requirement for a load serving Participant, negatively priced FTRs that sink at their load location (as determined from the effective ARR allocation) shall be excluded from this calculation. However, for the purposes of this calculation, the MW quantity of FTRs shall not exceed the peak load of the load serving Participant at each location.

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.

Net Obligation

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

markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

Operating Agreement of PJM Interconnection, L.L.C., (“Operating Agreement”)

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

Participant

A 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 PJM.

PJM Open Access Transmission Tariff (“O.A.T.T.”)

The Open Access Transmission Tariff of PJM Interconnection, L.L.C., on file with the Federal Energy Regulatory Commission, and as revised from time to time.

Reliability Assurance Agreement (“R.A.A.”)

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

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, 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 PJM 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 PJM on a daily basis, plus any other Obligations owed to PJM 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 PJM 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 PJM to a Participant that is not secured by a form of Financial Security.

Unsecured Credit Allowance

Unsecured Credit Allowance is Unsecured Credit extended by PJM in an amount determined by PJM's evaluation of the creditworthiness of a Participant. This is also defined as the amount of credit that 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 PJM. The Working Credit Limit establishes the maximum amount of Total Net Obligation that a Participant may have outstanding at any time.