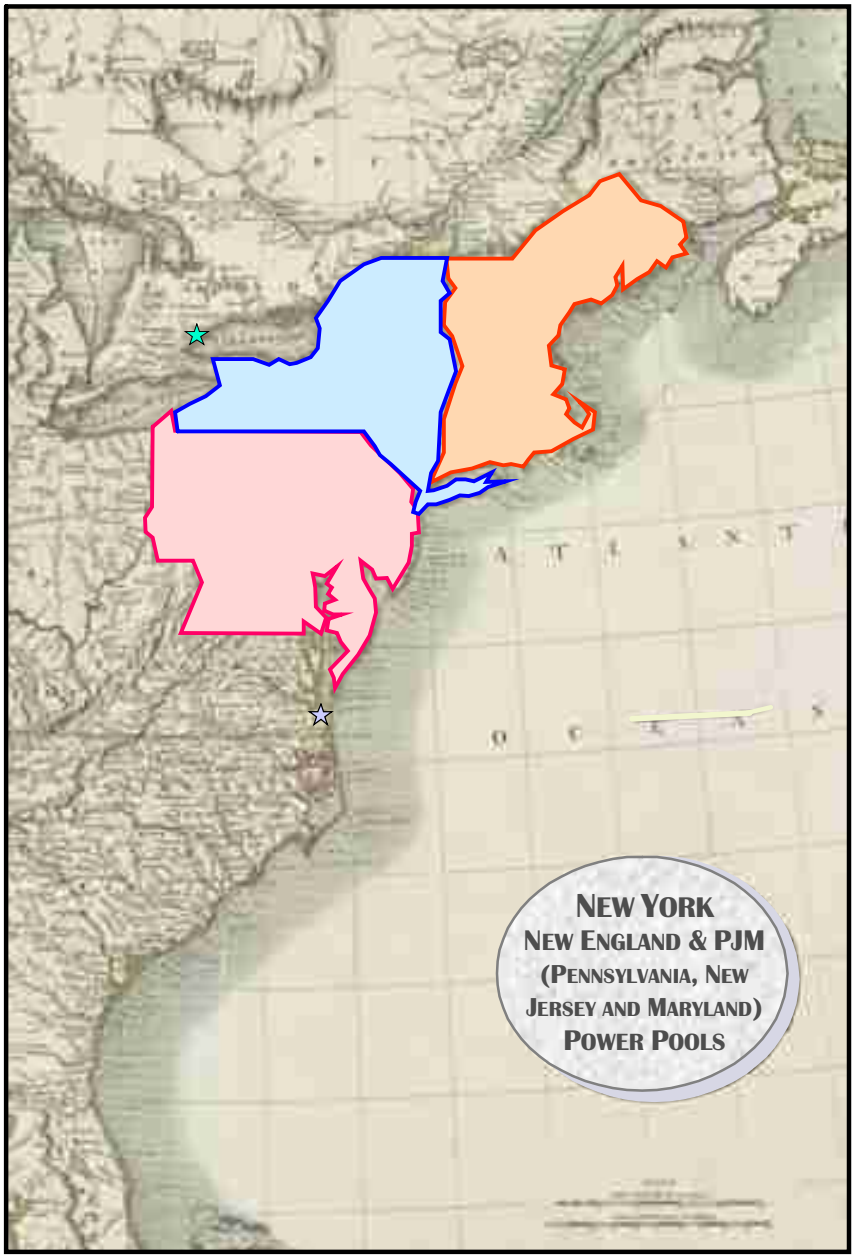
PEGASUS ANNOUNCES MAJOR NETWORK REINFORCEMENT FOR NEW YORK AND PJM

PEGASUS TRANSMISSION COMPANY LIMITED has announced its intention to design, construct and operate a high capacity, high-voltage (+/-500kV) HVDC circuit connecting Marcy, Porter, Edic and possibly Clay substations, in central New York, with West 49th Street substation in Manhattan and Hudson substation in northeastern New Jersey.

These substations are strategic, as they provide access to generation and load centers throughout the entire region.

The NIAGARA REINFORCEMENT INTERCONNECTION PROJECT will connect strong regional substations, which will effectively combine the strengths of the entire northeast.

The new circuit will act as a "back-bone" for the region, stabilizing, reinforcing and benefiting each of the surrounding networks.



BENEFITS ARE SHARED BY ALL. The new HVDC circuit will provide the greatest benefit, for the least cost, to all ratepayers in the New York Power Pool and PJM (Pennsylvania, New Jersey and Maryland).

First Class Inter-Connections

At the northern end of the transmission system, a large AC/DC converter station will be sited between three large existing substations, namely; (1) New York Power Authority's Marcy substation; (2) Niagara Mohawk's Porter substation, and; (3) Niagara Mohawk's Edic substation. These three substations are connected directly to the Quebec and Ontario grids, as well as to generation facilities at Oswego and Niagara Falls.

In the south, two AC/DC converter stations will connect directly to Consolidated Edison's West 49th Street substation and Hudson substation in New Jersey.

The new DC circuit(s) will make 1,200 MW – 1,800 MW available for ratepayers in New York City, as well as 1,200 MW for ratepayers in New Jersey (PJM).

Rigorous Environmental and Technical Review

Environmental studies will be conducted according to guidelines set out by the New York Public Service Commission, the New Jersey Board of Public Utilities and the Pennsylvania Public Utility Commission.

