

20 have honestly made the finance

21 committee meetings even more

22 boring than they used to be.

23 There are very few questions.

24 There are very few debates. They

ESQUIRE DEPOSITION SERVICES

1 see what we're doing. They trust
2 that what they are paying for the
3 administration of this
4 organization, what we all do,
5 nobody is debating any more
6 whether that is of value to them
7 from the administrative costs.

8 On the strategic reports,
9 where the members had three
10 different opportunities to provide
11 comments on what PJM was doing,
12 not one comment or concern about
13 how much they are paying for the
14 services that we give them.

15 I think that's a great
16 tribute to all of you that they
17 realize what you are doing day in
18 and day out. Besides state rate,
19 I mentioned we have seriously

20 large capital projects going on
21 right now. In total, the capital
22 investment for Milford, and for
23 the technology upgrades next door
24 are going to be over 150 million

ESQUIRE DEPOSITION SERVICES

1 dollars.

2 To accomplish that we
3 actually had lenders knocking down
4 the door saying could we lend you
5 the money. Our credit rating is
6 about to get reaffirmed as one of
7 the top ten credit rating in the
8 industry. Let me be clear on
9 this. Not the highest ISORTO
10 rating, but one of the top ten
11 that's given to anybody in the
12 electricity industry. That's
13 based on the confidence of not
14 only what we do day to day but our
15 membership. We don't see
16 withdrawal requests. We don't see
17 a reduction. In fact, the numbers
18 keep climbing. Each time I hear
19 the numbers at the MC meeting

20 where we put them in the quarterly
21 financial statements we're
22 creeping up on 500 members now.
23 I've been here a little longer
24 than Vince, coming up on my ninth

ESQUIRE DEPOSITION SERVICES

1 anniversary here and when I
2 started, we were reporting numbers
3 of about 120 members. That tells
4 you the size and the growth.

5 What we've also got occurred
6 during 2007 that's exciting for me
7 from a financial perspective is we
8 will finish paying back the last
9 payments on the loans where we
10 completed our independence from
11 the transmission owners; over 100
12 million dollars of assets we
13 bought back from them in the end
14 of 2007. We finished all the
15 payments on that for this year.

16 We also will come down to I
17 believe only one month's payment
18 left at the end of the year on the
19 64 million dollars we invested to

20 upgrade our systems to double the

21 size of the region.

22 That also helped with the

23 stated rate; clearly the economy

24 of the scale were accomplished by

ESQUIRE DEPOSITION SERVICES

1 this group in that that alone,
2 doubled the size of the market,
3 that alone reduced the cost of the
4 members by a third to participate
5 in PJM.

6 I also like something that
7 isn't really a glitzy topic but is
8 very important to our membership
9 and you should all take pride in
10 and that is the sad 70 audit,
11 again, audit you hear that and you
12 want to zone out. Our members
13 used our sad 70 audit reports as a
14 way for them to pass their
15 Sarbanes-Oxley requirements for
16 the company. Today we're about
17 halfway through our audit period
18 this year. About halfway through
19 the testing and all we've got so

20 far, three minor exceptions and I
21 mean minor. Put them on a scale
22 to one to ten and one of them
23 wouldn't even round up to a one.
24 So, what you all are doing

ESQUIRE DEPOSITION SERVICES

1 day in and day out so our members
2 could have confidence on the
3 billing process, information they
4 are getting and the data security
5 behind that information is
6 incredible and you don't get to
7 here it but it's another one of
8 those borings meetings when we
9 have in December, after the report
10 is issued, that the heads of every
11 internal audit department is
12 invited to come and ask us
13 questions about the report;
14 besides the fact about only ten
15 show up now because it's such an
16 easy report they often don't have
17 a single question, so again I get
18 to head the boring meetings.

19 So, right now the financial

20 situation, you all have shown
21 great responsibility in what you
22 do; in identifying what resources
23 you need to fulfill your
24 commitments in finding effective

ESQUIRE DEPOSITION SERVICES

1 and efficient ways to do it and
2 I'm very proud of what you've all
3 done.

4 Okay?

5 I think probably you're
6 interested in something more than
7 it's hot. So why don't we give an
8 opportunity for Mike Bryson to
9 come up and tell us what they are
10 seeing for the summer outlook for
11 this year in operations. Thank
12 you.

13 MR. BRYSON: Good morning.

14 My name is Mike Bryson. I'm with
15 system operations and it's hot.

16 One of the things that we
17 are looking at is some hot
18 operations during the summer. I
19 think that's pretty normal. If

20 you look at last week and this
21 week, we've have had some
22 significant loads and
23 temperatures, as Andy Ott pointed
24 out to me last week, we're still

ESQUIRE DEPOSITION SERVICES

1 15,000 away from a peak load. So,
2 while we're in some emergency
3 procedures, it is hot weather and
4 we're seeing some high loads. We
5 probably will see some higher
6 loads this summer.

7 So, this has been really
8 good drill for operations.

9 Last week and this week we
10 saw loads into 128 thousand. Like
11 I said, at the peak load last
12 summer was 145,000. We could see
13 that for one or two days later
14 this summer.

15 Temperatures in the low 90s,
16 when we start to see temperatures
17 in the 90s, somewhere in the RTO,
18 that's how we start to initiate
19 emergency procedures and usually

20 the first step in that initiation
21 is hot weather. We're currently
22 in a hot weather alert for the mid
23 Atlantic and Dominion part of the
24 RTO and we are taking some steps

ESQUIRE DEPOSITION SERVICES

1 to prepare the system to be able

2 to handle that.

