



Peak Market Activity (PMA) Credit Analysis

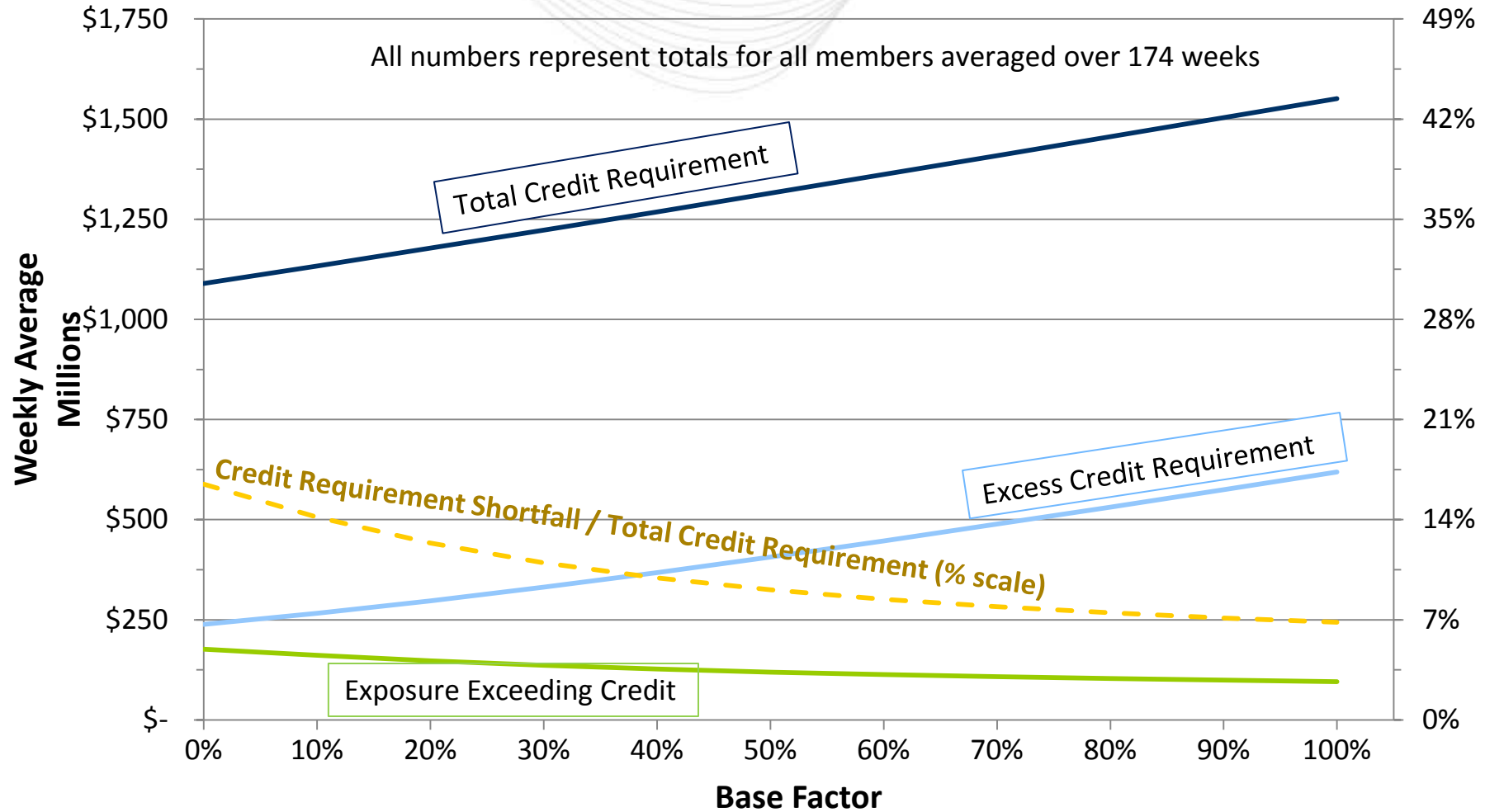
Credit Subcommittee
July 7, 2015

- PJM's goals for credit design
 - Reduction of default risk
 - Requires credit on hand before the exposure occurs
 - Targeted to actual exposures
 - Balance between risk reduction and cost
 - Practical implementation
 - Current PJM credit design features include:
 - PMA credit requirement
 - Working Credit Limit (WCL) discount
 - Credit screens

