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Andrew L. Ott
President and CEO
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April 6, 2017

Dear Members and Stakeholders of PJM:

Today the PJM Board approved lifting the suspension on the Artificial Island project, effective immediately. The PJM Board is confident the original solution with minor modifications is essential to maintaining reliability of the bulk transmission system in southern New Jersey and in the regional vicinity, including the Delmarva Peninsula. From this point forward the relevant parties will renew all appropriate development activities to advance the project. However, the Board also recognizes that the question of who assumes cost responsibility for the project is distinct from the reliability need for the project.

PJM has stated in past Federal Energy Regulatory Commission (FERC) proceedings and at a January 12, 2016 FERC technical conference, that a solution-based power flow formula (the "DFAX Methodology") works fairly and reasonably to identify project beneficiaries for cost allocation purposes in the overwhelming majority of lower voltage transmission projects considered by the Board. But, we also noted that application of the DFAX Methodology can result in cost allocations that seem anomalous in cases where the engineering rationale or need for the particular project is not one driven by power flows. Indeed, PJM has suggested that the Artificial Island project is unique in nature and that application of the DFAX Methodology to a stability or short circuit problem may not yield clear beneficiaries.

Proposing cost allocation methodology remains the Transmission Owners' responsibility under the Federal Power Act, according to federal precedent. As such, PJM cannot impose alternate allocation methodologies. However, because the ongoing cost allocation debate in this particular case is so polarized, it threatens to impede PJM in discharging its reliability responsibilities. Therefore, to assist parties and the FERC in resolving cost allocation issues PJM will analyze project beneficiaries from alternate perspectives, including identifying load and the extent of service interruption that could be expected in the case of an uncontrolled stability event at Artificial Island. We expect this data could offer insight to, and a basis for, those states, transmission owners and customers that derive benefit from this project to devise a different cost allocation proposal for stability projects such as Artificial Island. Importantly, we anticipate this information will still demonstrate the logic supporting an allocation of project costs to beneficiaries located in the Delmarva region, along with beneficiaries in one or more neighboring states. PJM will make this information publicly available shortly and will reference this work to FERC when it makes a filing mandated by our Tariff.

The PJM Board appreciates the input received and closely considered the concerns and comments raised by all stakeholders. The safe and reliable operation of the PJM grid and generating complex at Artificial Island is of great importance to the Board. The Board believes that the original solution, with modifications

that include a reconfiguration of the 230-kilovolt line that connects at Hope Creek Substation instead of Salem Substation will address operational performance and reliability issues related to Artificial Island generating facilities.

PJM recommended lifting the suspension and modifying the project solution after considering alternatives, establishing decision criteria and assessing the options against the criteria. The PJM Board received from PJM during its deliberations a whitepaper that documents this process. This whitepaper is anticipated for public release in the near future and will offer additional transparency to stakeholders regarding the PJM recommendation.

PJM is charged with the responsibility to plan a system that maintains reliable operation and has concluded in its best judgment that the original project, as modified, is the best approach to meet this charge for the affected region. The PJM Board appreciates the input and engagement from all stakeholders and will work with stakeholders in support of this common reliability goal.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew L. Smith". The signature is fluid and cursive, with a long horizontal stroke extending to the right.