3 Last week, we actually did
4 find, we went through a couple of
5 emergency procedures. This week,
6 we're going through those same
7 things. They include the hot
8 weather alert. They include heavy
9 load voltage schedules that we put
10 in just to make sure that the
11 transmission owners are prepared
12 for any voltage problems on the
13 system.

14 Like I said, last week and
15 this week have been a good drill
16 for some of the summer operations
17 later on this year.

18 As we look at how we're
19 going to do in terms of load and

20 capacity for this year, we are
21 looking at loads of this summer,
22 anywhere between 135,000, 140,000.
23 We could get one near last summer.
24 We don't expect to have multiple

ESQUIRE DEPOSITION SERVICES

1 days in the 145,000 area like we
2 did last summer, but we're
3 prepared for at least some of
4 those days.

5 In terms of generation
6 that's available, generation
7 available on PJM exceeds 160,000.
8 You can see we actually have a
9 pretty good margin there, about 20
10 percent or above margin.

11 The challenge for operations
12 really becomes, where is that
13 generation, based on where the
14 demand is for the energy use
15 throughout this system and that's
16 really what we get into is
17 managing the transmission
18 constraints across the system as
19 we hit some of those high/lows.

20 But in terms of margin,
21 there's plenty of generation out
22 there. We just have to manage
23 where we turn it on and where the
24 load is going to be.

ESQUIRE DEPOSITION SERVICES

1 A couple of things that I
2 think are really important, have
3 to do with how the weather is
4 across the RTO; that's a
5 significant impact on how we do
6 operations both in terms of
7 forecasting the load. We need to
8 forecast a load and it's very
9 dependent on weather. Good
10 forecasts, make sure that we have
11 the right generation on in the
12 right areas. We get hot days like
13 this, the weather forecasts that
14 we get are very important.

15 As we see, this week we'll
16 see temperatures across the RTO in
17 the 90s but depending on where in
18 the RTO, it could be as low as 85
19 and as high as 95. And the spread

20 of those temperatures across the
21 RTO is also very important to how
22 we run system operations.
23 Because if we have cold or
24 colder, 85 degree temperatures out

ESQUIRE DEPOSITION SERVICES

1 in the midwest and hotter
2 temperatures in the east like we
3 have today, then we run into
4 transmission constraints across
5 the system and again, it just
6 creates an operations management
7 problem that we work through.

8 In terms of additional
9 improvements that were made going
10 into this summer, we had
11 additional transformers down in
12 the Virginia area that were added
13 to help with some of the
14 historical constraints that we had
15 down there.

16 We also had additional
17 capacitors added in both the D.C.
18 area again to help with some of
19 the voltage problems that we've

20 traditionally had and we also have
21 this summer the Neptune line in
22 service which doesn't add any
23 additional capacity for PJM; in
24 fact, it takes generation capacity

ESQUIRE DEPOSITION SERVICES

1 out of PJM but that is in service
2 this summer so we'll be working on
3 those operations.

4 In terms of being ready for
5 the summer, we've done a
6 significant amount of studies
7 going into the summer period.

8 We've done coordination with a lot
9 of our neighbors. We've done a
10 lot of preparation and drills with
11 the operators, with the member
12 companies. And the bottom line is
13 we're ready for the summer.

14 We expect to be able to
15 reliably serve the peak loads this
16 summer. We don't anticipate any
17 problems, other than our manual
18 procedures that are in place to
19 handle emergency procedures across

20 the system.

21 We look forward to working

22 with the other divisions in PJM to

23 handle, to include planning and

24 markets and IT.

ESQUIRE DEPOSITION SERVICES

1 One of the things that I've
2 learned during the last two weeks
3 is how important the rest of the
4 company is to being able to
5 support system operations in these
6 conditions.

7 In terms of speaking about
8 what have you done for me lately,
9 Paul McGlynn will be following me
10 to talk about additional system
11 improvements that will be coming
12 up in the future.

13 Thank you very much.

14 MR. McGLYNN: Good morning,
15 my name is Paul McGlynn and I'm
16 the manager of transmission
17 planning and it's my job basically
18 to make Mike's job easy.

19 What we are seeing in

20 looking out into the future,
21 longer range is, you know,
22 consistent with what Mike is
23 seeing day to day in operations
24 right now.

ESQUIRE DEPOSITION SERVICES

1 We are looking at, you know,
2 continued high utilization of the
3 transition system; load growth,
4 that type of thing. We are
5 looking at a lot of generation
6 retirements in the east and the
7 challenge for us in the planning
8 world is to figure out how to get
9 the megawatts that we do have
10 scattered around the system to the
11 places where the load centers are.

12 I'm the interconnection
13 front from a generation
14 interconnection perspective.
15 There's a lot of activity. The
16 generation interconnection cues
17 over the last couple of years have
18 been increasing dramatically. We
19 started back in the K, L and M

20 cues with something like 30 to 40
21 generators, wanting to
22 interconnect. The most recent
23 cues we're looking at, the most
24 recent cues are looking somewhere

ESQUIRE DEPOSITION SERVICES

1 in the 80 to 100 range of
2 generation requests on the system.

