



Market Participant Minimum Capital Requirements

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Why review Minimum Capitalization Requirement:

- PJM's minimum capitalization requirements for eligibility were established as a result of FERC order 741 in 2011 and have remained unchanged since implementation. Economy/Markets are significantly different today, then 13 years ago.
- These requirements are intended to provide controls such that those participating in PJM markets have the financial ability and risk management capabilities for their planned market positions to protect against potential defaults.
- This problem statement provides an opportunity to review those requirements.

How does modification to minimum capitalization requirement benefit market participants:

- Assures financial stable members
 - *33, (30%), of new market participants are barely meeting min cap requirements or not meeting and relying on Tangible Assets*
- Demonstration of strong capitalization, provides a measure of additional financial wherewithal.

Through review of Existing/New Market Participants data the below commonalities have been observed:

- Balance sheets reflecting TNW with little growth while significant revenues are generated from PJM
- Market participants barely meeting minimum capitalization requirements across all sectors
- Balance sheets reflecting only minimum capitalization requirements despite being in operation for several years
- Market participants balance sheet not meeting minimum capitalization requirements, thus requiring an affiliated entity guaranty or reliance on tangible assets to meet requirement



Average PJM Revenue for Market Participants Not Meeting/Barely Meeting Min Cap Requirements

Represents Top 10 Market Participants that have been PJM members for at least four years not meeting/barely meeting minimum capital requirements and generating PJM revenue

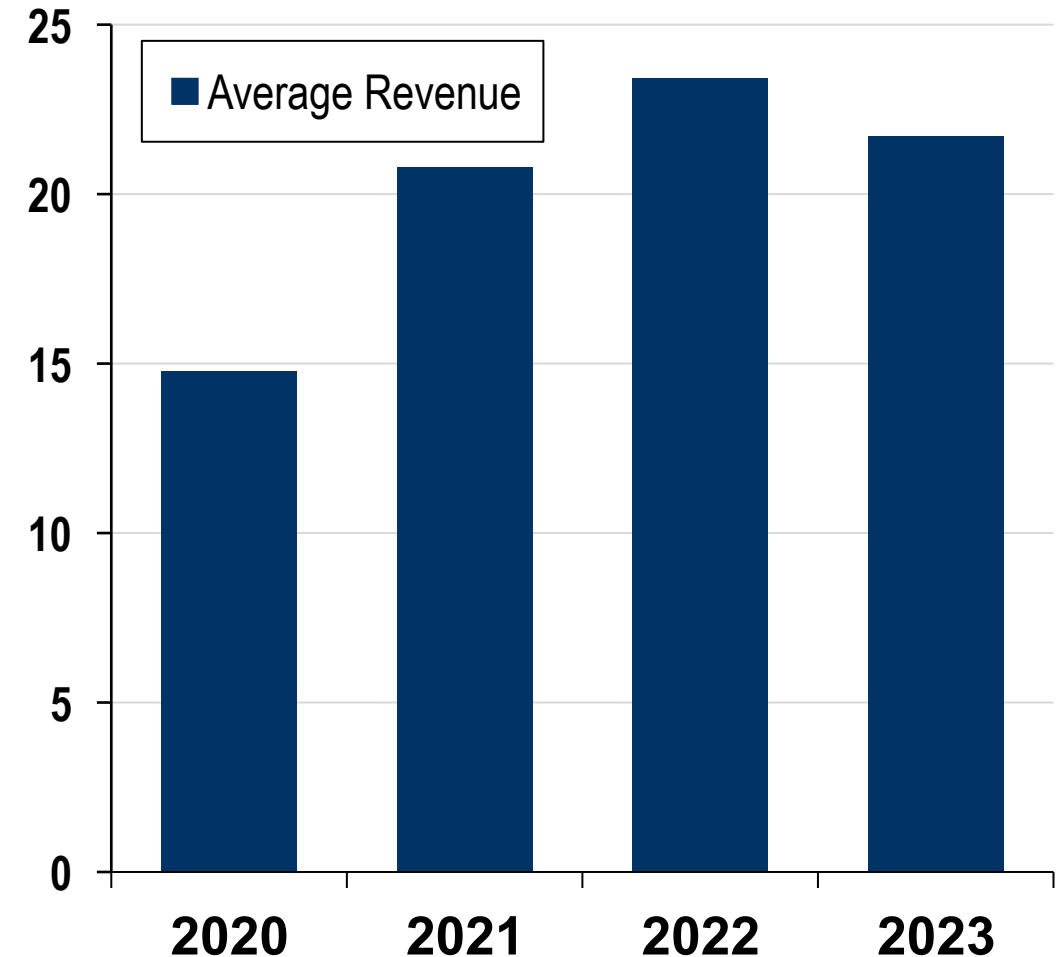
Average TNW of Market Participants for:

Fiscal Year **2023**
(\$2.7 M)

Fiscal Year **2022**
(\$715k)

PJM has observed trend of balance sheets reflecting low TNW while significant revenues are generated from PJM

This trend indicates revenues not being reinvested into the business and market participants maintaining balance sheets only to meet minimum capitalization requirements



**Excludes Generators, Transmission Owners, and Power Marketers*



Existing Market Participant Relying on Tangible Assets to Meet Minimum Capitalization

All Market Participants who:

	Meet Minimum Capitalization Relying on Tangible Assets	% of Total	Do Not/Barely Meet Minimum Capitalization	% of Total
Financial Trader	-		8	8%
Generation Owner/Transmission Owner	22	22%	14	14%
Load Serving Entity/Power Marketer	21	21%	15	15%
Other	7	7%	13	13%
Total (100)	50	50%	50	50%



Minimum Capitalization Threshold Comparison by Line of Business* Status Quo

All Market Participants who:

Status Quo
Option 1:
TNW \$5M/TA - \$10M
SPP
TNW \$10M/TA \$20M

	Status Quo		Do Not Meet		Meet		Do Not Meet		Meet		Do Not Meet	
	Min Cap	% of Total	Min Cap	% of total	Min Cap	% of Total	Min Cap	% of total	Min Cap	% of Total	Min Cap	% of Total
Financial Trader	116	15%	9	1%	76	10%	49	6%	61	8%	64	8%
Generation Owner/ Transmission Owner	321	41%	37	5%	313	40%	45	6%	302	39%	56	7%
Muni/Coop	35	4%	4	1%	33	4%	6	1%	32	4%	7	1%
Power Marketer	120	15%	6	1%	109	14%	17	2%	105	13%	21	3%
Other	103	13%	33	4%	94	12%	42	5%	77	10%	59	8%
Total (784)	695	89%	89	11%	625	80%	159	20%	577	74%	207	26%

*Line of business is identified by the Market Participant

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Market Participant Minimum Capital Requirements



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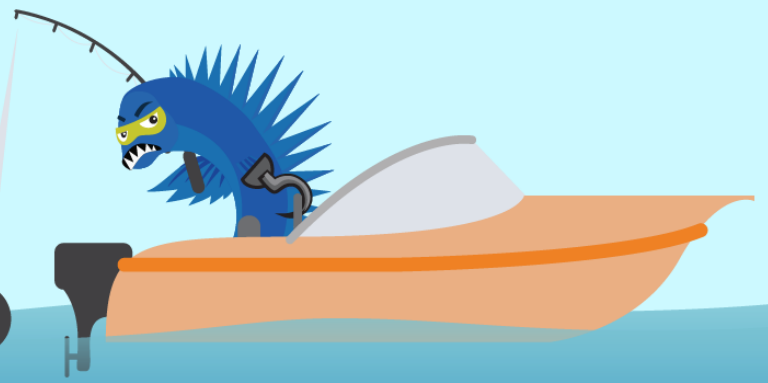
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Call (610) 666-2244 or email it_ops_ctr_shift@pjm.com**