



Duquesne Light

Our Energy...Your Power

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Morgan K. O'Brien
President and Chief Executive Officer

March 4, 2008

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BY:.....

W. Terry Boston
President and CEO
PJM Interconnection
955 Jefferson Avenue
Norristown, PA 19403-2497

Dear Mr. Boston:

I am writing to you in your role as a board member for PJM Interconnection.

As you may know, Duquesne Light, a PJM member, sought and received permission from the FERC to leave PJM. Duquesne felt it had no choice after the results of PJM's RPM auctions.

This one-sided auction design invites results that do not reflect any true competitive market. When PJM ran simulations of its auction process, it projected RPM charges of approximately \$16/MW/day, \$12/MW/day and \$8/MW/day in the Duquesne zone. The actual results of \$40, \$112, \$102 and \$174, respectively, illustrate that the process is flawed. This adds more than \$450 million of additional costs to customers in Duquesne's zone and adds \$15 billion to customer bills throughout the states PJM covers -- for just the first three auctions. In stark contrast, before this new process, PJM charged approximately \$6/MW/day.

And what do customers get for this exorbitant increase? Nothing. There has been no material increase in supply. The only change that can be easily seen is the improvement to the financial statements of the generators that bid into the capacity auctions.

However, rather than attack RPM as a severely flawed process, Duquesne sought to exit PJM quietly. The company met with PJM management but they expressed no interest in resolving the matter. After the FERC issued its Order, Duquesne once again tried to engage PJM management in settlement discussions, to no avail.



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FERC convened an Alternate Dispute Resolution on Feb. 25, 2008, and scheduled settlement discussions on March 11, 2008. We hope PJM will actively engage in the settlement process. However, should PJM choose not to engage in meaningful discussions directed at an economic resolution, Duquesne will have no choice but to file a complaint at the FERC challenging the justness and reasonableness of the entire RPM structure and its results.

In Duquesne's zone, your new policy introduces an additional \$90 per year charge on the average residential customer – the equivalent of more than one additional monthly electric bill. We plan to educate our customers about the reasons for the increase, and we will identify those responsible, so customers will know whom to contact if they have any questions.

I want to assure you that Duquesne's management would like to resolve this litigation. Anything you can do in your role as a board member to encourage PJM management to seriously explore a settlement would be welcomed.

Sincerely,

Morgan K. O'Brien