



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, than 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.



Market Participants Not Meeting Minimum Capitalization Threshold

\$1 Million Tangible Net Worth or \$10 Million Tangible Assets

Line of Business (LOB)	Number of Market Participants	Number of Market Participants Meet Minimum Capitalization	Market Participants Do Not Meet Minimum Capitalization		
			Number	% of Number	% of Gross Activity* (Dollar) by LOB
Generation Owner/Transmission Owner	358	314	44	12%	0.64%
Load Serving Entity	101	81	20	20%	1.15%
Curtailment Service Provider	28	15	13	46%	2.30%
Financial Trader	125	111	14	11%	2.72%
Power Marketer	126	118	8	6%	1.14%
Other	46	39	7	15%	1.21%
Total	784	678	106	14%	0.94%

*Gross Activity is determined by summing the absolute dollar value of the charges and credits for each of the billing line items for the most recent 12 months.



Market Participants Not Meeting Minimum Capitalization Threshold

\$5 Million Tangible Net Worth or \$10 Million Tangible Assets

Line of Business	Number of Market Participants	Number of Market Participants Meet Minimum Capitalization	Market Participants Do Not Meet Minimum Capitalization		
			Number	% of Number	% of Gross Activity (Dollar) by LOB
Generation Owner/Transmission Owner	358	308	50	14%	0.65%
Load Serving Entity	101	72	29	29%	1.50%
Curtailment Service Provider	28	15	13	46%	2.30%
Financial Trader	125	73	52	42%	8.17%
Power Marketer	126	107	19	15%	2.57%
Other	46	38	8	17%	1.23%
Total	784	613	171	22%	1.56%



Market Participants Relying on Tangible Assets to Meet Minimum Capitalization Threshold

\$1 Million Tangible Net Worth or \$10 Million Tangible Assets

Line of Business	Number of Market Participants	Market Participants Relying on Tangible Assets to Meet Minimum Capitalization Threshold		
		Number	% of Number	% of Gross Activity* (Dollar) by LOB
Generation Owner/Transmission Owner	358	15	4%	0.22%
Load Serving Entity	101	14	14%	4.49%
Power Marketer	126	11	9%	10.54%
Other	199	7	4%	1.26%
Total	784	47	6%	2.03%

Out of the total 784 market participants, 678 meet minimum capitalization requirements, of which 47 rely on tangible assets.



Market Participants Relying on Tangible Assets to Meet Minimum Capitalization Threshold

\$5 Million Tangible Net Worth or \$10 Million Tangible Assets

Line of Business	Number of Market Participants	Market Participants Relying on Tangible Assets to Meet Minimum Capitalization Threshold		
		Number	% of Number	% of Gross Activity* (Dollar) by LOB
Generation Owner/Transmission Owner	358	15	4%	0.22%
Load Serving Entity	101	21	21%	5.82%
Power Marketer	126	13	10%	11.33%
Other	199	12	6%	2.70%
Total	784	61	8%	2.44%

Out of the total 784 Market Participants, 613 meet minimum capitalization requirements, of which 61 rely on tangible assets

1

Applying the minimum capitalization requirement of \$1MM tangible net worth or \$10MM tangible assets to all market participants: 86% will meet the requirement and 14% will not meet the requirement

2

Market participants not meeting the minimum capitalization requirement account for 1% of total gross market activity

3

Increasing the minimum capitalization threshold to \$5MM tangible net worth or \$10MM tangible assets to all market participants: 78% will meet the requirement and 22% will not meet the requirement

4

Market participants not meeting the requirement account for 2% of total gross market activity

Supplemental Analysis



Market Participants Not Meeting \$1 Million Tangible Net Worth Threshold

Line of Business (LOB)	Number of Market Participants	Number of Market Participants Meet	Market Participants Not Meeting \$1 Million Tangible Net Worth Threshold		
			Number	% of Number	% of Gross Activity* (Dollar) by LOB
Generation Owner/Transmission Owner	358	299	59	16%	0.86%
Load Serving Entity	101	67	34	34%	5.65%
Power Marketer	126	107	19	15%	11.67%
Other	199	158	41	21%	3.54%
Total	784	631	153	20%	2.97%

**Gross Activity is determined by summing the absolute dollar value of the charges and credits for each of the billing line items for the most recent 12 months.*

When applying only the \$1MM tangible net worth threshold (regardless of tangible assets), 20% or 153 market participants do not meet the threshold. These market participants represent 3% of the total gross activity.

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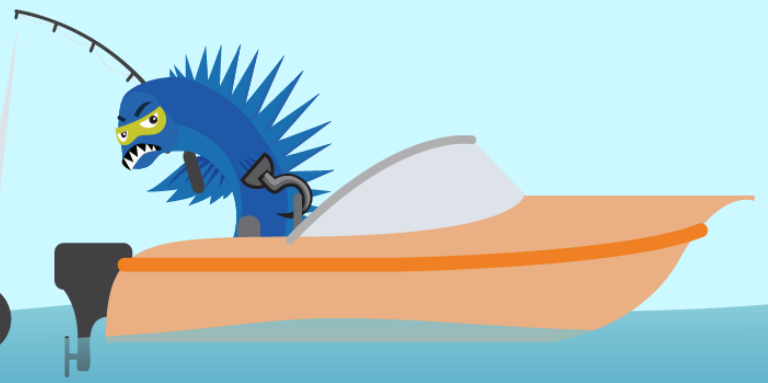
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