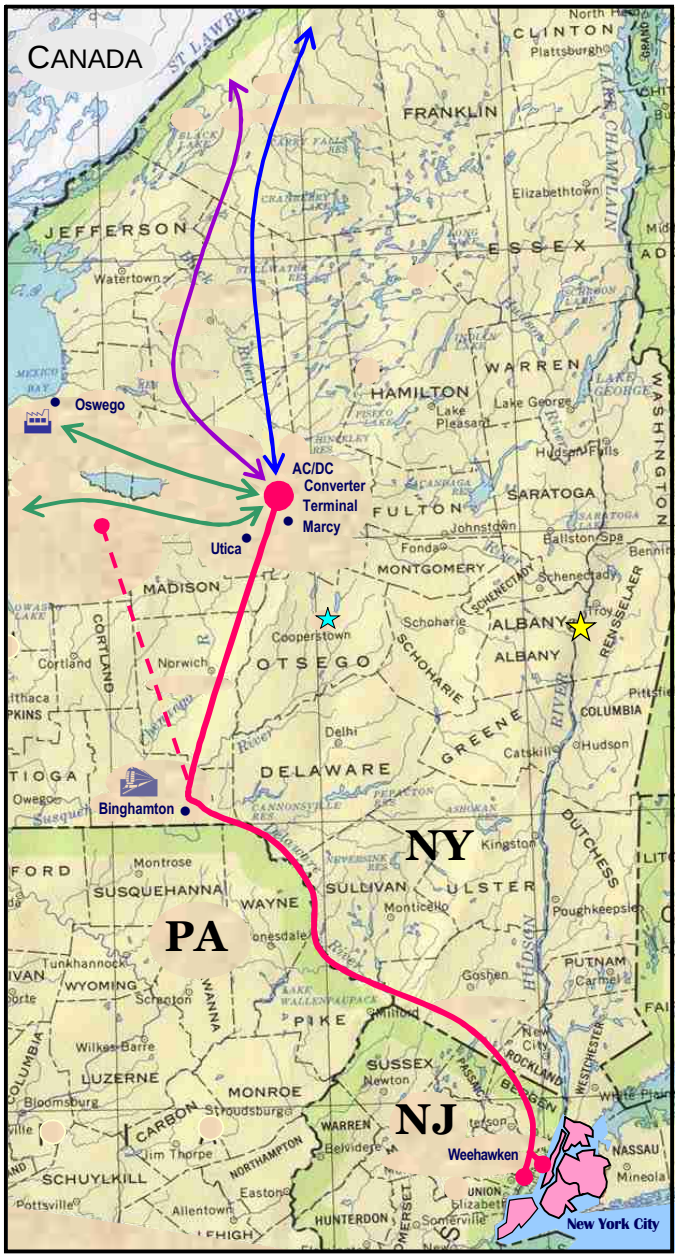
System impact studies will be conducted, according to guidelines set out by the Federal Energy Regulatory Commission, the Northeast Power Coordinating Council, and the New York and PJM Independent System Operators. The results of these studies will be made public and appended to an Article VII Application made to the New York Public Service Commission in Albany, (similar applications will be made in New Jersey and Pennsylvania). This application is to obtain a "Certificate of Environmental Compatibility and Public Need".

Avoids Problems with the Hudson Valley

1. Rail corridors are too heavily used by rail traffic to permit construction. In some cases, especially along the river, there is no road access, challenging geography exists and sensitive environmental areas are to be crossed.
2. There is a reluctance to use public highways and/or public rights-of-way for overhead transmission line, due to the high visibility of the towers and lines.
3. Use of public rights-of-way is controversial without an open tender process which guarantees competitive pricing and fair access, especially when private rights-of-way are readily available.
4. High density urban populations residing between Tarrytown and Manhattan would make installation problematic, costly and extremely disruptive.
5. Substations in the vicinity of Albany currently have only limited access to large quantities of "take-away" generation capacity. Energy originating in New England raises environmental concerns about air pollution caused by local fossil fuel plants.

Western Route Avoids Urban Centers

Pegasus has secured rights-of-way between Utica (NY), Binghamton, Port Jervis and Weehawken, New Jersey. These rights-of-way are privately owned, lightly used, continuous, and sufficiently wide so as to permit either underground or overhead installations. The route avoids populated urban areas and is ideal for use as a utility corridor connecting northern and southern regions.



220 kV AC Circuits (x2)
345 kV AC Circuits (x2)
500 kV DC Circuit
765 kV AC Circuit

Engineering

The engineering for the project will be provided by Teshmont Consultants. Teshmont specializes in providing engineering services for both EHV AC and advanced HVDC transmission systems. They are recognized worldwide for their leadership and expertise, having provided engineering services for projects representing more than sixty (60%) percent of the total worldwide installed HVDC capacity. These include some of the largest electrical engineering works in the world.

Teshmont will be responsible for planning, design, construction supervision, commissioning, and project management. The design will feature compact, modular components (relative to high-voltage AC), all of which will be delivered by rail.

Underground cabling will be accomplished by off-loading specially shielded cables on to exceptionally long trains.. The cable will be delivered on 80' turntables mounted on purpose-built ships,

Relieving Bottlenecks

The new HVDC circuit will substantially reduce congestion on three of the most heavily loaded interfaces in the northeast USA:

(a) the Central-East Interface;
(b) the Capital-South Interface;
(c) the PJM-New York City Interfaces.

