

OATT, ATTACHMENT Q

III. MINIMUM PARTICIPATION REQUIREMENTS

D. Capitalization

In advance of certification, Applicants shall meet the minimum capitalization requirements below. In addition to the annual certification requirements in Attachment Q, Appendix 1, a Market Participant shall satisfy the minimum capitalization requirements on an annual basis thereafter. A Participant must demonstrate that it meets the minimum financial requirements appropriate for the PJM Markets in which it transacts by satisfying either the minimum capitalization or the provision of Collateral requirements listed below:

1. Minimum Capitalization

For purposes of this Section III.D, the “Implementation Date” shall mean the first December 31 following the effective date of the version of this Section III.D that is currently in effect. All phase-in periods, five-year calculations, and annual fixed-rate adjustments specified herein shall be measured from the Implementation Date. The minimum capitalization requirements set forth in this Section shall apply beginning on the Implementation Date. A Market Participant’s annual certification due by April 30 each year shall certify compliance with the standards applicable as of the immediately preceding December 31.

Minimum capitalization may be met by demonstrating minimum levels of Tangible Net Worth or tangible assets. The applicable Tangible Net Worth thresholds, tangible asset thresholds, and related requirements are set forth below. 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.

- (a) FTR Participants – Tangible Net Worth greater than or equal to \$2,000,000. This threshold shall remain fixed for the first five years after the Implementation Date and, beginning in year six, shall be increased each year by a fixed rate of three percent (3%), rounded to the nearest \$50,000.
- (b) Other Market Participants – Tangible Net Worth greater than or equal to \$1,000,000 on the Implementation Date, with an annual increase of \$200,000 each year for five years until reaching \$2,000,000 in year five. Beginning in year six, the \$2,000,000 threshold shall be adjusted each year by a fixed rate of three percent (3%), rounded to the nearest \$50,000.
- (c) Tangible Asset Thresholds – In addition to the Tangible Net Worth thresholds set forth above, a Market Participant may satisfy the minimum capitalization requirement through

tangible assets meeting or exceeding the following levels: (i) FTR Participants – tangible assets of at least \$10,000,000; and (ii) all other Market Participants – tangible assets of at least \$5,000,000. For the avoidance of doubt, a Market Participant relying on tangible assets must also maintain Tangible Net Worth greater than zero.

(a)(d) After the five-year phase-in period described above, all Market Participants shall be subject to the same Tangible Net Worth threshold set forth in subsection (a) as annually adjusted under this Section.

(b)(e) (a) Consideration of tangible assets and 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. Examples include, but are not limited to, restricted assets, derivative assets, goodwill, and other intangible assets.

(e)(f) (b) Demonstration of “tangible” assets and Tangible Net Worth may be satisfied through presentation of an acceptable Corporate Guaranty, provided that both:

- (i) the Guarantor is a Credit Affiliate company that satisfies the Tangible Net Worth or tangible assets requirements herein and whose Tangible Net Worth is greater than zero, and;
- (ii) the Corporate Guaranty is either unlimited or in an amount at least \$500,000 equal to the full Tangible Net Worth threshold applicable for its Participant type and year, including any fixed-rate or scheduled adjustments provided above.

If the Corporate Guaranty presented by the Participant to satisfy these capitalization requirements is limited in value, then the Participant’s resulting Unsecured Credit Allowance shall be the lesser of:

- (1) the applicable Unsecured Credit Allowance available to the Participant by the Corporate Guaranty pursuant to the creditworthiness provisions of this Attachment Q, or,
- (2) the face value of the Corporate Guaranty, reduced by \$500,000 and further reduced by 10%. (For example, a \$10.5 million Corporate Guaranty would be reduced first by \$500,000 to \$10 million and then further reduced 10% more to \$9 million. The resulting \$9 million would be the Participant’s Unsecured Credit Allowance available through the Corporate Guaranty).

In the event that a Participant provides Collateral in addition to a limited Corporate Guaranty to increase its available credit, the value of such Collateral shall be reduced by 10%. This reduced value shall be

considered the amount available to satisfy requirements of this Attachment Q.

(d)(g) For purposes of minimum capitalization, a Market Participant that (i) meets neither the tangible asset requirement nor the Tangible Net Worth requirement or (ii) meets the tangible asset requirement but has Tangible Net Worth less than or equal to zero shall be deemed not to satisfy the minimum capitalization requirement and shall be required to post Collateral equal to the full Tangible Net Worth threshold applicable for its Participant type and year, including any fixed-rate or scheduled adjustments provided above.

(h) (e) Demonstrations of minimum capitalization (minimum Tangible Net Worth or tangible assets) must be presented in the form of audited financial statements for the Participant's most recent fiscal year during the initial risk evaluation process and ongoing risk evaluation process.

2. Provision of Collateral

If a Participant does not demonstrate compliance with its applicable minimum capitalization requirements above, it may still qualify to participate in any PJM Markets by posting Collateral, additional Collateral, and/or Restricted Collateral, subject to the terms and conditions set forth herein.

Any Collateral provided by a Participant unable to satisfy the minimum capitalization requirements above will also be restricted in the following manner:

- (a) Collateral provided by Market Participants that engage in FTR transactions shall be reduced by an amount of the current risk plus any future risk to any PJM Markets and PJM membership in general, and may coincide with limitations on market participation. The amount of this Restricted Collateral shall not be available to cover any credit requirements from market activity. The remaining value shall be considered the amount available to satisfy requirements of this Attachment Q.
- (b) Collateral provided by other Participants that engage in Virtual Transactions or Export Transactions shall be reduced by \$200,000 and then further reduced by 10%. The amount of this Restricted Collateral shall not be available to cover any credit requirements from market activity. The remaining value shall be considered the amount available to satisfy requirements of this Attachment Q.
- (c) Collateral provided by other Participants that do not engage in Virtual Transactions or Export Transactions shall be reduced by 10%. The amount of this Restricted Collateral shall not be available to cover any credit requirements from market activity. The remaining value shall be considered the amount available to satisfy requirements of this Attachment Q.

In the event a Participant that satisfies the minimum capital requirement through provision of Collateral also provides a Corporate Guaranty to increase its available credit, then the Participant's resulting Unsecured Credit Allowance conveyed through such Corporate Guaranty shall be the lesser of:

- (a) the applicable Unsecured Credit Allowance available to the Participant by the Corporate Guaranty pursuant to the creditworthiness provisions of this Attachment Q; or
- (b) the face value of the Corporate Guaranty, reduced commensurate with the amount of the current risk plus any anticipated future risk to any PJM Markets and PJM membership in general, and may coincide with limitations on market participation.