



955 Jefferson Ave.
Valley Forge Corporate Center
Norristown, PA 19403-2497

Terry Boston
President and CEO
610.666.8262
610.666.4281 | FAX

December 20, 2011

To the Municipalities, Cooperatives, Industrial Entities, Dominion and Duquesne companies:

Re: Response to December 1st Letter on Self-Supply in PJM's Capacity Market

Thank you for your letter requesting that PJM submit tariff revisions to FERC regarding the Reliability Pricing Mechanism (RPM) self-supply issue. Our Board of Managers thoroughly reviewed and discussed your letter and asked that I convey this response to you.

The Board continues to focus on the basic purposes underlying RPM, especially the encouragement of new infrastructure investment. To this end, the Board seeks a balanced, common sense application of the RPM rules that promotes the development of new generation while ensuring markets are free from abuse. As I discussed recently with NRECA and APPA leaders, PJM will work closely with stakeholders in the future to consider RPM improvements to further enhance reliability of the regional transmission system.

Your letter offered a thoughtful approach to address legitimate questions concerning the traditional business model of public power entities and integrated utilities. The Board considered your specific concerns and proposals to address such concerns in the context of FERC's November 17 order on PJM's compliance filing and the workings of RPM generally.

As your letter notes, FERC's order rejected a blanket self supply exemption but FERC did accept the proposed process by which PJM can permit unit-specific exemptions that should accomplish legitimate business objectives.

The Board is optimistic the exception process approved by FERC – which PJM proposed in response to previously expressed concerns -- will protect the interests of your organizations and other PJM stakeholders. We would respectfully ask that you give this process a chance to prove itself.

With this background in mind, I hope you understand why the Board presently is reluctant to direct PJM staff to bring further rule changes to the FERC for additional minimum offer price rule (MOPR) exemptions.

The Board will commit to monitor how the exemption process is implemented by PJM staff and the Independent Market Monitor, and to review how the exemption process is working to accommodate the objectives of states, localities and electric cooperatives while preserving the integrity of the market.

In summary, the Board expects the current exemption process will address the valid concerns you raise. The Board will closely monitor this process going forward, and the Board would appreciate hearing any further concerns you may have as this exemption process is put into practice over time.

Sincerely,

A handwritten signature in black ink that reads "Terry Boston". The signature is written in a cursive, flowing style.

Terry Boston