Configuration "A" is most cost effective

The circuit will feature two poles, each of which may be operated independently, plus three terminals *(ref. the adjacent conceptual single-line diagram).*

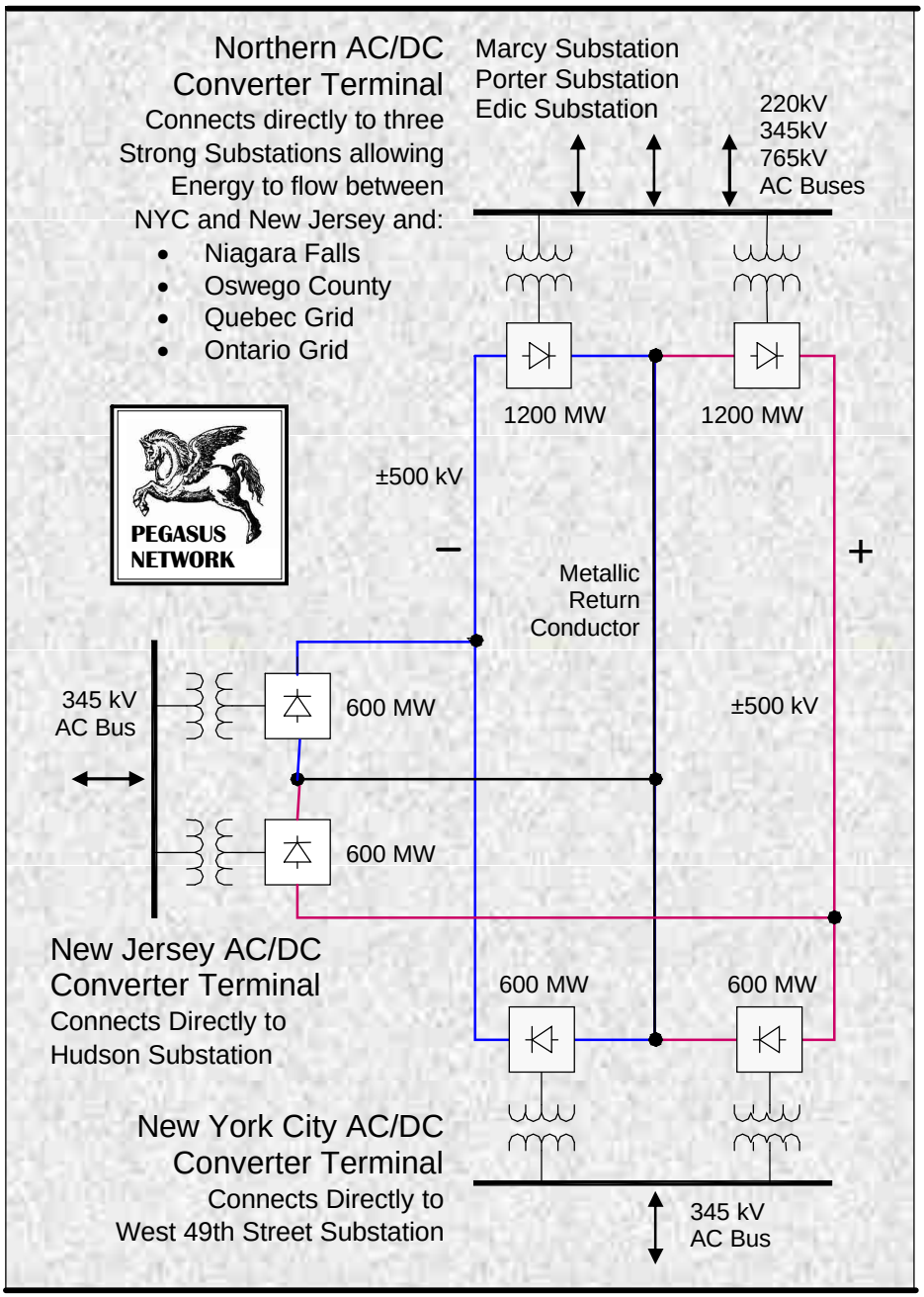
We propose that gross transfer capacity be in the 2,400 MW range.

This configuration would feature physical separation of each pole, *(i.e. separate trenches per pole, or otherwise physically separated).*

Inflating the Grid from the Inside

By adding a single, high capacity HVDC circuit (+/- 500kV) and inserting large quantities of base-load into the center of congested networks, energy flows will change and in some cases reverse, which will dramatically reduce congestion across network interfaces. It will also avoid the necessity to build new generation in sensitive areas adjacent to load centers. In addition, the new HVDC circuit will lessen dependence on inner-city "peaking plants" which generate higher-cost electricity and contribute to poor air quality.

CONCEPTUAL SINGLE LINE DIAGRAM "A"



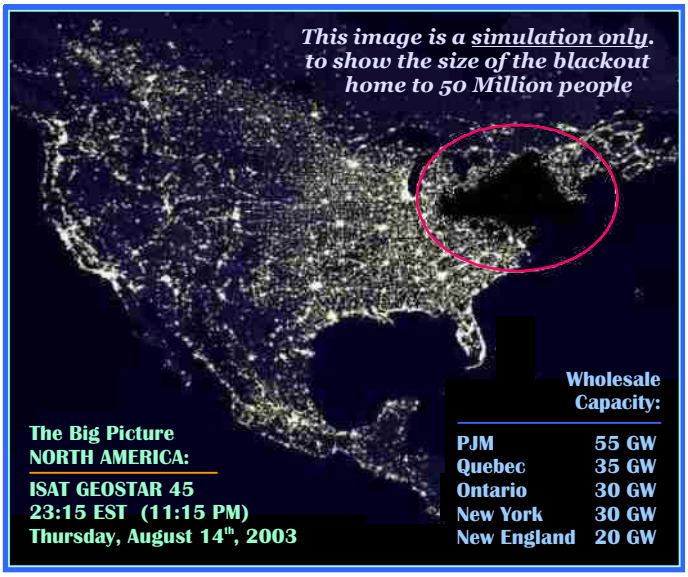
REGULATORY "WIN-WIN"

Since the blackout, enormous focus and attention has been concentrated on identifying inadequacies within the existing AC transmission system. Obviously new investment is required to reinforce the system. Attention is now focused on; (1) which projects provide the greatest public good; (2) who will capture the benefit created by these projects, and; (3) who will pay the capital costs to build new circuits and reinforcements.