3 The generation that we are
4 looking at, there's a lot of base
5 load coal out in West Virginia and
6 Pennsylvania. There's also a
7 couple of nuclear plants that have
8 been announced down in Virginia
9 and up in northern Pennsylvania.

10 As well we're seeing a
11 significant wind development.

12 There's a lot of wind generation
13 proposed out in Illinois as well
14 as some in Pennsylvania; and also
15 offshore wind; off the coast of
16 Delaware there's a developer who
17 wants to put some windmills out in
18 the ocean.

19 So, all of those are -- can

20 create challenges for us on the

21 planning, from a planning

22 perspective.

23 Mike mentioned merchant

24 transmission, he mentioned the

ESQUIRE DEPOSITION SERVICES

1 Neptune project. That's a project
2 that's taken over 600 megawatts
3 out of capacity out of PJM and
4 shipping it up into New York.

5 There's at least two other
6 projects that we are looking at in
7 merchant transition inter
8 connection cue; one, the '06 six
9 project is looking to take the
10 same amount of megawatts somewhere
11 over 675 megawatts up into New
12 York and then there's another one
13 in the cue, that's over 1,000
14 megawatts; 1,200 megawatts of
15 capacity that will need to deliver
16 from northern New Jersey up into
17 New York.

18 So, you know, obviously,
19 pretty significant challenges from

20 a planning perspective.

21 As far as the R-TEP is

22 concerned and the projects that we

23 are putting in place to make

24 Mike's job easy, we've had a

ESQUIRE DEPOSITION SERVICES

1 significant ramp-up in the size of
2 the regional transmission plan
3 over the last couple of years.

4 Last years R-TEP was by far
5 the largest from a, you know, from
6 a dollar perspective; the
7 significant project in last year's
8 plan was a new 500 KV line from a
9 substation called 502 junction out
10 in western Pennsylvania to the
11 Louden substation in Virginia.

12 This years R-TEP, which the
13 first part of was just recently
14 approved by the board I guess this
15 past Friday, eclipsed last year's.

16 This year's R-TEP was over,
17 approaching three billion dollars
18 of transmission upgrades.

19 We're looking at two

- 20 significant lines; one line in
- 21 northern -- goes from northern
- 22 Pennsylvania over into northern
- 23 New Jersey, the
- 24 Susquehanna-Roseland line, about

ESQUIRE DEPOSITION SERVICES

1 130 mile long line. The expected
2 cost of that line is over 900
3 million dollars.

4 It's addressing -- it's
5 addressing overloads that we are
6 seeing in northern New Jersey.
7 Our planning studies for 2012 are
8 showing, you know, dozens, you
9 know, over two dozen lines, two 30
10 KV lines that would be severely
11 overloaded. So that line is to
12 address those needs.

13 The other significant line
14 that we have in years R-TEP is new
15 transmission line, over 300 mile
16 long line that's going to go from
17 the Amus station down in West
18 Virginia to Kempton station,
19 which is going to be a new

20 substation in Maryland.
21 Again, a 300 mile long line
22 and the expected cost of that line
23 is on the order of 1.8 billion
24 dollars.

ESQUIRE DEPOSITION SERVICES

1 You know, so, they are big,
2 significant jobs, significant
3 projects. You know, from our
4 perspective on the planning side,
5 we've done the analysis, we've
6 identified the need for them.
7 We've, you know, taken it to the
8 stakeholders and gotten
9 concurrence from them as well as
10 taking it to the PJM board and
11 gotten their approval for it. At
12 this stage now the transmission
13 owners are obligated to go build
14 those facilities and it's the
15 first step on a long road to get
16 these lines in service. We're
17 working closely the Allegheny
18 Power and Dominion on a lot of the
19 regulatory issues and the siting

20 approvals that they need to get to
21 built the 502 junction line.
22 We'll be getting into the same
23 type of thing with the
24 Susquehanna-Roseland line and the

ESQUIRE DEPOSITION SERVICES

1 Amus and Kemptown line.
2 So, things are pretty busy
3 in planning and it's not -- it's
4 not done really with just the
5 analysis; it's ongoing and we'll
6 be working closely with power
7 system coordination, once these
8 lines start getting built and make
9 sure they get integrated into
10 operations properly.

11 So, that's all I have on the
12 planning front; if there's --
13 unless there's any questions, I'd
14 like to introduce Ezra who I think
15 is going to get us kicked off on
16 the celebration.

17 MR. McCARTHA: Good morning,
18 everyone. As Paul mentioned my
19 name is Ezra McCartha and as

- 20 already mentioned by our reggae
- 21 rock star, Vince Duane, the year
- 22 2007 marks the tenth year
- 23 anniversary of PJM as an
- 24 independent grid operator and it's

ESQUIRE DEPOSITION SERVICES

1 80s as a power pool. A group of
2 PJM employees has been meeting
3 over the course of the past year
4 to plan what we call PJM's 10/80
5 celebration.

6 Today, I am glad to announce
7 that this is the official kick-off
8 of the anniversary that will be
9 lasting throughout the year. One
10 of our first main events is going
11 to be tomorrows Battleship New
12 Jersey.

13 By a show of hands, how many
14 people will be attending tomorrow?
15 Okay. Great. I look forward to
16 seeing you there.

17 I want to thank the
18 following people who have worked
19 very hard as a part of the 10/80

20 committee to make sure that PJM's

21 anniversary as a member one for us

22 all.

