Problem/Opportunity Statement

REVIEW OF MINIMUM CAPITALIZATION REQUIREMENTS FOR MARKET PARTICIPANTS

PROBLEM / OPPORTUNITY STATEMENT

PJM implemented minimum capitalization requirements for entities participating in PJM Markets in 2011. These requirements, which remain unchanged since implementation are intended to provide controls to ensure that those participating in PJM markets have the financial ability and risk management capabilities to meet their planned market positions, and to also protect against potential defaults. This problem statement provides an opportunity to review those requirements.

- Higher capitalization provides higher likelihood of capital access which would otherwise require large amounts of collateral to cover tail market events or outlier events.
- Companies with greater assets and lower debt are more likely to have access to lender capital.
- Higher incentive for equity holders who have more "stake in the results" to provide additional capital to meet collateral calls.
- The inherent financial strength of a participant, as demonstrated by its capitalization of its corporate structure, provides a measure of additional financial wherewithal.
- A review of minimum capitalization requirements may improve the overall counterparty risk in PJM.
- PJM and Market Participants benefit from having financially strong Market Participants transacting in PJM Markets
- PJM has separate minimum capitalization requirements for FTR Participants and non-FTR Market participants.
- PJM Tariff provides for other methods to satisfy the minimum requirements for participation in PJM markets.
- Sufficient market capitalization is a key risk management tool.
- Notwithstanding the above, PJM recognizes the fact that, within its membership, electrical systems owned by Public Power entities (electric cooperatives, municipal electric systems) may operate under different business models that do not utilize the same capital structure that publicly traded or privately held public utilities and merchant generators adhere to.