The NIAGARA REINFORCEMENT INTERCONNECTION will benefit both northern and southern regions. In the northern region increased exports will raise utilization rates and profitability of generators, improving the prospect for lower regulated consumer rates. The southern region will experience substantially lower prices for all ratepayers while improving the efficiency of the local utilities' grids through lower congestion.

The NIAGARA REINFORCEMENT INTERCONNECTION will combine the strengths of the surrounding networks to provide the greatest public good, creating an enhanced market for electricity in the region. At the same time it will help to satisfy an urgent public need.

Regulated Marketplace:



Congestion in the Existing System Costs Billions

The NY-ISO has reported that New Yorkers pay close to $1 Billion per year because of transmission constraints.* The NIAGARA REINFORCEMENT INTERCONNECTION PROJECT will reduce congestion in the NYPP by as much as 80%.

Inefficiencies in the existing system are evidenced as zonal price differences *(i.e. price differentials between nodes in the network)*. Generally, it is not possible to significantly reduce congestion or significantly increase transfer capacities without building additional circuits.

The NIAGARA REINFORCEMENT PROJECT will help to create an enhanced market for electricity in a vast region extending from northern Quebec to Maryland, while satisfying an urgent public need for reliable, clean energy.

Big Infrastructure Projects are the Foundation that New York is Built Upon

New York City has always needed access to large quantities of raw materials, people and energy. Early Mega-Projects like the Erie Canal, the NY Aqueduct, the Holland Tunnel, and the Brooklyn Bridge have promoted the dramatic growth of New York City over the last 150 years. Demand for electricity generally grows at 1.5% - 2%/year, in-step with growth in economic activity. The new HVDC circuit will transfer up to 3,000 MW to help satisfy local demand in both New Jersey and New York City, supporting the continued economic growth of the New York Metro region.

BENEFITS ACCRUE TO ALL RATEPAYERS

1. **Reduced Congestion:** With the absence of congestion, all prices would be the same throughout the region, which often occurs during periods with off-peak demand. Allowing relatively large quantities of energy to flow into the center of congested networks will change patterns of energy flow, in some cases reversing it, relieving congestion throughout the entire region. This benefit will be shared universally.
2. **Increased Reliability:** DC Circuits are generally more stable and easier to manage than AC Circuits due to; no phase shifting; no uncontrolled flow, and; no strong electro-magnetic fields.
3. **Lower Prices:** Prices will be moderated, especially during periods of very high demand, by increased supply. The more market participants, the greater competition and liquidity, hence the more efficient the market-place. The new HVDC Circuit will allow market participants in upstate New York, Ontario, Quebec & New England to participate in the NYC, Long Island and PJM markets (northern zones represent approx. 70,000 MW generating capacity, with approx. 70,000 MW in the southern zones).
4. **Reduced Air Pollution:** In-city generators, which are usually gas-fired, account for a huge amount of local air pollution, while simultaneously producing higher priced electricity. Importing power into the region will lessen dependence on high-cost, dirty, in-city generators which are located adjacent to urban areas. The new HVDC circuit will displace millions of tons per year of carbon dioxide (CO_2) and other noxious pollutants which are currently released into the environment near urban centers.
5. **Benefits Public Transit:** Trains move people and freight far more efficiently than any other form of ground transportation, creating less pollution and using less units of energy per capita/ton, while simultaneously relieving pressure from the road system. Mass transit operators will benefit from increased revenue from the shared right-of-way, which would not otherwise be available.
6. **Allows Other Merchant Transmission Projects to Succeed:** Currently, three (3) other Merchant Transmission projects have been announced, with 2,400 MW capacities (gross). Each proposes to siphon energy between New Jersey and NYC/Long Island. Without additional inter-regional transfer capacity, these projects will only exacerbate localized imbalances, raising concern that New York ratepayers will benefit at the expense of ratepayers in New Jersey. The NIAGARA REINFORCEMENT PROJECT will help reduce regional imbalances and permit Billions of private capital to be invested into the transmission network.
7. **Economic Development in Upstate New York and New England:** Greater transfer capability will allow generators to site new power plants suitably far from large population centers. For example, Oswego is an ideal county to site new generation, which is required to power the entire northeast. With greater than 4,000 MW exiting generation capacity (including three nuclear reactors, plus oil and gas-fired generation), local authorities are accommodating to the power industry. Employment opportunities and taxes earned from construction, maintenance and operation of generation facilities are lucrative and long-lasting.
8. **Economic Development in New Jersey, New York City and Long Island:** Greater transfer capability will allow both industrial and residential ratepayers access to low-cost power from a vast region. Without new means to supply electricity to where it's needed, economic development will be choked-off. The importance of reliable, low cost, clean energy to the continued economic health and prosperity of both the New York City Metro region and New Jersey cannot be overstated.

Useful Internet Resources:

NY-ISO: http://www.nyiso.com	**NY-PSC:** http://www.dps.state.ny.us	**Transmission Week:** http://www.ioenergy.com
PJM-ISO: http://www.pjm.com	**NJ-BPU:** http://www.bpu.state.nj.us	**Platts Global Energy:** http://www.platts.com
ISO-NE: http://www.iso-ne.com	**PA-PUC:** http://www.puc.paonline.com	**FERC (Washington):** http://www.ferc.gov
NPCC: http://www.npcc.org	**Real Time Zone Pricing Map:** http://mis.nyiso.com/public/realtime/realtime1024.html	

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Q&A: FEEDBACK

Information contained on the previous pages was first made public Monday, October 6th, 2003. Subsequently, our offices have been deluged by: many well-wishers; members of the press; regulators; utility executives, and; individuals interested to learn more about our project. The original "Strategic View" (document) was intended to distill the essential elements which are fundamental to ***the*** **NIAGARA REINFORCEMENT PROJECT.** *The following "Q&A's" are intended to provide additional information in response to questions received:*

1. **How Much Benefit Will the NIAGARA REINFORCEMENT PROJECT Create?** We believe the benefits created from our project will be measured in the Billions. The unnecessary, added cost to New Yorkers due to congestion in the existing high-voltage transmission system, for the years 2000 – 2003, is estimated to be in the neighborhood of $2.75 Billion (not including costs due to load shedding, voltage instability and inner-city air pollution). The NIAGARA REINFORCEMENT PROJECT will dramatically reduce or eliminate congestion on many regional network interfaces. When this is considered together with the high value of public benefits accruing from job creation and regional economic development, we believe that a powerful argument can be made the NIAGARA REINFORCEMENT PROJECT satisfies an urgent public need.