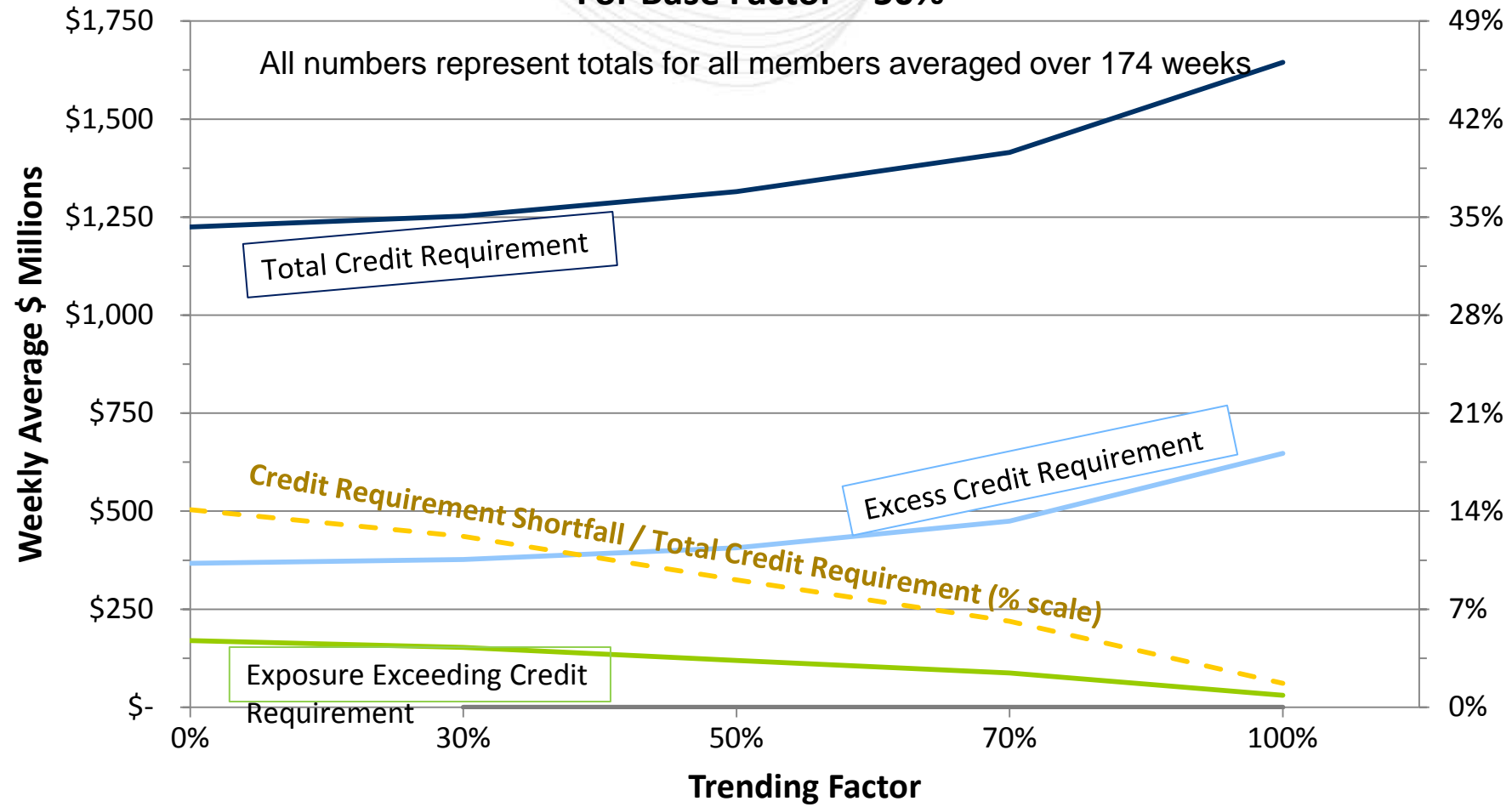
- Current PMA credit requirement
 - 2 semiannual periods ending April and October
 - Initial PMA each period is the 3-week average of all non-zero invoices over the past year
 - Within each period the PMA is the sum of highest three (or fewer) consecutive weeks of total PJM invoices ending in that period
 - Members with unsecured credit may make up to ten prepayments per rolling year to reduce their PMA

- PJM has analyzed an alternative methodology that includes a “Base” (hold) component and a “Trending” (temporary) component
 - Base consists of a rolling annual 3-week average requirement that is proactively increased by a defined percentage from mid-December to mid-March and from mid-June to mid-October
 - Trending consists of a requirement equal to a defined percentage of the highest three-week exposure in the past eight weeks
- Analysis was conducted for the period January 2012 through March 2015
- Extensive scenarios were considered with varying levels of Base and Trending factors

Effect of Base Factor on Credit Requirements and Exposure For Trending Factor = 50%

