

Changes for FTR Undiversified Credit Adder Alternative

ATTACHMENT Q

PJM CREDIT POLICY

V. FINANCIAL TRANSMISSION RIGHT AUCTIONS

A. FTR Credit Limit.

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

B. FTR Credit Requirement.

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

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

C. Rejection of FTR Bids.

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

D. FTR Credit Collateral Returns.

A Market Participant may request from PJMSettlement the return of any collateral no longer required for the FTR auctions or any other market activity. PJMSettlement is permitted to limit

the frequency of such requested collateral returns, provided that collateral returns shall be made by PJMSettlement at least once per calendar quarter, if requested by a Market Participant.

E. Credit Responsibility for Traded FTRs.

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

~~F. Portfolio Diversification.~~

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

~~1. Determine the FTR Portfolio Auction Value, including the tentative cleared solution. Any Participants with such FTR Portfolio Auction Values that are negative shall be deemed FTR Flow Undiversified.~~

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

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

~~If the FTR Credit Requirement for any Participant exceeds its credit available for FTRs as a result of these diversification requirements for the tentatively cleared portfolio of FTRs, PJM Settlement 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 Settlement, in coordination with PJM, shall cause the removal that Participant's entire set of bids for that FTR auction (or auction round) and a new cleared solution shall be calculated for the entire auction (or auction round).~~

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

F. FTR Counterflow Transitional Credit

If a Market Participant's counterflow FTR Historical Values are adjusted upward by 25% after [effective date], and the Market Participant's FTR Credit Requirement increases as a result of those adjustments after [effective date], the Market Participant will receive a credit equal to the difference between a) the Market Participant's FTR Credit Requirement after the increase and b) the Market Participant's FTR Credit Requirement before the increase (the "FTR Counterflow Transitional Credit"). The FTR Counterflow Transitional Credit shall be reduced any time the FTR Credit Limit exceeds the FTR Credit Requirement by an amount equal to the difference between the higher FTR Credit Limit and lower FTR Credit Requirement, until the FTR Counterflow Transitional Credit is equal to zero.

DEFINITIONS IMPACTED:

~~FTR Flow Undiversified:~~

~~FTR Flow 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. If the FTR Historical Value is negative, the path is considered historically counterflow; if the FTR Historical Value is positive the path is considered historically prevailing flow. FTR Historical Values shall be adjusted by plus twenty-five percent (25%) for historically counterflow FTRs, and ~~or~~ minus ten percent (10%) for cleared counterflow or normal historically prevailing flow FTRs, respectively; in order to mitigate exposure due to uncertainty and fluctuations in actual FTR value.