2. **Has "Inflating the Grid from the Inside" ever been attempted before?** We understand that this practical approach has been extensively evaluated by Nippon Electric to reduce congestion in the electricity network surrounding Tokyo. Difficulties in predicting changes in energy flow across regional interfaces are non-trivial. We believe the NIAGARA REINFORCEMENT INTERCONNECTION PROJECT will significantly reduce or eliminate congestion on many heavily congested interfaces in the northeast (by changing and in some cases reversing energy flow).

3. **Would the New HVDC circuit have prevented the blackout which occurred August 14th?** We think probably not. The cascading failures did serve to focus attention on the transmission system, which has been widely documented as being inadequate and in need of reinforcement and improvement(s).

4. **How Much Transfer Capacity Will Be Available?** Ultimately, the rating of all the various component parts of the system will be studied and designed to meet the most stringent reliability criteria. Similar sized HVDC systems are currently in operation in Quebec, New England, California, China, Brazil, and in other parts of the world. These are technically advanced, well-proven, exceptionally reliable systems, which are often used to anchor parallel AC systems. Strong interconnection points with five regional substations will distribute impacts and effectively combine the strengths of each of the surrounding regional AC networks. Underground portions will feature four independent power conductors plus an independent metallic return conductor (for redundancy), plus optic fiber cables.

5. **What about Environmental Impact?** The 360 mile route generally avoids urban areas. Plans call for overhead wires supported by towers for approximately 78%, with underground cables being employed for the remaining 22% (approx. 76 miles). These rights-of-way do not include previously abandoned properties. We believe that sensitive planning and innovative engineering will satisfy environmental concerns.

6. **When Will Article VII Applications Be Filed?** We are at least 6 – 8 months away from formal (initial) regulatory applications. System impact and environmental impact studies will ultimately guide the design and precede formal regulatory applications, as will community outreach initiatives. All technical and environmental studies will be made public and appended to the Article VII Application(s). The NIAGARA REINFORCEMENT PROJECT has already received a very positive reaction from the regulators contacted.

7. **When Will the Transmission System Go Into Operation?** The technical, logistical and construction time-lines are fairly clear. Providing regulators issue all requisite permits before the end of October 2005 (i.e. twenty-four months hence), construction will begin in the spring of 2006, with testing, commissioning and commercial operation of the new HVDC transmission circuit occurring during spring or summer 2008. We believe these time-lines to be aggressive, but doable.

8. **How will Pegasus avoid the delays and problems encountered by the Cross-Sound Project?** We believe fundamental problems were caused by the conflicting agendas of ratepayers and regulators in Connecticut and Long Island. These were reflected by the relatively narrow scope of the project, which has given rise to concerns by New Englanders that costs and benefits would not be shared equitably.

   The NIAGARA REINFORCEMENT PROJECT will act as an INTER-REGIONAL "BACK-BONE" INTERCONNECTION, positively impacting each of the five regional grids (New York, New England, PJM, Quebec and Ontario).

   The NIAGARA REINFORCEMENT PROJECT will benefit upstate New York and the New York City Metro Region, including New Jersey. Benefits will accrue to all ratepayers in both New York State & New Jersey. Therefore, because many benefit, and the benefits are distributed equitably, we believe this is "Win-Win" for regulators.

9. **How Will the HVDC CIRCUIT Connect to New York City?** The NIAGARA REINFORCEMENT PROJECT has secured a route which leads to the western side of the Weehawken Tunnel in New Jersey, which is directly across from the West 49th Street substation, which is located near the eastern shore of the Hudson River. We propose to cross the Hudson River by drilling horizontally under the riverbed - connecting to breakers @ West 49th Street substation. This addresses environmental concerns about re-suspending sediment.

10. **What about Health & Safety?** We are not aware of any health and safety issues that are unknown or have not been fully vetted by the scientific community. Some concern has been expressed relating to possible ill health effects resulting from electro-magnetic fields ("EMF"). We do not speak to EMF as it relates to high-voltage alternating-current ("HVAC") transmission circuits. However, with respect to high-voltage direct-current ("HVDC") circuits, we can state, "Electromagnetic field effects associated with high-voltage direct-current transmission systems are in the same order of magnitude as the earth's magnetic field". To our knowledge, there has never been a documented ill health effect resulting from EMF due to HVDC.

11. **What about Standard Market Design?** We believe the NIAGARA REINFORCEMENT INTERCONNECTION fits "hand-in-glove" with FERC policy initiatives that encourage greater competition and liquidity in the marketplace. We also believe our project fits with state proposed initiatives that "incentivize" investment in the transmission infrastructure by allowing a greater share of benefits to be captured by individual projects.

12. **What are the Alternatives?** Demand for electricity has been growing at 1.5% - 2.5 % per year, in step with growth in economic activity. During the last twenty years, expansion in the transmission system has not kept up with growth in the demand for electricity. The current circumstance are such that little excess capacity exists; to reinforce the system in the event of equipment failure; to satisfy growth in demand for electricity (requisite for economic growth) or; to provide greater competition and liquidity in the marketplace.

