



2750 Monroe Blvd  
Audubon, PA 19403-2497

Andrew L. Ott  
President and CEO  
610-666-4267

June 29, 2017

Mr. Shawn Sheehan  
President  
XO Energy, LLC  
1690 New London Road  
Landenberg, PA 19350

Dear Mr. Sheehan:

**Re: Concerns Regarding the Independence and Neutrality of PJM Interconnection, LLC**

I received your letter dated June 26, 2017 regarding concerns over recent stakeholder-endorsed changes to up-to congestion market rules and a potential new Pennsylvania tax on virtual transactions billed by PJM. I will discuss your letter with the PJM Board after they have had opportunity to review it, but I wanted to provide my response quickly to address your misconception about PJM's position and role as an independent information source for policy makers.

PJM is aware of your company's concerns regarding the proposed allocation of uplift to up-to congestion transactions and the proposed revisions to the biddable points for virtual transactions. Those points were included in the discussions in the Energy Market Uplift Senior Task Force (EMUSTF), which also considered alternative proposals from your company while developing its recommendations. Your concerns were also communicated when the EMUSTF recommendations were considered by more senior committees in the stakeholder process.

PJM continues to support the EMUSTF recommendations that are consistent with the recommendations from PJM's October 2015 paper *Virtual Transactions in the PJM Energy Markets*. As that paper recommended, PJM believes the market rule changes recently endorsed by a supermajority of PJM's members "maintain the benefits added to PJM's markets by virtual trading, eliminate opportunities for inefficient trades to profit in the market, and level the allocation of uplift across all transactions."

Additionally, with respect to a potential new tax on members' virtual transactions in PJM's markets, it is unfortunate that your recent meeting with members of the Pennsylvania state legislature left you with misconceptions about PJM's position on such a tax. PJM neither proposed, nor supports, any new taxes on any members' transactions billed by PJM.

Mr. Shawn Sheehan  
Page 2  
June 29, 2017

PJM has been a source of non-confidential information for Pennsylvania legislative staff and the Pennsylvania Department of Revenue over the past few months regarding how PJM's markets function and the magnitude of members' transactions billed by PJM. In that role, PJM has taken the opportunity to provide both written and oral feedback to legislative staff and the Department of Revenue highlighting PJM's concerns regarding any such new tax.

- PJM has shared its perspective that the Commonwealth of Pennsylvania likely will face challenges to its jurisdictional tax authority over any members' transactions billed by PJM.
- PJM has also been able to demonstrate that the potential new tax exceeds the profits on the vast majority of calendar year 2016 virtual transactions thus making it likely that very little, if any, tax revenue would be generated for the Commonwealth of Pennsylvania from this potential new tax, even if the Commonwealth can establish tax nexus over those transactions.
- And, PJM explained the role of virtual transactions in PJM's markets, which PJM expects would be substantially diminished if a new tax were imposed on members' virtual transactions billed by PJM.

These are actually the same points I understand Suzanne Daugherty shared with you on the June 14, 2017 conference call your letter references. After receipt of your letter and to avoid any additional confusion, PJM contacted the Pennsylvania legislative staff who originated this potential new tax proposal and confirmed their understanding that PJM does not support any new taxes on members' transactions billed by PJM.

I believe PJM has consistently demonstrated its independence and neutrality in discussions regarding a potential new tax on members' transactions billed by PJM. Moreover, we have provided information as well as PJM's perspectives for the consideration of Pennsylvania legislative staff and the Pennsylvania Department of Revenue that we believe are persuasive in pointing out why the Commonwealth of Pennsylvania should not impose any new taxes on any members' transactions billed by PJM.

Sincerely,



Andrew L. Ott