

Market Participant Minimum Capitalization

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Tangible Net Worth (PJM and GAAP) Definitions

PJM

Tangible Net Worth*	Total assets less goodwill and other intangible assets, minus total liabilities			
GAAP	*Tangible Net Worth shall exclude : assets that PJM reasonably believes to be restricted, highly risky or potentially unavailable to settle a claim in the even of default.			
Tangible Net Worth	Not explicitly defined term, but derived from GAAP-defined elements			
Intangible Assets	Total assets, less total liabilities, less intangible assets (defined below)			
Intangible Assets	Non-monetary asset lacking physical substance, identifiable and			
Assets that are restricted, high risk, unavailable to settle a claim in event of default	Construction in Progress	Prepaid Expense	Level 3 Assets	Restricted Assets (excluded funds posted to PJM)

Intangible Assets	PJM	GAAP
Goodwill	X	X
Patents	X	X
Trademarks	X	X
Lease agreements	X	X
Brands	X	X
Licensing, royalty and standstill agreements	X	X
Copyrights	X	X
Right of use	X	X

*Note: Demonstration of minimum capitalization must be presented in the form of audited financial statements for the participant's most recent fiscal year.

High-Level Comparison of Minimum Capitalization Proposals

Market Participants:

	Status Quo TNW \$1 M or TA \$10 M – FTR TNW \$500,000 or TA \$5 M – Other	Proposed Solution #1 TNW \$2 M or \$10 M TA (FTR) TNW \$1.5 M or \$5 M (Other TNW > 0)	Proposed Solution #2 TNW \$2 M + \$1 M Per MKT & TA \$10 M – FTR TNW \$1 M per MKt & TA \$5 M (Other TNW > 0)
Meets	734	660	670
Does not meet	*50	119	114
%	6%	15%	15%

**Updated from previously presented status quo numbers to reflect receipt of additional FY 2023 financial statements and to utilize consistent data set across all proposals*

- Large increase in MPs not meeting requirements from status quo to proposed solution 1 & 2 due to stipulation that TNW must be > 0.
- Proposed Solution 1 & 2 result in virtually same number of MP's not meeting requirement.

Comparison of Minimum Capitalization Proposals

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	Meets	Doesn't Meet	Meets	Doesn't Meet	Meets	Doesn't Meet
Generation Owner/Transmission Owner	336	22	325	33	320	38
Load Serving Entity	90	11	75	26	76	25
Curtailement Service Provider	19	9	11	17	12	16
Financial Trader	120	5	104	21	112	13
Power Marketer	123	3	108	18	109	17
Other	46	0	42	4	41	5
Total	734	50	665	119	670	114

Increase in market participants not meeting minimum capitalization requirements from status quo primarily due to requirement of $TNW > 0$.

Primary Reasons Market Participants Not Meeting Requirements:

Generators:

- Negative equity position
- Large intangible assets reporting on balance sheet

LSEs:

- Negative equity position
- Large restricted/security accounts held outside of PJM

Financial Traders:

- Small balance sheets (Equity position of \$1 M–\$2 M)

Power Marketers:

- Negative equity position
- Restricted assets