May 26, 2010

PJM Board of Managers
PJM Members Committee

Dear Board of Managers and Members Committee,

The stated rate settlement effective June 1, 2006 includes the following provision:

“The Settlement Agreement further provides that no later than July 1, 2010, PJM management and the Finance Committee shall meet to discuss whether the rates commencing January 1, 2011, as set forth in the Settlement Agreement, are the appropriate rates to collect PJM’s costs and to fund a reasonable financial reserve. Prior to such meeting, PJM shall provide the Finance Committee with sufficient information concerning projected PJM revenues and expenses to enable the Finance Committee to make an informed judgment in connection with this review, including information regarding the financial impact on PJM of implementing various levels of stated rates. If, as a result of these discussions, PJM and the Finance Committee agree on rates other than those set forth in this Settlement Agreement, PJM will make a filing under 205 of the Federal power Act to place in effect such agreed upon rates.”

One week prior to its May 4, 2010 meeting, the Finance Committee received the following information as inputs to the discussion required by this provision of the stated rate settlement:

1. Status of stated rate structure objectives:
   a. Reduce rate volatility and provide multi-year service fee certainty;
   b. Deploy effective operation and capital cost management;
   c. Increase rate and cost transparency to members;
   d. Establish cost recovery for second control center investment;
   e. Maintain creditworthiness for cost-effective borrowing purposes.

2. Historical composite stated rates, revenues, expenses and refunds; and


The Finance Committee and PJM management discussed the information above at its May 4, 2010 meeting and agreed that the objectives of the stated rate structure have been achieved since its implementation on June 1, 2006.
At this time, the Finance Committee and PJM management jointly recommend that:

1. PJM retain the current stated rate structure included in Schedule 9 of the PJM Open Access Transmission Tariff;

2. PJM retain the stated rate levels currently included in Schedule 9 of the PJM Open Access Transmission Tariff; and

3. PJM management and the Finance Committee discuss and provide written recommendations to the PJM Board of Managers and the PJM Members Committee approximate to the anticipated integration date of the American Transmission System, Inc. on the appropriate prospective stated rate levels after that integration.

Sincerely,

[Signature]

David Scarpignato
The Sector-Elected Representatives to the PJM Finance Committee