    Five alternatives to building new DC high-voltage circuits to reinforce the existing AC transmission system:

    - Brown-outs (caused by voltage instability) and rolling blackouts become more frequent and last longer.
    - Power rationing and load shedding continues to drive businesses and industry away from the region.
    - Generation is built adjacent to populated areas (similar to the NYPA CC Power Plant for Queens).
    - Ratepayers continue to breathe poor quality air, while paying Billions for congestion and inefficiency.
    - The region's economic competitiveness continues to erode and economic development is choked-off.

13. **Who Is Pegasus Power?** We are a collection of high achievers, with core competencies in finance, regulatory affairs, engineering and project management. Together, we orchestrate project development, which begins with strategic planning, ending with electrification of the transmission system.

***the* NIAGARA REINFORCEMENT INTERCONNECTION PROJECT**
WILL CREATE THE GREATEST BENEFIT FOR THE MOST PEOPLE.

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14. Conjunction vs. the NIAGARA REINFORCEMENT INTERCONNECTION PROJECT

These projects are separate, distinct and independent of each other. The information we have, which was obtained from various newspaper reports and the Conjunction/Empire Web-Site, is incomplete. Based on these sources, we believe the primary differences between these two projects are:

Right-of-Way:

The NIAGARA REINFORCEMENT INTERCONNECTION PROJECT has secured right-of-way. This event preceded public announcement of our project.

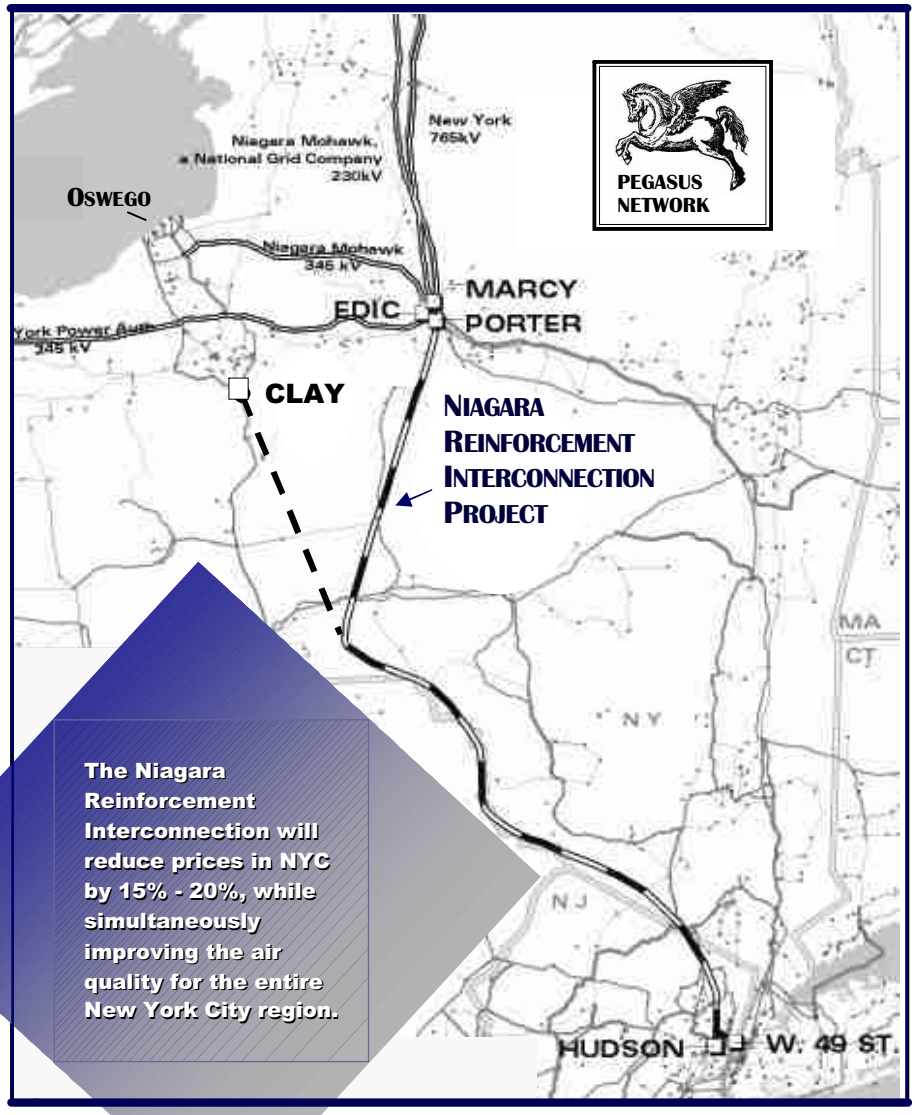
Our understanding is that the Conjunction/Empire Project has not secured rights-of-way. Without having secured rights-of-way, public announcements and regulatory filings might be misleading.

Use of public rights-of-way is controversial without an open tender process which guarantees competitive pricing and fair access. This is especially true when private rights-of-way are readily available.

Difficulties in securing rights-of-way are such that no company, individual or agency should underestimate the time required, the cost, or the disposition of land owners to cooperate, or allow construction, placement, operation and maintenance of transmission systems on their property.

No transmission project can succeed without having the use of appropriate right-of-way.