23 Upon calling their names I

24 would ask that they stand and

ESQUIRE DEPOSITION SERVICES

1 remain standing.

2 Allan Alesius; Chris Hines;

3 Cynthia Jackson, Jim Kirby;

4 Kirsten Lusta; Molly Lynch;

5 Francine Martin; Dave Swung.

6 Let's give them around of

7 applause.

8 To mark the anniversary and

9 to capture a piece of PJM's

10 history we've produced a brief

11 video. The video actually

12 highlights PJM's history and the

13 evolution of PMJ over the past

14 decades. DVDs of this

15 presentation will be available to

16 you after the meeting. Also,

17 managers will, if they haven't

18 done so already, will be

19 distributing a special anniversary

20 gift to all PJM employees.
21 Without further adieu, I invite
22 you to sit back, relax, enjoy the
23 following 10/80 presentation;
24 after which we will hear from our

ESQUIRE DEPOSITION SERVICES

1 very own Phil Harris. Thank you.

2 (Whereupon, the video was

3 played.)

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

ESQUIRE DEPOSITION SERVICES

1 SPEAKER: Somebody said
2 Hawaii day to day, and I think I really
3 believe that go PJM is transformed when
4 we go to the annual meeting and resident
5 passing out golf T-shirts we have Tony
6 Bahama shorts and shirts.

7 It is a pleasure to once
8 again visit with you, particularly in the
9 times and circumstances that we're in
10 today and I want to take a few minutes
11 just to talk about that.

12 I got a call from one of the
13 major CEOs of our companies last week,
14 and he asked me, he said "How is PJM
15 handling these things, the stress and the
16 publicity and the trade rags and I asked
17 him I said, "Well, how do you think we're
18 handling it?" And he came back with
19 something not to -- I told him I wanted

20 to share with you all. And he said he's
21 never seen a group of people that
22 wherever you go have such perspective and
23 poise. And I thought about that and it
24 was a real compliment I think to you all.

ESQUIRE DEPOSITION SERVICES

1 And I looked back to the history PJM and
2 when I came on board in 1992, and what I
3 wanted to form was a company based on the
4 people, and you've heard me talk about
5 the knowledge of people and we tried to
6 build PJM based upon the dignity and
7 respect of each of you and the knowledge
8 you bring to the task at hand. And I've
9 talked to you about how important your
10 attitude is when we come to work. I mean
11 how many days and how many hours in your
12 life do you have to spend in a work
13 environment, now a huge percentage. And
14 what kind of company do you want to work
15 for? You want to work for a company that
16 when you come in you see the smile in the
17 face. You see the respect that one
18 another has for each other. You see the
19 diversity that we bring together as

20 people to accomplish tasks, and you've
21 done this all exceedingly well in
22 technology.
23 I'm struck by the fact that
24 just a few years ago when we were talking

ESQUIRE DEPOSITION SERVICES

1 about Com Ed expansion I was given
2 testimony at the U.S. Senate talking
3 about large grid operations and one of
4 our sister RTOs made the comment that
5 this was technically impossible, and
6 while we might figure out the technology,
7 there's no way that people, human beings
8 could operate 100,000 megawatt system,
9 and this was in sworn testimony, and PJM
10 stood up to the test and the challenge
11 and look at where we are today, but think
12 about what he said. What he said was
13 human characteristics perspective and
14 poise. And what you develop is not the
15 technology solutions in operating such a
16 wondrous system in planning such a huge
17 dynamic electrical grid. What you're
18 doing is a group is you're giving huge
19 testimony to the world about the value of

20 RTOs and the people that's doing that
21 work by the perspective and poise you
22 bring in trying times. But trying times
23 have always been among us. In 1992 after
24 the passage of the Energy Policy Act we

ESQUIRE DEPOSITION SERVICES

1 were sitting there. By the way our rates
2 then were 27 cents. So it's quite
3 remarkable that here 15 years later our
4 rates may be below that after everything
5 else that we've done. But in that trying
6 time that came about in the 1992 time
7 frame we're trying to figure out what to
8 do with the pool which was basically a
9 department of people, and we decided to
10 make it a separate company. And at the
11 time the vision was it was going to be
12 stock company owned by the C stock
13 company, owned by all the companies
14 through stock, and for various reasons
15 that fell apart at the last minute, but
16 we're in the midst of transferring
17 employees and there are a hundred or so
18 employees we had at that time. Look at
19 the world that they ran. Their thoughts

20 were going one way, they're going another
21 way. We create a construct called an
22 unincorporated association. You're
23 leaving a huge 10,000 employee utility at
24 that time from the separate company.

ESQUIRE DEPOSITION SERVICES

1 What about the benefits, the pension
2 plan, am I losing 20 years of history,
3 what's going to happen, how are we going
4 to be able to operate, where's our
5 support system. I notice Molly Lantz was
6 on the group for the 1080, and I think
7 that's appropriate. One of the stories
8 about Molly. We didn't have a purchasing
9 department. We came up and actually ran
10 this company off of my personal credit
11 card for a few months. So we're getting
12 things set up, and I says "Does anybody
13 know anything about buying goods and
14 services," and Molly says "I know how to
15 shop." So I told Molly, I said, "You're
16 our purchaser, go do it."

