



# CAPITALIZATION CONSIDERATIONS

# STATUS QUO WAS VOTED FOR

- The package stakeholders just voted for included the status quo for the minimum capitalization standard.

Design Component	Status Quo	PJM Package
<p>FTR Participants Minimum Capitalization Standard</p>	<p>FTR Participants must demonstrate a tangible net worth in excess of \$1 million or tangible assets in excess of \$10 million. Other Market Participants must demonstrate a tangible net worth in excess of \$500,000 or tangible assets in excess of \$5 million.</p> <p>If a Participant does not demonstrate compliance with its applicable minimum capitalization requirements above, it may still qualify to participate in PJM's markets by posting additional Collateral, subject to the terms and conditions set forth herein.</p> <p>Any Collateral provided by a Participant unable to satisfy the minimum capitalization requirements above will be restricted in the following manner:                      (i) Collateral provided by FTR Participants shall be reduced by \$500,000 and then further reduced by 10%. This reduced amount shall be considered the amount available to satisfy requirements of this Attachment Q.</p>	<p>Status Quo with regards to minimum capitalization standard.</p> <p>Eliminate the exception that allows an FTR participant to post \$500,000 and then pay a 10% adder on collateral. Instead, using the methodology brought forth above in the changes, request an amount of restricted collateral that is commensurate with the amount of risk brought to the PJM market. If an Applicant, Market Participant, its Affiliates, or its Guarantor, looking to transact in PJM's market is determined by PJM to present unreasonable credit risk, regarding but not limited to the performance of any material obligation, material adverse change, credit rating downgrades and/or unexplained write-offs PJM will have the right to ask for collateral that is commensurate with the amount of risk to the PJM Market, as well as limited participation.</p>

# REDUCE DEFAULT RISK WITHOUT SACRIFICING COMPETITION

- Participants can be grouped or ranked by their capitalization and risk—a dollar amount that could be defaulted upon.



# REDUCE DEFAULT RISK WITHOUT SACRIFICING COMPETITION

- Now raising the minimum capitalization to \$10M places additional requirements, costs, and scrutiny on the wrong square





# CAPITALIZATION IS ONLY PART OF THE PICTURE

- The point of recent risk evaluation enhancements is to ensure collateral/capitalization is *commensurate with risk*. **Every participant should be equally evaluated by considering *both* capitalization *and* risk.**

Therefore, we should keep capitalization at \$1M like every other ISO and address the real issues elsewhere as we have been doing.

Capitalization

High Capitalization Low Risk	High Capitalization High Risk
Low Capitalization Low Risk	Low Capitalization High Risk (e.g., GreenHat)

Risk

If any square deserves extra scrutiny, it is this one

# DON'T EXCLUDE THE SAFEST ASSETS

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- According to updated Attachment Q (p24): “Tangible Net Worth shall exclude assets ... which PJM reasonably believes to be restricted, highly risky, or potentially unavailable to settle a claim in the Event of Default.”
- This is absolutely necessary for questionable assets on a balance sheet.
- However, *collateral held by PJM is excluded* from Tangible Net Worth – *why?*

Collateral held by PJM	Readily available assets held elsewhere	Restricted, highly risky, or unavailable assets
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- Collateral held by PJM is *unquestionably available to settle a claim* in the Event of Default, so it *should be included* in Tangible Net Worth (or tangible assets).