

DRAFT – Dated 4/4/2018

**ATTACHMENT Q
PJM CREDIT POLICY**

RPM CREDIT REQUIREMENTS FOR AT-RISK RESOURCES

CHANGE PAGES ONLY

3. Material Changes

Each Participant is responsible for informing PJMSettlement immediately, in writing, of any material change in its financial condition. However, PJMSettlement may also independently establish from available information that a Participant has experienced a material change in its financial condition without regard to whether such Participant has informed PJMSettlement of the same.

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

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

If PJMSettlement determines that a material change in the financial condition of the Participant has occurred, it may reduce or eliminate any Unsecured Credit afforded to the Participant. Such reduction or elimination may require the Participant to provide Collateral within two Business Days. If the Participant fails to provide the required Collateral, the Participant shall be in default under this Attachment Q.

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

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d. Subsequent to the posting of the results of the Third Incremental Auction, the Price Responsive Demand Credit Rate used for ongoing credit requirements for all Price Responsive Demand, shall be (the greater of (i) \$20/MW-day or (ii) 0.2 times the Final Zonal Capacity Price for the Locational Deliverability Area within which the Price Responsive Demand is located) times the number of days in such Delivery Year, but no greater than the Price Responsive Demand Credit Rate previously established under subsections (a), (b), or (c) of this section for such Delivery Year.

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

In addition to the forms of credit specified elsewhere in this Attachment Q, RPM Seller Credit shall be available to Market Participants, but solely for purposes of satisfying RPM Auction Credit requirements. If a supplier has a history of being a net seller into PJM Markets, on average, over the past 12 months, then PJMSettlement will count as available Unsecured Credit twice the average of that Market Participant's total net monthly PJMSettlement bills over the past 12 months. This RPM Seller Credit shall be subject to the cap on available Unsecured Credit as established in section II.D.3.

RPM Seller Credit is calculated as a single value for each Market Participant, not separately by account, and must be designated to specific customer accounts in order to be available to satisfy RPM Auction Credit requirements that are calculated in each such customer account.

7. Credit Responsibility for Traded Planned RPM Capacity Resources

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

8. Collateral Requirement for At Risk Resources

For purpose of this section, an At Risk Resource shall mean any Capacity Resource committed to PJM by a Market Participant that has declared bankruptcy or that PJMSettlement deems to be insolvent. A Market Participant with a capacity commitment for an At Risk Resource must provide PJMSettlement with Collateral as specified herein. Such Collateral must be maintained until such resource is no longer an At Risk Resource, and must be designated by the Market Participant to the resource's capacity market account. If such Collateral is not immediately designated, or if an insufficient amount of Collateral is designated, PJMSettlement shall issue a Collateral Call for the required additional amount, and the Market Participant must provide such Collateral within two Business Days.

The amount of such Collateral required shall be the sum, across all of the Market Participant's committed Capacity Resources for all Delivery Years, of [the megawatts committed to PJM from

such resource in a Delivery Year, times the highest Auction Credit Rate applicable to the resource resulting from any RPM Auction for such Delivery Year], minus the notational value of all of the Market Participant's capacity commitments for all Delivery Years. The amount of Collateral required shall only be reduced when PJM determines that the Market Participant has satisfied its obligations resulting from its capacity commitments for each Delivery Year, and shall not be subject to further reduction under Attachment Q, section IV.B.3 until PJMSettlement deems the Capacity Resource to no longer be an At Risk Resource.

C. Financial Transmission Right Auctions

Credit requirements described herein for FTR activity are applied separately for each customer account of a Market Participant. FTR Participants must designate the appropriate amount of credit to each separate customer account in which any activity occurs or will occur.

1. FTR Credit Limit.

Participants must maintain their FTR Credit Limit at a level equal to or greater than their FTR Credit Requirement for each applicable account. FTR Credit Limits will be established only by a Participants providing Collateral and designating the available credit to specific accounts.

2. FTR Credit Requirement.

For each Market Participant with FTR activity, PJMSettlement shall calculate an FTR Credit Requirement based on FTR cost less the FTR Historical Value. 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 for cleared counter flow or prevailing flow FTRs, respectively, in order to mitigate exposure due to uncertainty and fluctuations in actual FTR value. Historical values used in the calculation of FTR Historical Values shall be adjusted when the network simulation model utilized in PJM's economic planning process indicates that transmission congestion will decrease due to certain transmission upgrades that are in effect or planned to go into effect for the following Planning Period. The transmission upgrades to be modeled for this purpose shall only include those upgrades that, individually, or together, have 10% or more impact on the transmission congestion on an individual constraint or constraints with congestion of \$5 million or more affecting a common congestion path. The adjustments to historical values shall be the dollar amount of the adjustment shown in the network simulation model. 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 Market Participant for that month. The resulting twelve monthly subtotals represent the expected value of net payments between PJMSettlement and the Market Participant for FTR activity each month during the Planning Period. Subject to later adjustment by an amount based on portfolio diversification, if