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April 18, 2013

Mr. Ananda Radhakrishnan
Director
Division of Clearing and Risk
Commodity Futures Trading Commission

Re: Opinion of Counsel – PJM Interconnection, L.L.C.

Mr. Radhakrishnan:

I have been asked to provide an opinion of counsel with regard to certain assumptions made by Wachtell, Lipton, Rosen & Katz in its July 18, 2011, Memorandum addressing the legal basis of PJM Interconnection, L.L.C. ("PJM LLC"), and PJM Settlement, Inc. ("PJM Settlement")(collectively, "PJM") to assert setoffs rights in the event of a bankruptcy by a PJM member. This Memorandum was ultimately submitted by PJM in support of its Application for Exemptive Orders Under Section 4(c) of the Commodity Exchange Act filed by PJM, and other ISO/RTOs.

Specifically, you have asked that PJM verify the following assumptions: (a) that the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. ("PJM Operating Agreement"), and the Open Access Transmission Tariff ("PJM Tariff") have received all necessary governmental approvals, including that of Federal Energy Regulatory Commission ("FERC"); (b) that PJM in fact operates in accordance with the provisions described in the PJM Operating Agreement and PJM Tariff, and; (c) that no other operative provisions of any agreement or tariff among, between, or binding on PJM, PJM Settlement, Inc. and/or the PJM membership, or any of them, conflicts with such provisions relating to PJM and PJM Settlement's ability to exercise set off rights in the event of a bankruptcy of a PJM member.

All of PJM's governing agreements, including the PJM Operating Agreement and PJM Tariff, have received all necessary regulatory approvals and remain in full force and effect. As a public utility, PJM is subject to jurisdiction of FERC with respect to its rates, terms and conditions of service which are set forth in its governing agreements, including the PJM Operating Agreement and PJM Tariff. These governing agreements are required to be filed with, and approved by, FERC and PJM may not vary from those rates, terms and conditions of service without prior FERC approval and, as such, to the best of my knowledge and belief, PJM is operating in accordance with all those provisions stated in the PJM Operating Agreement and PJM Tariff that are material to the assumptions undertaken by Wachtell, Lipton, Rosen & Katz in its July 18, 2011, Memorandum.¹ Because of this "supremacy" of the FERC-filed governing agreements, there are no other operative provisions of any agreement or tariff among, between or binding on PJM, PJM Settlement, Inc. and/or the PJM membership, or any of them, which conflicts with such

¹ See, generally, Order No. 888, *Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Service by Public Utilities*; 75 FERC ¶ 61,080, 61 Fed. Reg. 21,540 (1996).

provisions relating to PJM and PJM Settlement's ability to exercise set off rights in the event of a bankruptcy of a PJM member.

Please be aware that this opinion is limited to, and may not be inferred to extend beyond, the matters expressly stated herein. I do not undertake to advise you or anyone else of any changes in the opinion expressed herein resulting from changes in law, changes in facts or circumstances or any other matters that hereafter may occur or be brought to my attention.

If you should have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Vincent P. Duane", with a long horizontal flourish extending to the right.

Vincent P. Duane