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Andrew L. Ott
President and CEO
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May 2, 2017

Mr. Peter Jones
Managing Member
Monterey Enterprises, LLC
111 Continental Drive
Suite 114
Newark, DE 19713

Dear Mr. Jones,

Re: April 21, 2017 Letter to Messrs. Schneider and Ott ("April 21 Letter")

Thank you for your April 21 Letter explaining the Monterey Enterprises, LLC and Monterey MA, LLC's (collectively "Monterey") concerns regarding instances of price corrections made by PJM and the subsequent dispute resolution process. The PJM Board takes these matters seriously particularly as it relates to following tariff provisions and procedural provisions within governing documents. As such, I have reviewed the matter with PJM's General Counsel and Compliance Officer. We believe PJM's actions related to the posting of the Real-time Locational Marginal Prices for the dates of June 27, 2016 and July 1, 2016, as well as those related to Monterey's request for arbitration, were consistent with PJM's governing documents and business manuals.

Relevant to the April 21 Letter, PJM's procedures for verifying Real-time Locational Marginal Prices prior to such prices being finalized and posted are outlined in section 2.10 of PJM Manual 11. Notably, these procedures are especially important to ensure that actions taken by PJM's operators to maintain system reliability are reflected in the final posted prices, even if those actions are not reflected in the preliminary prices published on PJM's website. For the dates at issue, PJM properly followed the applicable provisions of section 2.10 in order to ensure that actions taken by PJM's operators to account for the Lasalle-Plano outage event were reflected in the final, published Real-time Locational Marginal Prices. While I understand that Monterey believes that it was harmed by relying on the preliminary prices published on these dates when engaging in Virtual Transactions, PJM's actions were proper and necessary in order to ensure that the prices posted for these dates reflected the actual needs of the bulk electric system in light of the actions of its operators.

With respect to Monterey's concern regarding PJM's refusal to enter into arbitration, PJM cannot grant the relief sought by Monterey through arbitration under its governing documents because Monterey was seeking to challenge PJM's posted market prices. As a threshold matter, arbitration under section 12 of the Tariff is only required if PJM's actions did not "have an adequate basis in fact" or "conform to the requirements of [the Tariff]."¹ Because the facts at issue are not in dispute, and because PJM followed all applicable provisions of its governing documents and business manuals in verifying prices on the dates in question, arbitration is not required under the Tariff. Additionally, arbitration under section 12 is not appropriate because PJM does not have the authority to compensate Monterey for its alleged harm under any provision of its governing documents. Given the nature of PJM as a Regional Transmission Organization, any amounts paid to Monterey to satisfy its market losses would necessarily be funded by other PJM market participants. Accordingly, PJM cannot arbitrate and pay any amounts Monterey believes that it is owed because such action would essentially involve PJM bargaining with other market participants' money to pay a single market participant for losses it incurred while PJM properly administered its market. Such an action would be inappropriate, would likely constitute a violation of PJM's governing documents, and could contravene the Filed Rate Doctrine.

I understand that PJM did amend section 2.10 in August 2016 in accordance with its stakeholder procedures. These revisions were made in order to more clearly document the longstanding procedures that PJM has utilized to verify Real-time Locational Marginal Prices. These revisions to section 2.10 passed by acclimation at the August 2016 Markets and Reliability Committee meeting.

If Monterey believes that process changes should be made, I encourage Monterey to advance these issues through the stakeholder process.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew L. Smith". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

¹ See Tariff, Attachment K-Appendix, section 1.8.1.