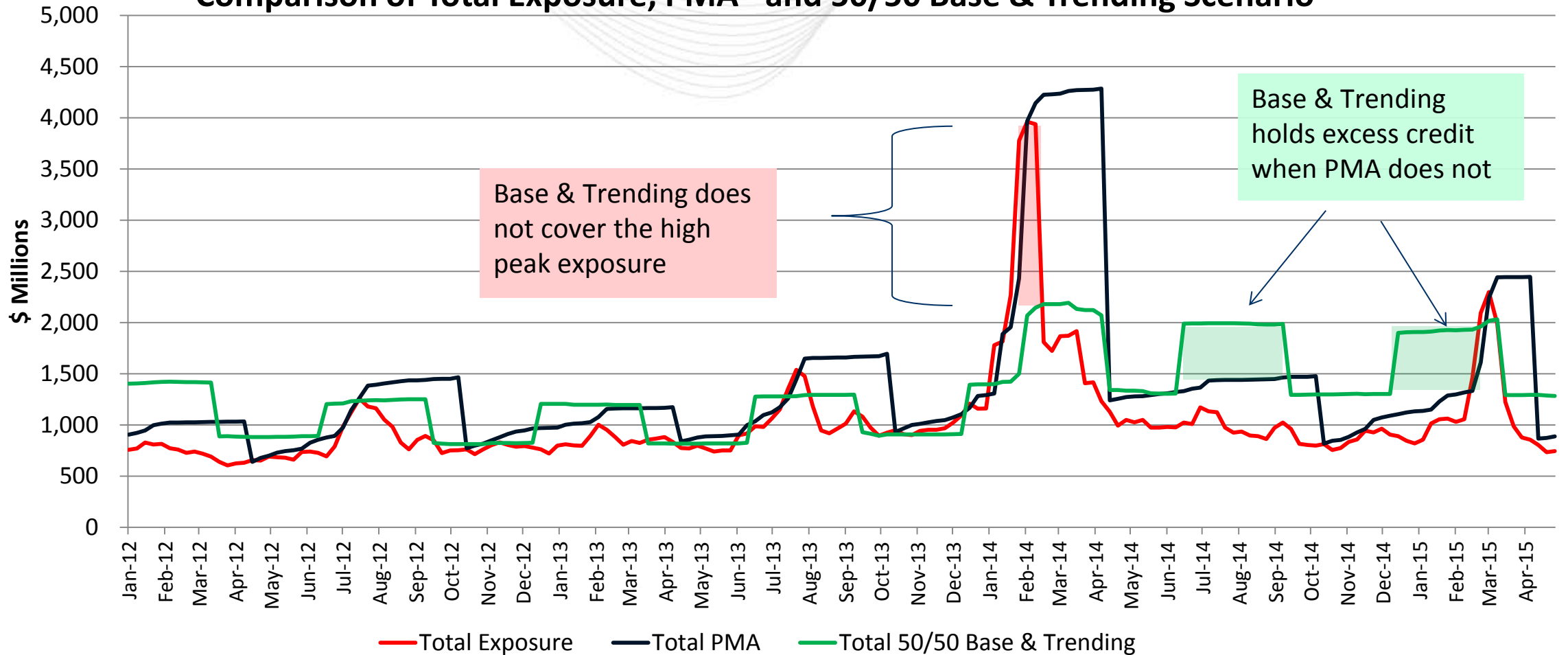


Effect of Trending Factor on Credit Requirements and Exposure For Base Factor = 50%



- The Base & Trending alternative does not appear to provide an improvement over the existing PMA methodology
- Example: 50/50 scenario (Base increase of 50% for all Participants at start of each season, Trending requirement equal to 50% of actual peak exposure for the next eight weeks)
 - Reductions in peak-period PMA requirements resulted in larger peak seasonal exposures
 - Proactive Base component covered some initial seasonal exposure, but also increased credit requirements prior to actual seasonal peaks
 - Except for high peak periods, total membership credit requirement very similar to PMA
 - However, less effective than PMA at targeting members' individual exposures

Comparison of Total Exposure, PMA* and 50/50 Base & Trending Scenario



* PMA was calculated using actual invoices without reduction for prepayments

- PJM believes that a key goal behind member requests – earlier return of collateral – could be accomplished by moving the April semiannual PMA reset to March
- At the next CS meeting, PJM will present the options matrix with this change as a package for member consideration
- Members may submit any alternative packages they wish considered
 - Packages received prior to the meeting will be included in the matrix posted for the meeting
- With consensus stakeholder support, a package could be presented to the MIC at the next available meeting
- Without consensus support, PJM can conduct a poll to determine if there is sufficient support to move packages forward