



VIA E-MAIL TRANSMISSION

August 29, 2002

MEMBERS COMMITTEE; ENERGY MARKET COMMITTEE

Dear Committee Members:

This letter provides a further restatement and a clarification of the interim rules for pricing external transactions that are scheduled for delivery at or delivery from the PJM-VAP interface. These rules were first introduced on Friday, July 19, 2002 and announced via the eData system and the OASIS and were clarified in a letter dated August 1. These rules will be in effect beginning on September 1, 2002 until further notice.

Interim Rules For External Transaction Pricing

1. If a transaction path, based on the NERC tag, for a transaction into PJM at the PJM-VAP interface, includes an ECAR, MAPP or MAIN control area as the source, then the transaction will be priced at the PJM-AEP interface price. For example, a transaction scheduled from a control area within MAPP to the PJM-VAP interface will be priced at the PJM-AEP interface price, regardless of the scheduled delivery point.
2. If a transaction path, for a transaction out of PJM from the PJM-VAP interface, includes an ECAR, MAIN or MAPP control area as the sink, then the transaction will be priced at the PJM-AEP interface price. For example, a transaction scheduled from the PJM-VAP interface to a control area within ECAR will be priced at the PJM-AEP interface price, regardless of the scheduled source.
3. If a transaction or an increment offer is scheduled at the PJM-VAP interface in the day ahead market and a transaction, which is sourced in ECAR, MAPP or MAIN, as defined in point 1 above, is scheduled in real time for delivery at the PJM-VAP interface, the real time transaction will be treated as delivered to the PJM-AEP interface and there will be a deviation from the day ahead position.
4. PJM will develop a method for pricing external transactions based on an analysis of implicit LMPs in external control areas. This method, when completed, will replace the method defined in points 1 through 3 above.

Please contact me if you have any questions. I can be reached at 610-666-4563 or via e-mail at bowrij@pjm.com.

Sincerely,

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Manager

Service With Integrity