17 But I think that's
18 indicative. I mean those really were
19 trying times. If you think of your

20 career and what you got a line and what
21 you're doing. And soon thereafter
22 there's another group started to form at
23 Transco, and they spent close to \$35
24 million. We're going to form a Transco

ESQUIRE DEPOSITION SERVICES

1 and we're going to have utilities operate
2 this thing and PJM may not be needed.
3 Another group was doing studies on busing
4 the pool apart in the separate control
5 areas, and the pool might not be needed.
6 And our employees then which were working
7 to develop the new systems and procedures
8 moving forward with a new EMS were
9 carrying the brunt of this big public
10 debate as these huge decisions were being
11 made. At the same time there's a big
12 debate about what was the structure of
13 the industry was going to be, and the
14 pool was almost tore apart with that. We
15 had the supporting companies looking at
16 L & P and you had Enron and PECO looking
17 at having average congestion.

18 There was a big move at that
19 time also that the employees should not

20 be allowed to even attend the stockholder
21 meetings and some motions made to forbid
22 that.

23 In all of this at all times
24 the PJM employees have stood up. We not

ESQUIRE DEPOSITION SERVICES

1 only maintain the technical integrity of
2 the system, but at the same time we've
3 been able to support everyone as they've
4 engaged in the debate, because it is a
5 debate. It's a national restructuring
6 debate that is going forward in the
7 largest and most complex industry that
8 there is and it's happening worldwide not
9 just here.

10 As it turns out the small
11 group of people, which is you, in Valley
12 Forge they're having a tremendous
13 worldwide influence, absolutely
14 tremendous. You have people here from --
15 if you look at just the visitor's roster,
16 the people you had here from China and
17 the delegation you have a very large
18 prior grid operators consisting of now
19 the 13 largest grid operators in the

- 20 world getting together and talking about
- 21 the views of the industry and they are
- 22 following PJM's lead right and left all
- 23 wanting agreements and arrangements with
- 24 us to learn how we do and what we do.

ESQUIRE DEPOSITION SERVICES

1 And then all of this I think perspective
2 and poise keeps coming back to this
3 enterprise.

4 The challenges are many.
5 And there are also challenges that gets
6 back to us as people in doing our work.
7 I think the people that were here in
8 those early '90 time frames when we were
9 trying to establish what the company was
10 going to be, studies being done to
11 disband this entirely deserve a huge
12 credit. They kept doing their job. They
13 kept doing it right, maintain their
14 professionalism, maintain their poise and
15 moved ahead.

16 In planning we had the same
17 thing. At the time we started we only
18 had four or five planners doing
19 coordinated planning, and in 1994,

20 actually late '93 some of the states says

21 you never going to move ahead the markets

22 unless you have a planning protocol

23 within PJM.

24 So the first time we had

ESQUIRE DEPOSITION SERVICES

1 facilitated meetings to determine what
2 that planning protocol would be and we
3 had the Sierra Club. We had telephone
4 companies and everybody was coming to
5 these meetings to tell us how the system
6 ought to be planned. And we negotiated
7 with the large group, and it was our
8 first experience getting outside the
9 pool, but dealing with a large group to
10 meet needs and understand the business
11 and to come together, and we created our
12 planning protocol what started our RTEP,
13 but it didn't stop there with these
14 externalities and the challenges. You
15 may not remember, but in -- when we began
16 our operations on February 28th, I
17 remember it well. I got a call at 5:30
18 at my home. I left the office,
19 everything was fine. I was going home

20 and I got a call that FERC just issued an
21 order, and the order said we're going to
22 take part of the PECO Enron solution and
23 part of supporting companies, we're going
24 to blend it and that's what PJM is going

ESQUIRE DEPOSITION SERVICES

1 to start with and we're supposed to start
2 March 3rd. Obviously, we called
3 everybody back in over the weekend and we
4 studied and said how we going to blend
5 these two systems, how are we going to
6 make this work and the trade rags were
7 full of this debate, the pool was going
8 to fall apart, nothing would happen. And
9 it all came down to a few key elements
10 that could we do it, could we do it, and
11 people were saying it's going to take a
12 year maybe to combine these two models
13 that FERC approved. And we looked around
14 and everybody met and we spent all
15 weekend talking about it, and we came
16 down with could we do it, yes. And the
17 big thing is could we get the bill out
18 and could we get the bill out accurately.
19 And I can't remember who made that

20 observation, but I remember it was an
21 absolutely brilliant one that we could do
22 it technically, but if we can't get our
23 bills out accurately then we shouldn't do
24 it at all. And what a great decision it

ESQUIRE DEPOSITION SERVICES

1 was that that became the critical path,
2 and it was delightful that after we got
3 our first bill done it was everything was
4 paid without a single billing dispute.
5 And we're the only RTO, the only ISO that
6 gets things out without billing disputes.
7 It's absolutely incredible. Many of the
8 others have years of cues, months of
9 cues, and a lot of disputes, but that one
10 decision we're going to do what's right,
11 we'll get the things done, we're going to
12 stand up to the heat of the devicing
13 that's going on and get our job done
14 appropriately and then concentrate on the
15 right things to make things move forward.
16 That's kind of been the hallmark.

17 As we move forward at that
18 time we're in another crisis situation
19 that had a great deal of publicity

20 because the PJM board refused to sit. So
21 we started our operations on April 1st
22 without a board, and the board refused to
23 sit because of the give and takes on the
24 governance of PJM, which is still in

ESQUIRE DEPOSITION SERVICES

1 debate in discussion today to various
2 degrees, the board had no rights over the
3 reserve margin. They had no 205 rights
4 and PJM was specifically prohibited from
5 having discussions with the states, and
6 all of that may not be a bad idea. It
7 certainly isn't a good idea if you want
8 to move forward in healthy working
9 relationship.