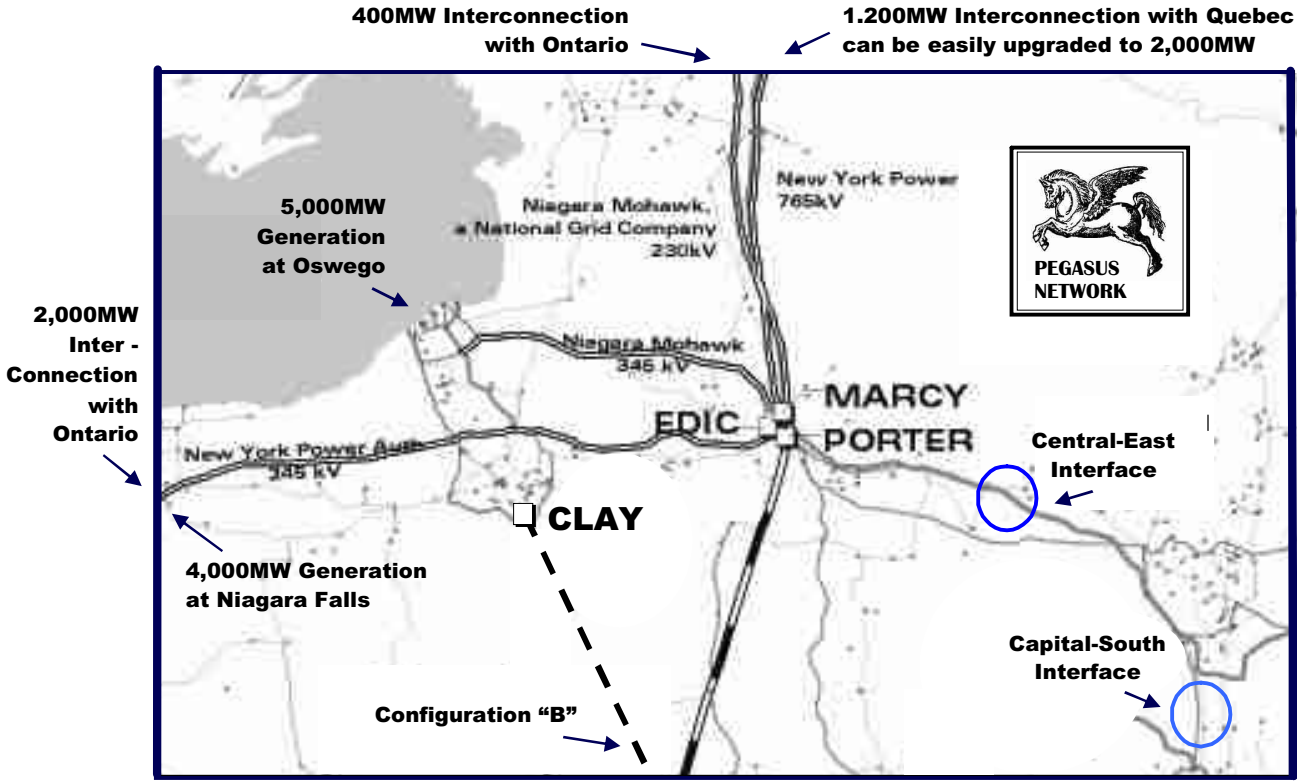
Without first having secured necessary rights-of-way, Conjunction/Empire project can not properly claim to be a viable alternative to *the* NIAGARA REINFORCEMENT INTERCONNECTION PROJECT.



14. the NIAGARA REINFORCEMENT INTERCONNECTION PROJECT

Inter-Connecting Niagara Falls, Oswego, Ontario and Quebec:

The NIAGARA REINFORCEMENT PROJECT will connect with Marcy, Edic and Porter substations in the north. We believe these to be the strongest inter-connection points in the region, providing direct access to generation from James Bay in northern Quebec, to Ontario and Michigan in the west, to Niagara Falls and Oswego in western and central New York. The benefits created by a "back-bone" regional-interconnection will in part result from an easing of congestion across all major (regional) interfaces.



Source: Platts POWERmap © 2004 Platts, division of McGraw-Hill Companies.

The "CENTRAL-EAST" INTERFACE
between Albany and Utica represents a significant bottle-neck, effectively separating Albany from power generation in; (1) the Niagara Falls region; (2) Oswego; (3) Quebec, *and*; (4) Ontario.

The "CAPITAL-SOUTH" INTERFACE
between Albany and New York City also represents a significant bottle-neck, separating Albany from load centers in; (1) New York City; (2) Long Island; *and*; (3) New Jersey - PJM.

The "NIAGARA REINFORCEMENT INTERCONNECTION"
will reduce or eliminate congestion on these interfaces, simultaneously reducing or eliminating congestion on the "PJM-NYC" Interfaces between New York City and New Jersey.

14. the NIAGARA REINFORCEMENT INTERCONNECTION PROJECT

Inter-Connecting New York City and New Jersey:

The NIAGARA REINFORCEMENT INTERCONNECTION PROJECT will connect with West 49th and Hudson substations in the south. We believe these to be the strongest inter-connection points, providing direct access to load centers in New York City and New Jersey. The western route generally avoids high density urban areas using rights-of-way that are continuous and lightly used.

Routes proposed by Conjunction lead down the Hudson valley, contemplating use of the NY State Thruway (the busiest road in the state), crossing long distances of parkway, then using NYC DOT roads and busy rail corridors, crossing the Hudson River using the Tappan Zee Bridge, ultimately crossing through Westchester and Bronx countries, bisecting whole city blocks in Manhattan.

The NIAGARA REINFORCEMENT PROJECT has secured a route between Utica (NY) and the western side of the Weehawken Tunnel in New Jersey, which is directly across the river from the West 49th Street substation (close to where the aircraft-carrier "Intrepid" is moored).

We propose to cross the Hudson River by drilling horizontally under the riverbed, connecting to 345kV breakers located within the West 49th Street substation. This approach addresses environmental concerns about re-suspending sediment lying on the riverbed.

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15. How will the Transmission System be configured so as to meet Reliability Criteria?

