



Minimum Participation Requirements Overview

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- Minimum Participation and Minimum Capital requirements are often confused
- Minimum Participation requirements are three sets of requirements
 - Market Eligibility – includes requirements and tests such as “Appropriate Person” or Generation provider
 - Risk Management & Verification – includes the Officer Certification and Risk Policy reviews for certain members
 - Capital – requires certain Tangible Assets or Tangible Net Worth, or a Collateral alternative

- Net Worth (an accounting term) is often confused with Tangible Net Worth (a PJM term)
- Net Worth is a company's total assets minus total liabilities, and equals "equity" – on a "book" basis
- Tangible Net Worth is a type of measure of assets available to PJM if needed – if PJM's normal collateral requirements are insufficient alone for a Member's obligations
- Tangible Net Worth starts with Net Worth but removes assets that wouldn't be available to PJM such as intangibles, goodwill, and restricted assets
 - As a supplement to required collateral, this asset measure does not include required collateral at PJM

- Minimum Participation Requirements (§I)
 - Market Participation Eligibility Requirements (§I.A)
 - “[Qualify] to be eligible to transact in the PJM Markets”
 - Risk Management and Verification (§I.B)
 - Risk policy review of non-hedging FTR Participants
 - Risk Policy review on random selection of all Participants
 - Capital (§I.C)

“... the minimum financial requirements appropriate for the PJM Market(s) in which [the Participant] transacts”

 - Minimum Capitalization (§I.C.1)
 - Provision of Collateral (§I.C.2)

- May “qualify” to participate in PJM markets in one of five ways
 - Appropriate Person (per Commodity Exchange Act)
 - Eligible Contract Participant (per Commodity Exchange Act)
 - Physical Market Participant providing
 - Generation, transmission, distribution, electric energy services necessary for reliability
 - Unlimited Corporate Guaranty from an issuer with at least \$1 million of total net worth or \$5 million of total assets
 - Letter of credit of at least \$5 million that can't be used for trading credit requirements

- Minimum Capital requirement may be satisfied by either
 - Capitalization¹ - or -
 - FTR Participants
 - \$1 million tangible net worth² or \$10 million tangible assets²
 - Other Participants
 - \$500,000 million tangible net worth² or \$5 million tangible assets²
 - Collateral¹
 - FTR - \$500,000 discount + 10% discount on all other collateral
 - Virtual - \$200,000 discount + 10% discount on all other collateral
 - All other - 10% discount on all collateral
 - ¹ May also utilize guaranty under provisions in the Tariff
 - ² “In either case, consideration of tangible assets and net worth shall exclude assets (net of any matching liabilities, assuming the result is a positive value) which PJM Settlement reasonably believes to be restricted, highly risky, or potentially unavailable to settle a claim in the event of default. Examples include, but are not limited to, restricted assets and Affiliate assets, derivative assets, goodwill, and other intangible assets.”