MEMORANDUM

To: Participants of the PJM Risk Management Committee
From: The Energy Co-op
Subject: Comments on proposed changes to the minimum capitalization requirement for PJM market entry

June 4, 2025

Fellow participants,

Following a recent discussion with PJM, we submitted a revised package for the minimum capitalization requirement (MCR) matrix that clarifies our proposal and aims to eliminate possible confusion. We are also sharing this memo with you all to clarify our goals and provide additional explanation about the components of our revised package.

Goals

PJM's objective of changing the MCR to ensure that all participants are appropriately capitalized and able to cover their potential exposure is a reasonable objective. However, while the MCR is "the ticket to enter," the MCR is undeniably related to the risk exposure each participant poses to PJM. We believe a change to MCR should be equitable, effective, and enable market participation, which can be achieved by a dynamic MCR based on 1) risk posed to PJM and 2) participant type. A one-size-fits-all MCR aimed at simplicity arbitrarily groups market participants of different types and sizes together, would be neither equitable nor enabling, and would ultimately be ineffective at reducing risk exposure to PJM if the capitalization requirement isn't requisite to risk posed.

Clarifying the Proposed Package

The revised Package C proposes that the minimum capitalization requirement be based on the amount of risk exposure participants pose to PJM, calculated for each market participant using the absolute value of their weekly settlement totals as a base for assessing risk posed. The requirement would be subject to annual recalculation at the time of the annual member recertification. Using weekly settlement totals as the basis for the minimum capitalization requirements, rather than a flat figure, is a more equitable and effective way of addressing the unique risk posed by each entity and does not place an undue burden on smaller market participants. For existing participants, the calculation will be based on the last five years of weekly settlement data (or total historical data for participants with less than five years of operation within PJM) to ensure adequate contemplation of outlier situations for risk mitigation. For new participants, since the level of risk posed by new market entrants is unknown, the MCR for the first year would be a flat dollar figure based on participant type, which would be recalculated once the participant has been operating in PJM for at least a year based on all available historical weekly PJM settlement data to date from market entry. While we propose a similar structure be applied to FTR and Virtual Market Participants, we have not included tailored solutions for those two

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groups because we are unfamiliar with the risk scale and therefore cannot adequately pose a reasonable MCR threshold for either. Our hope is that participants in these categories can help structure design components 1, 1a, 2, and 2a of the package in a way that is equitable and makes sense for each using our proposed structure for All Other Market Participants as a framework.

Implementation

As far as implementation is concerned, we envision the recalculation of the minimum tangible net worth and tangible net assets requirements aligning with the annual recertification process. Our suggested process approach is to have market participants submit their own recalculations based on the last five years of their weekly settlements (or less if applicable), which PJM would validate. Ultimately, PJM has authority over and sole visibility into implementation.

A change to the MCR has the potential to negatively affect market participation. We strongly discourage a solution prioritizing simplicity and ask that each of you as member and participant representatives support a dynamic solution that achieves equity and efficacy and enables market participation.

Sincerely,
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The Energy Co-op

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