

3. ~~Internal Credit Score~~ Rating and Internal Credit Score

~~PJM will use credit risk scoring methodologies as a tool to determine an Unsecured Credit Allowance for each Applicant and/or its Guarantor. PJM will use credit risk scoring methodologies as a tool in determining an Internal Credit Score for each Applicant and/or its Guarantor. As its~~ source for calculating the Unsecured Credit Allowance, PJM will rely on the external ratings from a Rating Agency, if any, on the Applicant's or Guarantor's senior unsecured debt or their issuer ratings or corporate ratings if senior unsecured debt ratings are not available. If there is a split rating between the Rating Agencies, the lower of the ratings shall apply. If no external credit rating is available PJM will utilize its Internal Credit Score in order to calculate the Unsecured Credit Allowance.

Formatted: Highlight

Formatted: Highlight

~~The Internal Credit Score will be used to determine eligibility and capitalization requirements listed herein and to determine Unsecured Credit Allowance.~~ The model used to develop the Internal Credit Score will be quantitative, based on financial data found in the income statement, balance sheet, and cash flow statement, and it will be qualitative based on relevant factors that may be internal or external to a particular Applicant and/or its Guarantor.

PJM will employ a framework, as outlined in Tables 1-5 below, based on metrics internal to the Applicant and/or its Guarantor, including capital and leverage, cash flow coverage of fixed obligations, liquidity, profitability, and other qualitative factors. The particular metrics and scoring rules differ according to the Applicant's or Guarantor's line of business and the PJM Markets in which it anticipates participating, in order to account for varying sources and degrees of risk to the PJM Markets and PJM members.

The formulation of each metric will be consistently applied to all Applicants and Guarantors across industries with slight variations based on identifiable differences in entity type, anticipated market activity, and risks to the PJM Markets and PJM members. In instances where the external credit rating is used to calculate the unsecured credit allowance, PJM may also use the

PJM will compare the external rating from a Rating Agency, if any, on the Applicant or Guarantor's senior unsecured debt, or their issuer ratings or corporate ratings if senior unsecured debt ratings are not available, with the Internal Credit Score derived by PJM, and may utilize the lower of the external rating or Internal Credit Score as an input into determining the overall risk profile of an Applicant and/or its Guarantor.

Formatted: Highlight