

January 9, 2008



Members of the Board of Managers
PJM Interconnection LLC
995 Jefferson Avenue
Valley Forge Corporate Center
Norristown, PA 19403-2497

Re: Inability to obtain transmission interconnection costs in a timely manner to bid new generation in PJM's January 2008 RPM auction, Queue position T41

Dear PJM Board Members:

PSEG Fossil LLC ("PSEG") has reviewed the January 2, 2008 correspondence of Dominion Resources, Inc. ("Dominion") to the PJM Board of Managers ("Board") in which Dominion expressed serious concerns to the Board over PJM's failure to provide cost and timing of transmission upgrades needed to accommodate the expansion of Dominion's Ford Mill generation plant in Pennsylvania. In its correspondence, Dominion seeks a pledge that the Board will promptly seek a waiver of its interconnection requirements from FERC and disclose to Dominion the required costs and timing of these transmission upgrades prior to January 18, 2008 to allow Dominion to bid approximately 120 MWs of incremental unforced capacity in PJM's January 2008 RPM auction.

As detailed below, PSEG unfortunately finds itself in a similar situation to Dominion and has been unable to obtain transmission interconnection cost data for approximately 138 MWs of new generation that PSEG is planning to build in northern New Jersey and would like to bid into the January 2008 RPM base residual auction ("January auction"). While PJM Staff has been very cooperative with PSEG in our attempts to obtain the necessary transmission interconnection cost information, it appears that the current process under the PJM Tariff as well as the considerable number and scope of pending interconnection requests has created a roadblock that PJM Staff despite their best efforts is unable to overcome.

As should be obvious, the current PJM interconnection queue process is not properly aligned with RPM process also administered by PJM. This inconsistency is a

material impediment to potential bidders such as PSEG, and to the success of RPM as a whole. Generators that are seeking to bid new generation in the RPM auctions are simply unable to obtain the necessary information of how much it will cost to interconnect that generation and make the capacity deliverable on the PJM system until after they are required to commit in the RPM auction. For generation in the eastern portion of PJM, interconnection costs for projects in the queue have an enormous range and could be as high as \$360-\$550 million. As noted by Dominion, accepting this range of risk is simply untenable.

In response to reliability price signals from the RPM auctions in 2007, PSEG has been aggressively pursuing opportunities to construct new generation at its sites in New Jersey as well as opportunities for capacity expansions of its existing generation fleet. While there are many challenges to pursuing new generation opportunities, including overcoming strict environmental permitting requirements, the one obstacle that PSEG has not been able to overcome is the inability to assess the risk of transmission interconnection costs associated with the new generation. Whether PSEG is ultimately able to proceed with such a bid in January is not yet known. This situation is not only frustrating for PSEG directly, but the fact that there are companies willing and able to build new generation to respond to RPM but may be unable to do so (or must do so at significant and unnecessary risk) because of the lack of coordination of the interconnection process with RPM has the potential to diminish significantly the effectiveness of RPM.

Clearly, a long term fix to the interconnection process is needed to ensure that the interconnection process is properly aligned with the goals, objectives and timing of the RPM auctions. If the Board wants new generation to be built and bid in RPM, fixing this disconnect must be a high priority for PJM in the near term. In the meantime, however, PSEG is eager to commit to bid new generation into the January RPM auction and requests that the Board grant PSEG the same emergency relief requested by Dominion and disclose to PSEG the required cost and timing of transmission upgrades needed to support Queue T41.

Very truly yours,

A handwritten signature in black ink, appearing to read "J. Edwin Selover", with a long horizontal flourish extending to the right.