10 So the board of directors
11 refused to sit. And then on day two
12 Enron cornered the market on the
13 short-term transmission service and what
14 do we do. So we had to make a lot of
15 decisions then in the short period of
16 time, do what's right. The tremendous
17 amount of trade rags, a lot of press, a
18 lot of disturbance moving forward on
19 that. And, again, as we moved and moved

20 forward with a continual debate about L &
21 P and no L & P and those saying that PJM
22 shouldn't be involved and not be involved
23 and so forth.
24 And through all of this, you

ESQUIRE DEPOSITION SERVICES

1 our employees have stood up, I think,
2 with a tremendous perspective and poise.
3 And I think this has become a strength.
4 There's an old proverb that says as iron
5 sharpens, iron, so one person sharpens
6 another. And I think with all the
7 rhetoric you hear and the challenges we
8 hear tend to make us stronger. I think
9 we're stronger because we know our job.
10 You know your work. You know the value
11 of what you do and you do it every day.
12 And I think that's a great credit to you
13 and if I could give you a standing
14 ovation I would, but I think you have a
15 major CEO say that when they look at PJM
16 they think in terms of perspective and
17 poise. That's a great tribute to you all
18 in what you do. You look in our current
19 environments and move forward.

20 A few years ago we're trying
21 to modify the RTEP and we had no idea
22 about how do you do generation
23 interconnection. The members couldn't
24 agree. So we stood up and said, this is

ESQUIRE DEPOSITION SERVICES

1 what we're going to do and how we're
2 going to do the interconnection pros
3 unless you make a decision in a certain
4 period of time. Big hurrah over that. A
5 lot of complaints, a lot of discussion.
6 PJM is going off the board, things won't
7 happen, the world is going to end. You
8 work for us, et cetera, et cetera. And
9 it went on and on and on, but in four
10 months we had solved the problem, we made
11 a filing on how the interconnection
12 policy would be shared. It was
13 absolutely tremendous. But if we hadn't
14 taken the heat, we hadn't stepped up, it
15 would have never got done. And if you
16 look in the rest of the U.S., you look at
17 the other RTOs that debate is still going
18 on about how generation interconnection
19 costs are being shared.

20 So we stood up again and we
21 stood the test of time. And we're in
22 another era now as we move forward to
23 continue to have debates and discussions
24 about the governance and why is that?

ESQUIRE DEPOSITION SERVICES

1 One, it's a restructured
2 industry. It's an industry being
3 restructured by governance. Okay, by the
4 government. Now, think about that. What
5 business enterprise that you know of has
6 their governance shaped by the federal
7 government. Can you think of a worst
8 recipe. It's kind of like I'm a
9 government, I'm here to help you. But
10 that's what we're stuck with. There's an
11 old saying you play the game with the
12 cards you get dealt, and for us a group
13 of people that were operating the pool
14 and learning how to operate markets and
15 doing our job well, what we've been
16 handed is a federal government saying
17 this is what you ought to do in principle
18 without a lot of detail. If you look at
19 the fact that we've got nearly 500

20 members now it won't be long we will have
21 more members than we do employees, but
22 with 500 members we all have different
23 views and different economic interests.
24 You know we don't have that normal

ESQUIRE DEPOSITION SERVICES

1 economic incentive you have that shapes
2 your government like a typical
3 corporation. So it's just ripe for
4 dispute and debate about who does what
5 and how things are derived and who has
6 that. That's just the heat of the
7 kitchen that we have to deal with in
8 doing what we're doing in our role in the
9 electric industry. And it will probably
10 be some time before all of that is sorted
11 out. HERTO and ISO has got a different
12 complexion and boards have different
13 committees, different way of interfacing.
14 That's just part of what we do as we do
15 our jobs every day. It's a big topic.
16 The current MMU debate is another one.
17 You know, we didn't ask for market
18 monitor. FERC made us have a market
19 monitor, and all they said was, "Here's

20 some general rules." So over time that's
21 evolved to the point now that there's an
22 actual dispute over what the role versus
23 the accountability is. It's a shame that
24 that dispute got turned into a public

ESQUIRE DEPOSITION SERVICES

1 debate and which led to litigation. But
2 the genesis of it, as Vince was saying,
3 is something we should expect. You're in
4 a transition industry, things haven't
5 been formed. You have the federal
6 government trying to say what it should
7 be, which isn't how you turn process, so
8 you're just ripe for dispute and debate.
9 That will be worked out through the
10 litigation, and we'll move ahead with
11 that. Indeed, FERC issued a NOPR, an
12 Advanced NOPR, actually where some of
13 that was debated at the federal level,
14 but it won't end. I mean it's
15 governance, what we are and how we are is
16 just something that's with us as we move
17 forward over time, and we have to
18 anticipate that.

19 The current debates over

20 transmission. Everyone says we need
21 transmission, but on the other hand don't
22 put it in my backyard. Somebody said it
23 was a note principle not on planet earth.
24 That the transmission is needed. It's

ESQUIRE DEPOSITION SERVICES

1 needed to ensure that none of the robust
2 of what we have but to enable the demand
3 programs. The demand doesn't really have
4 backup and energy has got to come
5 somewhere. In a large regional entity
6 that has a robust transmission system,
7 aids and abets demand side and a huge
8 good for the public service.

