



December 14, 2024

By Electronic Delivery
Mr. Thomas Zadlo, Chair
Ms. Julia Spatafore, Secretary
PJM Interconnection, L.L.C.
Risk Management Committee

Re: PJM's Proposal to Increase Minimum Capitalization Requirements

Dear PJM Risk Management Committee ("RMC"):

To facilitate the further discussion at the next RMC meeting on December 17, 2024, regarding PJM's proposal to increase minimum capitalization requirements, the **Diversified Retail Energy for Americans by Minorities Coalition** (the "DREAM Coalition") submits the following alternatives for review and consideration. The DREAM Coalition represents minority and women-owned/operated small businesses that provide retail electric services to residences and businesses in PJM's footprint. The DREAM Coalition shares deep concerns regarding increases to PJM's minimum capitalization requirements. More specifically, the DREAM Coalition believes that increases to PJM's minimum capitalization requirements will have an adverse impact on minority and women-owned/operated small businesses, potentially resulting in many of them struggling to operate, bringing value to customers or being forced to exit the market. The DREAM Coalition is supported by many Alliance Members who also stand to be adversely affected by a seemingly unnecessary or ineffectively executed change.

Although the DREAM Coalition strongly believes that maintaining the *status quo* may be the best option, below are alternatives for potential discussion at the upcoming December 17th RMC meeting.

- **Suggestion Option 1: Maintain *Status Quo*** - No change to PJM's credit policy - The proposed solution of raising minimum capitalization collateral needed to participate in PJM territory stands to impose unreasonable hardship and barriers to operate for small to medium sized companies, in a way that will not equally threaten larger market participants. This could result in decreased competition and harm end-use customers by minimizing choices available to them. An extreme increase in collateral requirements, untethered to revenue, risk or participation type by entity, could permanently bar many minority and women-owned/operated small businesses who are already disadvantaged in securing capital. The DREAM Coalition views PJM's current approach to capitalization collateral as adequately addressing applicable risk, and, therefore, requirements should remain as-is without being increased during this current review process. The DREAM Coalition is unaware of any major defaults under PJM's current standards and requirements, yielding the current structure as effective and efficient.

- **Suggestion Option 2:** Update credit policy to eliminate the \$500,000 minimum capitalization requirement for non-FTR participants to tether capital requirements to risk by participation type. The current requirements are seemingly excessive for smaller to medium sized market participants who are not exposed to FTR related risk and thus don't consider a company's specific risk exposure in calculating collateral requirements. The current requirement requires minimum capitalization of \$500,000 for non-FTR participants and a 10% additional reserve on collateral which don't seem to be metrics specific to risk exposure or company details. It would greatly support operations of minority and women-owned/operated small businesses if the minimum capitalization requirements reflected the risk exposure of each member in a fair and reasonable way. The current credit policy ultimately rewards larger firm members at the cost of new and/or smaller market participants and especially leaves minority and women-owned/operated small businesses at a disadvantage.
- **Suggestion Option 3:** Permit additional forms of credit risk mitigation solutions that the market deems sufficient: PJM could consider mitigating credit risk with various market-based solutions such as surety bonds, insurance, securitization of receivables and credit sleeve structures instead of overcompensating the tail risk with what results in punitive capitalization requirements. PJM's most recent proposed change to minimum capitalization requirements risks consolidating the market among larger market participants if smaller businesses are forced to close due to this proposed rule change. While \$5,000,000 in collateral is substantial to small and medium sized participants, it could be a metric too low to support larger firms that participate in the PJM market, leaving PJM exposed to high risk in certain scenarios, as a result of no company specific details triggering collateral requirements.

The following are some solutions that can be considered to transfer credit risk from PJM to other institutions:

- *Surety Bond* – PJM can partner with select insurance companies to provide surety bonds for market participants. This tool is effective because PJM providing an approved list of insurers would reduce bandwidth needed to review forms and credit ratings. Market participants could choose from PJM's approved list of insurers and benefit from possibly advantageous pricing as a result of leveraging buying power.
- *Credit Risk Insurance* – Credit Risk Insurance is offered from an established list of providers and has been relied upon as a traditional form of credit risk mitigation in other similar spaces and scenarios. PJM can explore using this tool to shift default risk from itself to the insurance company.
- *Securitization/Sale of Receivables* – Selling receivables is an effective tool in reducing credit risk and increasing working capital (to PJM). Private credit is a significant asset class, and the current market seems to have an appetite for credit of this nature.

- *Credit Sleeve Structures* – PJM can explore negotiations with larger energy trading companies which may offer bilateral physical transactions to reduce perceived credit risk. Energy trading companies would be compensated with credit sleeve fees and, in return, would assume the expected combined load obligations of members, thereby significantly reducing the net invoice amount of PJM.

We are confident that, if implemented, one or more of the above credit risk reduction solutions could minimize and potentially eliminate the need for the minimum capitalization requirements in place now.

We reiterate that PJM's current credit policy requirements are already significant, and in some cases, punitive for small to medium sized participating companies and disproportionately affect minority and women-owned/operated small businesses. Moreover, the potential increase to the minimum capitalization requirements stands to impose a wide-ranging impact of unnecessarily increasing retail prices of electricity to end-use customers with the imputed costs of higher capitalization requirements. It would result in less competitive, reliable and diverse markets. The DREAM Coalition encourages the RMC to maintain the *status quo* and/or consider strategies along the lines of the proposed market-based solutions above before imposing any new capitalization requirements.

Sincerely,

Coalition Members

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CC:

United States White House

FERC Chairman Willie Phillips

Energy Choice Matters

Fair Trade Commission