It should be pointed out that scale will be determined by optimizing a wide number of factors, not the least of which are reliability considerations (which are given extremely high priority), economic and political criteria, opportunity costs, and economic rates of return.

Without having conducted appropriate system impact studies and consulted thoroughly with independent system operators, incumbent regional transmission operators (which we will connect to) and the marketplace, we can predict the capacity will be 2,400 MW.

We believe a transmission system of 2,400 MW (gross transfer capacity) is technically, economically and politically viable, which will also meet the most stringent reliability criteria.

CONFIGURATION "A" ONE 500 kV DC THREE TERMINAL BIPOLE

The conceptual single line diagram on page three of the Strategic View features two independent poles. The metallic return conductor enables each pole to operate independently, enabling one pole to operate continuously when the other pole is out of service. The rating of each pole would be half the rating of the bipole, that is, 1,200 MW.

The rating of 1,200 MW is the current maximum permitted by reliability criteria for a single contingency. The loss of capacity can be limited to less than 400 MW following the loss of a pole if 400 MW overload is incorporated in the system so that the pole remaining in service can operate at 1,600 MW for a short time. The power due to a pole outage would automatically be picked up by the pole remaining in service and would be manually reduced by the system operators back to 1,200 MW to cater for the next contingency by dispatching other generation. Use of "shock absorbers" will limit any single contingency to 800 MW.

As outage of the dc bipolar transmission line needs to be considered even though each pole can operate independently, consideration could be given to having one pole being on an overhead transmission line and the other pole installed underground. With this physical separation, there is very little possibility of a single contingency event affecting both poles.

The combination of overhead and underground installations on the same right-of-way would satisfy reliability criteria for credible contingencies such as windstorm, ice storms, flash flood, earthquake, or derailment. In environmentally sensitive portions of the routes, both poles would be buried underground.

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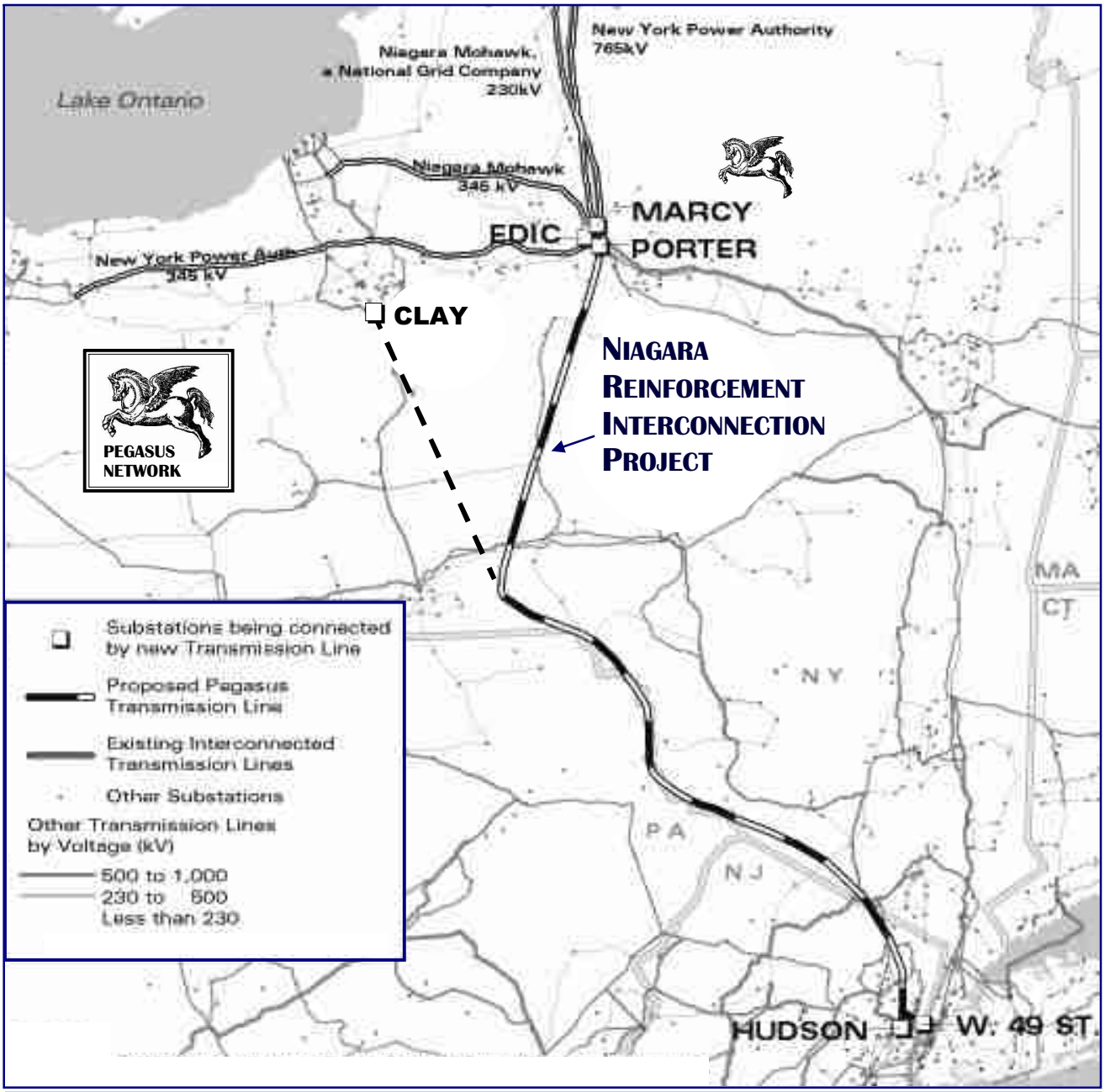

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