

NORTHEAST TRANSMISSION DEVELOPMENT

400 Chesterfield Center, Suite 110
St. Louis, MO 63017

Via Email (rtep@pjm.com)

September 12, 2014

PJM Interconnection, L.L.C.
Attn: Steven Herling
955 Jefferson Avenue
Norristown, PA 19403

RE: Artificial Island Supplemental Proposal Request

Dear Steve:

Northeast Transmission Development, LLC (“Northeast Transmission”) submits the following in response to the August 12, 2014 letter from PJM inviting finalist Proposers for the Artificial Island Proposal Window to supplement their proposals with final terms of project costs, affirmation of the project schedule, and the ability to site and construct new transmission in Delaware.

Project Cost Commitment

Northeast Transmission will agree to a cap on the construction costs of its Salem – Silver Run 230 kV transmission solution¹ (the “Project”) of \$146 million.

The construction cost cap is based on the scope, technical specifications and design for the Project (the “Scope of Work”) as outlined in Northeast Transmission’s November 4, 2013 Detailed Constructability Submittal to PJM, and as modified by the following additions and exclusions (which are based on feedback from PJM):

- Addition of a single, spare submarine 230 kV cable (resulting in a total of seven cables) for the submarine alternative; and
- Exclusion of the Salem 500 kV Substation Expansion² and modifications to the existing Red Lion-Cartanza/Cedar Creek 230 kV transmission lines,³ both of which are assumed to be Transmission Owner Upgrades.⁴

Northeast Transmission has attached a draft of Schedule E (Non-Standard Terms and Conditions) to the Designated Entity Agreement as Exhibit 1 to this letter to respond to PJM’s

¹ PJM Project ID P2013_1-5A as modified by the additions and exclusions identified herein.

² Northeast Transmission’s Scope of Work would end with terminating the conductors on the substation take-off structure to be furnished by the existing Transmission Owner.

³ Northeast Transmission’s Scope of Work would end with the substation take-off structures it would furnish to interconnect the existing transmission lines.

⁴ PJM August 12, 2014 Supplemental Request Letter FAQ

request to include “contractual terms and conditions that would apply to the proposed project cost or cost cap.” As shown in Exhibit 1, the intent is to apply the construction cost cap to all of the cost categories estimated in the Scope of Work, with exclusions for other costs such as taxes, financing (e.g. AFUDC), and operations that are not intended to be included in the cost cap. Any incremental cost associated with an addition or modification to the Scope of Work would also be excluded from the construction cost cap. As this is the first time a cost commitment would be implemented in PJM, Northeast Transmission would welcome the opportunity to review the proposed language with PJM and its counsel and is open to improving or clarifying the language as necessary.

We wish to emphasize that Northeast Transmission continues to expect that the actual total cost of constructing its Artificial Island solution will be below the above cost cap amount. In such case, the ratepayers will receive the benefit of those lower actual costs. But in the event the actual costs do end up exceeding the cost cap, those excess costs will be borne by Northeast Transmission without any right to recover them through Northeast Transmission’s Annual Transmission Revenue Requirement. This ensures that, under any outcome, the ratepayers will end up with a more cost-effective project.

Project Schedule

Northeast Transmission affirms its projected 42 month schedule from execution of the Designated Entity Agreement is reasonable for the Project. Assuming execution of the Designated Entity Agreement in early 2015, Northeast Transmission projects an in-service date of November 1, 2018.⁵

Delaware Law

Northeast Transmission has the legal ability to site and construct the Project in the State of Delaware. The statutory provisions that create exclusive retail territories do not apply to restrict Northeast Transmission from siting and constructing the Project, which would be approved by PJM to address regional transmission needs. A legal analysis of Delaware law regarding the legal issue of whether Nonincumbent Developers are permitted to construct and own transmission in Delaware is included as Exhibit 2.

Northeast Transmission filed a Petition for Expedited Declaratory Order⁶ (“Petition”) with the Delaware Public Service Commission to obtain the confirmation from the Delaware Public Service Commission (“PSC”) as requested by PJM. On September 9, 2014, the Delaware PSC issued an order granting the Petition confirming “...nothing in Delaware public utility law or any prior order of the Commission prohibits nonincumbent transmission developers from siting,

⁵ A 42-month schedule would result in an in-service date in the summer, which may not be practical given the need to schedule outages to place the Project in-service. An in-service date earlier than November 1, 2018 may be achievable depending upon the ability to schedule outages to place the Project in-service.

⁶ The Petition for Expedited Declaratory Order is included as Exhibit 3.

Mr. Steven Herling
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September 12, 2014

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construction and owning in the State of Delaware transmission facilities used in interstate commerce.”⁷

Please feel free to contact me at (202) 506-6967 or via email at ssegner@lspower.com with any questions you may have.

Sincerely,

A handwritten signature in blue ink that reads "Sharon K. Segner". The signature is written in a cursive, flowing style.

Sharon K. Segner
Vice President

⁷ The Order is included as Exhibit 4.