



PROPOSAL ADDENDUM

To: Participants of the PJM Risk Management Committee

From: The Energy Co-op

Subject: Explanatory notes on the revised Proposal C proposing changes to the minimum capitalization requirement for PJM market entry and participation

August 4, 2025

Fellow Participants,

As an addendum to our revision of Proposal C, we are providing some explanatory notes to help clarify the purpose and application of our revised proposal. We have spoken with various stakeholders of the Risk Management Committee and PJM in order to structure a proposed change to the minimum capitalization requirement (MCR) that is 1) equitable, 2) effective, and 3) enables qualified market participation.

Considerations

It's important to recognize that a change to MCR is only part of the solution to address risk exposure in the PJM market. MCR is separate from the credit policy and consideration should be made for the limitation of MCR to adequately address risk posed by MPs and the current level of risk exposure present in the PJM market.

Based on their operations and risk posed, an increase of MCR to \$1 million 1) arbitrarily excludes MPs that do not need to maintain that kind of tangible net worth (TNW) or tangible assets (TA) to be considered risk tolerant and 2) neglects to address the greater risk posed by MPs that should have higher TNW or TA to be considered risk tolerant. During committee discussions and during independent conversations, there has been concern that TNW or TA too high would overburden certain types of MPs (e.g. generators). Our primary concern with a flat TNW or TA requirement is that it equally overburdens MPs with lower market activity.

Proposal Summary

For Design Components 1, 2, and 3, we propose a tiered structure that factors in risk posed by each market participant (MP) and the participant's operating type(s) (i.e. FTR, Capacity, and DA/RT). There is a TNW or TA requirement for each type of MP with requisite collateral allowances following the same requirements indicated for each tier. The MCR would be based on an annual evaluation of two (2) times the highest weekly total settlement in the last 5 years. Given the potential scope of market activity, we seek input from the Risk Management Committee on appropriate weekly settlement total ranges for tiers 3 and 4.

	DA / RT			Capacity			FTR			New Market Entrants		
	TNW ¹	TA ²	2x highest weekly total settlement in L5Y ³	TNW ¹	TA ²	2x highest weekly total settlement in L5Y ³	TNW ¹	TA ²	2x highest weekly total settlement in L5Y ³	TNW ¹	TA ²	2x highest weekly total settlement in L5Y ⁴
Tier 1	\$500K	\$5M	< \$500K	\$500K	\$5M	< \$500K	\$500K	\$5M	< \$500K	\$500K	\$5M	< \$500K
Tier 2	\$1M	\$5M	\$500K - \$1M	\$1M	\$5M	\$500K - \$1M	\$1M	\$5M	\$500K - \$1M	\$1M	\$5M	\$500K - \$1M
Tier 3	\$1.5M	\$7.5M	TBD	\$1.5M	\$7.5M	TBD	\$1.5M	\$7.5M	TBD	\$1.5M	\$7.5M	TBD
Tier 4	\$2M	\$10M	TBD	\$2M	\$10M	TBD	\$2M	\$10M	TBD	\$2M	\$10M	TBD

¹ TNW is capped at \$3M total for entities participating across multiple categories

² TA is capped at \$15M total for entities participating across multiple categories

³ Absolute value

⁴ In other territories, absolute value

For implementation, we suggest that MPs self-report their weekly total figures and opt into the appropriate tier. PJM would review and approve each MP's election and would already have all of the data necessary to ensure MPs are electing the correct tier and meeting the necessary requirements.

We recommend the TNW requirement be capped at \$3 million and TA be capped at \$15 million.

New market entrants would be required to start at \$1 million TNW or \$5 million unless the entity can show PJM data from other ISO territories it operates in that PJM can use to evaluate market activity and apply a tier for TNW or TA accordingly. The new market entrant's TNW or TA requirement would be reevaluated at the later of 12 months or the next annual recertification process to determine the appropriate tier based on PJM market activity.

MPs would be permitted to include in TNW and TA calculations any restricted assets specifically set aside for payment to PJM. MPs would specify the calculation on their balance sheet and PJM would already have the requisite data to compare and validate.

While the CFTC appropriate persons test indicates a \$1M floor for TNW, imposing a TNW beyond the necessary capitalization for a MP to be considered capable of withstanding volatility creates a systematic disadvantage for MPs with more modest market activity. We suggest an exemption from the CFTC appropriate persons evaluation for nonprofit and municipal entities (and others as relevant) that qualify for tier 1 in the proposed structure.

Addressing Key Concerns

A tiered approach solves for multiple concerns posed by the Risk Management Committee.

It negates the need for escalation over some fixed period as each MP's operations would escalate their requirement based on risk posed and operating market behavior. It also eliminates the potential for MPs to post inadequate TNW or TA compared to their market activity, again, because the requirement will be based on the MP's market behavior.

Capping TNW and TA requirements would prevent undue burden on MPs participating in the PJM market in multiple ways and MPs that may have volatile cash flow circumstances (e.g. generators).

There would be no need for an inflation or CPI adjustment because inflation is captured through evaluation based on PJM weekly settlement totals.

We do not envision this tiered structure imposing any additional burden on PJM from a process standpoint given that PJM already has to review MP financial information in order to approve continued participation in the PJM market. A tiered approach should also eliminate the need to reevaluate MCR for a long time and ultimately mean less work for PJM in the long run as well as increased stability and predictability. PJM is already collecting and reviewing all MPs' financials annually for recertification so it will be practical for PJM to verify whether MPs are adequately meeting the appropriate MCR tier elections MPs submit at the same time.

Ultimately, we anticipate that the overall structure proposed would necessitate a level of sophistication from MPs that would help stabilize the PJM market.

Addressing Identified Interests

The tiered structure we propose directly addresses almost all interests specified in the Interest Identification tab of the Minimum Capitalization Matrix and does so more effectively than any other proposed package while also raising the MCR to PJM's desired levels depending on the MP's level of market activity.

1. Ensure financial stability of new and existing members
2. Ensure fair, equitable and effective markets
3. Empower PJM to protect the interests of market participants from undue risk
4. Solutions should provide an alternative cure method
5. Avoid conflating credit policies with minimum capitalization
6. Ensure min cap rules do not inappropriately exclude smaller market participants
7. Ensure that changes to market rules are targeted at addressing specific problems and or weaknesses in the current rules.
8. Recognition of the participants business structure in the determination of min cap requirements
9. Recognition of the participants business structure in the determination of min cap requirements. Electrical systems owned Public Power entities (electric cooperatives, municipal electric systems) may operate under different business models that do not utilize the same capital structure that publicly traded or privately held public utilities and merchant generators adhere to.
10. Indexed requirements to annual inflation
12. Balancing the need for adequate capitalization against ensuring sufficient number of market participants to allow for liquidity and competition
13. Cure period for implementation
14. Recognition of the public power model
17. Segregate virtual risk vs longer term risk profiles
18. Minimum Capitalization reflective of risk related to the market participant size
20. Keep minimum capitalization proportional to the size of the business
21. Supportive of status quo
22. Min cap should be respective of market activity
23. Min cap is a poor tool to capture credit worthiness
24. Balancing the interest of market entry and the goals of the min cap requirements, recognizing the additional costs from min cap requirement
25. Making sure min cap is proportional
26. Recognition that defaults from large firms have the potential to be disproportionately impactful relative to defaults from small firms

27. Possibility of stronger min cap forcing out smaller participants
28. The implementation of any Minimum Capitalization updates are respectful of the complexity, timing, and resource demands of other PJM initiatives

We encourage all members of the Risk Management Committee to reach out to us if you are interested in discussing or supporting this proposal.

Sincerely,

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