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Steven R. Herling
Vice President, Planning

August 5, 2016

Dear Members and Stakeholders of PJM:

PJM this week provided the PJM Board with an update on events which have occurred since the Board's original approval of the Artificial Island transmission project. After thorough review and deliberations, the PJM Board decided to suspend all elements of the Artificial Island project and directed PJM to perform a comprehensive analysis to support a future course of action.

In July 2015, the Board approved the project to correct operational voltage and stability problems at the Artificial Island generating complex in southern New Jersey. It assigned to LS Power construction of a 230-kilovolt transmission line under the Delaware River. The Board also designated Public Service Electric & Gas and Pepco Holdings Inc. for the expansion of related interconnection facilities and the installation of reactive support devices at the New Freedom substation.

The new construction portion assigned to and estimated by LS Power was subject to cost-containment provisions. PJM performed preliminary cost estimates for PSE&G's portion of the project, recognizing that detailed estimates would have to be provided by the transmission owner. PSE&G's detailed cost estimates for the portions of the project assigned to the company were significantly higher than the initial estimates prepared by PJM because of complexities of design at the Salem and New Freedom substations that PJM did not anticipate. After receiving the higher estimates earlier this year, the Board directed PJM to review the reasons for the differences and to work with PSE&G to explore alternatives to reduce the project's estimated costs.

While that analysis is not yet complete, additional information has come to PJM's attention that required action by the Board before any new financial obligations are incurred by the project developers.

In the course of its review, PSE&G and PJM identified an alternative that could significantly offset some of the increase in estimated costs. These reductions would result from terminating the new 230-kilovolt line in a substation at the Hope Creek Nuclear Station instead of the nearby Salem Nuclear Station. However, in reviewing this alternative, an issue arose related to one of the other components of the project, that is, whether proposed system protection and control upgrades would perform as intended. Specifically, PSE&G identified an error related to the modeling of circuit breaker clearing times associated with those upgrades. The effect would be a reduction in the margin of stability provided by those upgrades, regardless of any alternatives to the transmission solution under review, requiring further steps and expense to correct. PJM and PSE&G have been exploring and evaluating options.

In light of the current uncertainties, the PJM Board is concerned about the project's estimated costs and changing scope based on the new estimates and technical information it received. The Board determined the need for additional analysis of the project's scope, configuration and cost estimates. It is, of course, imperative to understand the basis for any alternatives that may exist to manage the operational issues at Artificial Island. Therefore, the Board suspended the project and asked PJM to complete the requested comprehensive analysis by February 2017. It will be in a better position to decide how to proceed after it reviews the analysis.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Herling", with a stylized flourish at the end.

Steven R. Herling