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ARTIFICIAL ISLAND PROJECT

PJM Members Committee

Dear Members:

After thorough review, the PJM Board of Managers has approved the staff recommendation to accept LS Power's proposal to build a 230 kV line under the Delaware River. The Board also has approved the designation of Public Service Electric & Gas and Pepco Holdings Inc. for the expansion of interconnection facilities. These projects will resolve the operational performance issues around the Artificial Island area and provide important transmission support for the sub region.

The PJM Board greatly appreciates the professionalism and technical expertise demonstrated by the companies offering proposals and by the PJM staff in its review of the proposed projects. The Board also wishes to thank the FERC Administrative Law Judges for their assistance overseeing a key part of this process, as well as other federal and state agencies that helped inform the evaluation for this project.

The competitive process PJM used to consider this project brought forth innovative proposals and a thorough review of performance, cost, constructability and other issues. A ["White Paper"](#) fully explaining PJM's analysis and evaluation of the proposals is posted for public review. The PJM Board is pleased to designate a multi-party project among the lowest-cost proposals – one that will fully resolve the stability and voltage issues in this area.

The Board also recognizes the valid concerns raised by Governor Markell, the Delaware Public Service Commission, the Maryland Public Service Commission and others regarding the allocation of costs associated with this project. PJM must follow its Tariff. And with regard to the cost allocation provisions applicable to this project, PJM also must respect legal precedent in the Atlantic City case allocating specific rate filing responsibilities between PJM and its transmission owners. Nonetheless, we recognize that several parties have appropriately questioned the specific allocation in this case. Accordingly, PJM will continue to provide technical analysis and information to affected stakeholders in order to help FERC with its ruling on this particular cost allocation and its cost allocation rules in general.

This pilot case implementing Order 1000 principles and a competitive solicitation process will continue to be examined for a number of "lessons learned." The Board thanks the Planning Committee for its thorough review and we urge the adoption of changes that will improve the planning process.

On behalf of the PJM Board, I wish to thank again the companies and regulatory entities that have been engaged in this project selection process.

Sincerely,

A handwritten signature in black ink that reads "Terry Boston".

Terry Boston