9 So we're heavily engaged in
10 that discussion and our board has the
11 authority and has exercised that
12 authority for the transmission
13 construction and we'll be moving ahead
14 looking at other projects. But the
15 debate will not go away. There's debate
16 on capital hill about should the federal
17 government still have preemption, how is
18 that preemption applied. And we're right
19 in the forefront of that. Now, what is

20 important to realize is that if your
21 technical accument as the national policy
22 debate is taking place I have not heard
23 one word or seen one written bit of
24 testimony that says that the technical

ESQUIRE DEPOSITION SERVICES

1 analysis isn't correct, and I think
2 that's a tremendous credit to you all.
3 And when I talk to legislatures and when
4 I talk to governors they may talk about
5 MMU construct, they may talk about access
6 to the board, they may talk about we
7 don't want this built here, but it almost
8 always in the same breadth they talk
9 about the quality and the value and the
10 integrity of our employees. And I think
11 you all deserve great credit for that
12 that you have stepped up and that you
13 have done that.
14 We have a new future ahead
15 of us. We have our strategic report out
16 and I think the strategic report's been
17 hinted and commented on ad nauseum, but
18 what's interesting now is almost every
19 element that's been endorsed and tackled

20 in one level, one form or the other. So
21 it does kind of become a blueprint of the
22 activities and the things. There's a lot
23 in there 27 different recommendations and
24 almost all of them are being taken up at

ESQUIRE DEPOSITION SERVICES

1 some level. Even the federal energy
2 commission and their NOPR picked up
3 several of these elements. Moving ahead.
4 I think one of the things that's exciting
5 though is our training. We have to look
6 at the training. We have to look at how
7 to augment that. Everywhere I went and
8 talking to companies over and over again
9 I heard we need more training, we need
10 more repetitive training. We need to
11 understand more assistance. It is a very
12 complex market and we have to look at the
13 tools, procedures process to do that.

14 We also looked at having a
15 certification, Good Housekeeping seal of
16 certification basically so that we would
17 develop a test that people would take to
18 say that they're fully certified to
19 participate in trade in PJM markets. And

20 I think that's a good idea. It could be
21 voluntary but hopefully once it gets
22 started people we will want the stripes
23 and to maintain the currency of that.
24 Certainly the smart grid is

ESQUIRE DEPOSITION SERVICES

1 an idea whose time has come. There's
2 many efforts right now in congress to
3 actually make this law, and all of these
4 meetings PJM is in the forefront. We've
5 been asked to testify. We've been asked
6 to submit language to a number of our
7 senators and congressman how to enable a
8 smart grid. And again, it's based on our
9 credibility, what we know, how to do
10 things, how to move things forward to the
11 future. A number of elements of market,
12 our market development that it had, and
13 also the concept of a perfect dispatch,
14 and that's pretty bold of us to do that.
15 That we're going to stand up and say how
16 close were we to perfect this past hour
17 based on the 100 percent of the
18 information we had after the fact and
19 we'll make that publicly known. I mean

20 think about that. That is a tremendous
21 thing for us to step up and do so the
22 world will see how close to perfect we
23 were every hour, but that will give us a
24 body of knowledge. It will give us

ESQUIRE DEPOSITION SERVICES

1 information that we can use to measure
2 and we hope it will put an end to some of
3 these debates about we should operate
4 this way, we should operate that way.
5 It's more efficient under regulation and
6 so forth. That's a great challenge. I
7 think it's a wonderful challenge. I wish
8 every consultatory in the world would
9 operate that way, and I think ultimately
10 they will. When the Chinese were here a
11 few months ago that's what they wanted to
12 talk about. The (inaudible) meeting
13 coming up in India later this year one of
14 the agenda items is PJM's model for
15 perfect dispatch. But once again, the
16 elements, the principles, the things that
17 we're developing here are becoming the
18 tocin for the world, TOC not TOX, the
19 world to be looked at and to drive to.

20 And in all of this in all times you as
21 individuals have stood up with great
22 perspective and great poise. I can't
23 think of another company, I can't think
24 of anything else I'd want to be doing

ESQUIRE DEPOSITION SERVICES

1 with my life then working with you all
2 and working with PJM, and I think in
3 trying times particularly the trade rags
4 and words and stuff it can get
5 discouraging. It's in that
6 discouragement that lays truth in one
7 another, because we've been there, we've
8 seen it happen, if we do our job right,
9 we do it every day, we step forward, we
10 know this business, we know what we're
11 doing better than anyone else in the
12 world. And the confidence of that
13 knowledge gives us the confidence to move
14 forward and to step forward with
15 perspective and poise.
16 So whether I see us just
17 going on some of the elements say two to
18 three years from now as PJM unfolds we'll
19 continue to work on some of the

20 governance things, nibbling around the
21 edges, but we will be an independent
22 enterprise. It will be based upon the
23 knowledge of the individuals and that
24 will continue. I think the markets will

ESQUIRE DEPOSITION SERVICES

1 kind of slow down. We kind of reached an
2 envelope of market development and it's
3 important to keep our perspective on that
4 too. When you study the evolution of
5 markets and there's a wonderful book if
6 you ever want to read it called Gerivites
7 the Wild Beast of Finance they've listed
8 a history of markets. And markets people
9 start off trading cow skins or soybeans
10 or some product and it's done by physical
11 traders and then as they start trading
12 physically and find a different way they
13 can trade then they start realizing they
14 have transportation risk involved in that
15 delivery and so they start hedging the
16 transportation risk in delivery of their
17 product. And once they start hedging the
18 transportation risk of the product then
19 the financial institutions come in and

20 start saying well how can we get rid of
21 the volatility that's in the hedging
22 taking place in the physical delivery of
23 that product. And then the financial
24 institutions come in.

