



Steve Herling
Vice President, Planning

Craig Glazer
Vice President, Federal Government Policy

PJM Interconnection
2750 Monroe Boulevard
Audubon, PA 19403

Dear Mr. Herling and Mr. Glazer:

Transource and Pepco Holdings Inc. (PHI) commend PJM for the thorough analysis that has been completed to date regarding Artificial Island. The supplemental information provided by the finalists, individual meetings and stakeholder discussions have provided PJM with a robust set of information to guide this critical decision. This complicated situation demands careful deliberation to ensure that a proven, constructible, reliable and commercially viable solution is selected. Achieving this result will require critical assessment of the project risks to insure the solution meets these requirements. In this case, the risks are particularly important to consider because the selected project will impact the long-term stability of a 3,800 MW nuclear generation complex that directly serves major eastern U.S. population centers; the negative consequences of a misstep are likely massive. PJM must analyze the risks using factual information, experience, proven technologies and verifiable commitments to properly assess their impact. PJM should be cautious of flashy headlines, unproven technologies and vague commitments that could have an adverse impact and, ultimately, significantly raise the cost of the project to the developer, PJM and customers.

During the December 9, 2014, TEAC meeting on Artificial Island, PJM gave the four finalists one last opportunity to present specifics regarding their proposals for addressing the Artificial Island problem statement. After listening to LS Power and PSEG discuss and explain their cost cap provisions included in their respective proposals, Transource requested that PJM



advise whether the finalists have provided any additional information apart from the documents that are posted on the PJM website. Transource also requested that PJM provide specifics on the project scopes that would be applicable under the cost caps offered in the LS Power and PSEG proposals, since the details of the scopes of the projects to which the cost caps apply are not clear. To date, Transource has yet to receive this information that was promised by PJM during this December 9, 2014, TEAC meeting.

Transource and PHI believe that it's important for stakeholders to fully understand the nature of and legal basis for the cost caps that LS Power and PSEG offered in their proposals. In the case of PSEG, their responses to questions posed during this meeting revealed inconsistencies in the "allowable changes" under the PSEG "cost cap" with the explanation offered during the meeting sounding much broader than inferred in PSEG's supplemental proposal. The likelihood of externally driven changes to their scope of work should raise significant concerns for PJM given the significant challenges to the PSEG proposal: new overhead crossing of the Delaware River, crossing the Supawna Meadows National Wildlife Refuge, and new right of way needed. In addition, at this TEAC meeting it was clarified that PSEG does not plan to use any right of way owned by the LDV and, as a result, PSEG will need to acquire significant new right of way along the route from Hope Creek to the proposed river crossing location, which includes 8.5 miles of coastal wetland and national wildlife refuge crossings. This brings into question whether or not these additional right of way costs are included in the PSEG "cost cap".

Regarding the LS Power proposal, Transource and PHI would appreciate having the following questions and observations addressed by PJM prior to any final project decisions being made:

- 1) The scope of work that LS Power (Northeast Transmission Development) referred in its "2013-1-5A - Exhibit 1 - Cost Cap Legal Terms" document that is posted on the PJM website refers to a Footnote 1 that defines the scope of work under which the cost cap would apply, but



that document, Northeast Transmission's November 4, 2013 Detailed Constructability Submittal, is confidential, and thus, not posted. This makes it impossible for stakeholders to understand if that document supports the cost cap comments LS Power made during this TEAC meeting. Our specific questions regarding the scope of work relates to ensuring that the actual construction scope includes the need for cofferdams, jet plowing installation (versus all directional drilling), etc. PJM needs to advise whether the cost cap includes these construction details.

2) The costs that are included in the cost cap according to LS Power's (Northeast Transmission Development's) cost cap legal terms document that defines construction costs "includes costs related to (i) obtaining permits and other governmental approvals for the Project, (ii) acquiring land and land rights for the Project, (iii) performing any environmental assessments or environmental mitigation activities in connection with the Project, (iv) designing and engineering the Project, (v) procuring any equipment, supplies and other materials required to complete construction of the Project and place the Project in service, (vi) otherwise performing or completing any and all development- and construction-related activities required in connection with the Project as part of the Scope of Work, ...". Based on the provisions in this legal terms document, any changes to the scope of the project (e.g., the five mile underground line now becomes seven miles, need for cofferdams, etc.), then the cost cap would not apply. This implies that LS Power is effectively not taking any siting and permitting risk, and hence, the construction cost cap is subject to changes when any external action results in a change in the scope of work. PJM needs to advise whether this is the case.

In closing, when we asked similar questions in the open forum of the TEAC meeting, LS Power claimed that all such costs are covered in their cost cap, but the legal document that is posted on the PJM website does not reflect that claim. Our questions to PJM attempt to ensure that LS Power's cost caps are characterized in a fair and transparent manner and that they are limited to the information submitted in response to the supplemental proposal request that PJM issued to the finalists on August 12, 2014. Similarly, it's important for all stakeholders to clearly understand the "allowable changes" under the PSEG "cost cap" that was included in



PSEG's supplemental proposal, and the likelihood of externally driven changes that could alter that "cost cap". We would caution PJM that any submittal of documents that materially amends any of the supplemental proposals based on the findings and discussions from the December 9, 2014, TEAC meeting, would constitute a new proposal, and as such, should be rejected. PJM should base its decision purely on the documents that were submitted as part of the supplemental proposal opportunity that closed on September 12, 2014.

Transource and PHI would like to thank PJM in advance for providing this information that is being requested in the spirit of PJM selecting the best solution through a fair and open process that will serve as a guide for future competitive project solicitations in PJM.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Rajarajan".

Raja Sundararajan
Vice President, Strategy & Grid Development
Transource Energy

A handwritten signature in black ink, appearing to read "Gloria C. Godson".

Gloria C. Godson
Pepco Holdings, Inc.
Vice President - Federal Regulatory Policy