

PJM Mark-to-Market Example: Select Slides from PJM Credit Risk Management Steering Committee Meeting – June 12, 2008

FTR Credit Working Group
Meeting #7
July 14, 2008

PJM Analysis of Mark-to-Market in Managing FTR Credit Risk

- PJM reviewed how effective the market was in valuing the forward positions held by the defaulted FTR participants.
- Monthly clearing prices accurately reflected future returns for fewer than 25% of the portfolios.
- Remaining portfolios were split ...
 - 35% would have been materially over-collateralized;
 - 43% would have been materially under-collateralized
- PJM's analysis also shows that market clearing prices for the portfolios were slow in adjusting to changing congestion patterns...market prices materially changed after PJM announced the defaults



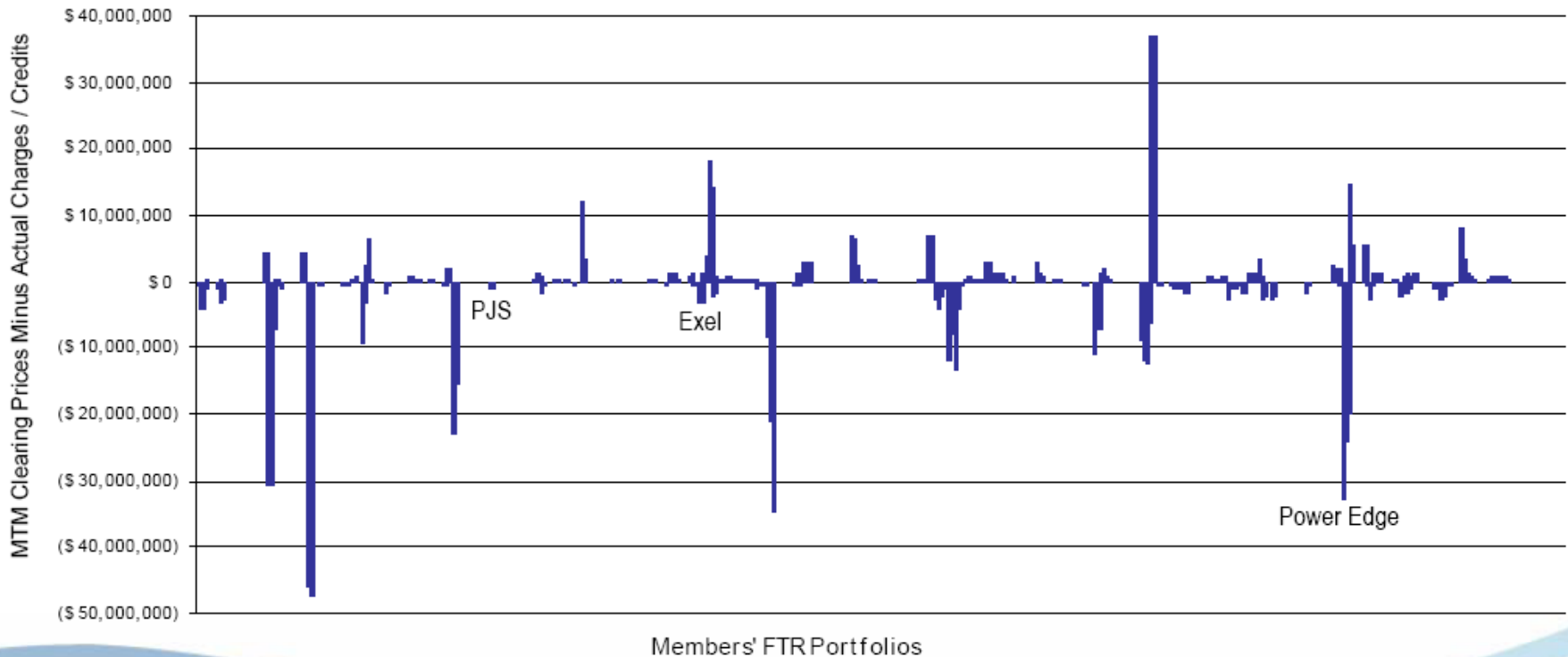
Illustrative Examples of Potential Credit Proposals – Forward Transactions

Credit Risk Management Steering Committee



FTR Mark-to-Market Accuracy - 2007/2008 Planning Year All Market Participants

If credit requirements had been set based on monthly FTR auction clearing prices, then for the 2007 / 2008 planning year, 49 members' FTR portfolios (35%) would have been overcollateralized, 61 members' FTR portfolios (43%) would have been undercollateralized, and 32 members' FTR portfolios (22%) would not have been materially over or undercollateralized throughout the planning year.





FTR Mark-to-Market Accuracy - 2007/2008 Planning Year

Defaulting FTR Market Participants

If credit requirements had been set based on monthly FTR auction clearing prices, then the three largest FTR defaults during the 2007 / 2008 planning year would have been undercollateralized up to \$33 million until their default was declared by PJM. After the defaults were declared, one FTR portfolio in default would have been overcollateralized as much as \$14.5 million while the other two would have remained undercollateralized \$300,000 – \$600,000 each.