ESQUIRE DEPOSITION SERVICES

1 And if you look at where PJM
2 is today after ten years we've developed
3 the product for physical delivery in the
4 next day and then our other products are
5 becoming more and more financial. It's
6 an interesting graphic I was looking at
7 the studies. If you look at the people
8 trading in our hourly market and our day
9 ahead market, you look at our FDR markets
10 you can see the transition from being an
11 asset owning physical delivery companies
12 to also you get into the financial
13 companies, the JP Morgans, the Goldmans
14 and stuff almost 100 percent of the
15 forward trades. And that is normal
16 evolution. That is normally the way
17 commodities and stuff grow, and I think
18 the PJM concentrate more on what we're
19 dealing with a very large system. We

20 have had other companies talk, believe it
21 or not, about joining PJM. I think it's
22 probably a ways off, but there is still
23 some interest out there. I think that we
24 will continue to grow that way. I think

ESQUIRE DEPOSITION SERVICES

1 we'll continue to be very good and what
2 we do. Probably one of our biggest
3 challenges is actually in the size of the
4 data that we have to deal with. As you
5 look at the huge pressure to build the
6 man side and just like we were showing on
7 the video with the smart grid anyway to
8 keep the grid in balance in a network way
9 the amount of data it's going to take in
10 real time to keep the grid reliable and
11 bring all these different participants in
12 to participate in our hourly and day
13 ahead markets is absolutely tremendous.
14 NORA keeps throwing a new term in called
15 a PECO byte. How many of you know what
16 that is? A PECO byte is 1,024
17 terrabytes. So we're now at 3 or 400
18 terrabytes real time information and now
19 is more looking into the future. She's

- 20 talking about what we'll be doing with
- 21 PECO bytes. I'm going to a meeting in
- 22 August just to talk about how do we
- 23 handle PECO bytes in a real time world.
- 24 It's really fascinating. You know with

ESQUIRE DEPOSITION SERVICES

1 the London stock exchange they told me
2 that they handle about 24 bits of
3 information a second and they only do it
4 during trading hours. After that they
5 shut things down. For PJM it's about
6 11,000 and we're so far beyond these
7 stock exchanges, but that's the future of
8 the world and it's going to escalate. So
9 how are we going to manage that, bring
10 all the demand resources in. And these
11 things are important. They're important
12 for economy. They're important for our
13 states and important for what we do. We
14 all know the price of gas. Believe me I
15 know it I drive an Expedition. I can't
16 even fill it up anymore. It costs me
17 \$75. We know the price of gas. We know
18 the dependency of oil that we're on.
19 Demand side helps, demand side brings

- 20 these pressures in. It allows hybrid
- 21 cars to come in now with tremendous
- 22 efficiency that they're showing and
- 23 plugging and playing into the electrical
- 24 grid giving choice, giving money back to

ESQUIRE DEPOSITION SERVICES

1 customers. This is the future and to
2 make all that work means that PJM has to
3 be much more integrated, much more price
4 responsive. If he has a product called
5 prices to devices, get these end use
6 devices out so we can communicate that.
7 That means our job is going to be even
8 more complex, more to do, more to solve
9 which brings in our advanced control
10 center, the open architecture and the
11 terms and phases around that. Now as we
12 deal with that, that become
13 extraordinarily exciting from a
14 technology point of view. As we continue
15 to deal with the governance issues we
16 will keep our perspective and our poise.
17 And I think we had one of our core
18 values, I think one of our core values
19 should be keep our perspective and poise

20 because you've done that. And I think as
21 a handful of individual enterprises that
22 is having such a tremendous worldwide
23 influence you really deserve to pat each
24 other on the back. It's a great company.

ESQUIRE DEPOSITION SERVICES

1 It's a tremendous future. It's wonderful
2 for what you're accomplishing and we're
3 really looking forward to the next decade
4 and the next 80 years of PJM.

5 Thank you very much.

6 Somebody said it was hot, but I think
7 this is wonderful. This is our business.

8 This is great. Little more humidity

9 would be helpful, but I'll take any

10 questions.

11

12

13

14

15

16

17

18

19

20

21

22

23

24

ESQUIRE DEPOSITION SERVICES

1 **CERTIFICATE**

2

3 **I HEREBY CERTIFY** that the audio
4 and video of the Allegheny Electric
5 meeting was transcribed by me to the best
6 of my ability.

7

8

9 **Teresa M. Beaver, a**
10 **Federally-Approved Registered**
11 **Professional Reporter**
12 **Notary Public**

13 **Dated: July 10, 2007**

14

15

16

17

18

19

20 (The foregoing certification
21 of this transcript does not apply to any
22 reproduction of the same by any means,
23 unless under the direct control and/or
24 supervision of the certifying reporter.)

ESQUIRE DEPOSITION SERVICES