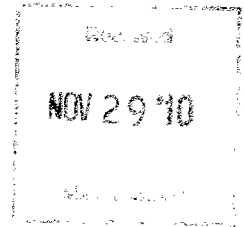


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November 24, 2010

Mr. Howard Schneider  
Chair, PJM Board of Managers  
PJM Interconnection, LLC  
955 Jefferson Avenue  
Norristown, PA 19403

RE: PJM RTEP Designation of Mt. Storm-Doubs Line

Dear Sirs:

I am writing to request that the PJM Board of Directors not allow the Mt. Storm – Doubs 500 kV line rebuild to be designated as a baseline RTEP project subject to cost allocation under the PJM tariff. While Exelon sees this rebuild as necessary, we believe it should be handled as a transmission owner maintenance project with cost responsibility applied solely to the responsible transmission owner zone(s).

### **Background**

The Mt. Storm–Doubs line, according to information presented at the PJM TEAC, is an existing 500kV line built in 1966 that has deteriorated such that it is in need of complete rebuilding. A rebuild utilizing contemporary design and materials will increase the capacity of the line; however, this additional capacity was not identified as needed to meet reliability criteria. Rather, the line is in severe disrepair and there are concerns with regard to its operational integrity. PJM has included the rebuild of the line as a baseline RTEP project for Board approval.<sup>1</sup>

### **Including the Mt. Storm-Doubs project in the RTEP is problematic**

Exelon believes it is the responsibility of a transmission owner to maintain its facilities in accordance with good utility practice, including maintenance and repair work on the existing system. A baseline RTEP project with Board approval triggers transmission cost allocations in accordance with the PJM tariff. This will socialize the cost of this project to all load in PJM. This transfers the operations and maintenance cost responsibility and/or line replacement costs from the local zones, to all loads in PJM. The PJM tariff and applicable FERC orders are clear in directing that the cost of existing facilities not be included in transmission enhancement charges and must be recovered in local "license plate" zonal rates of the owner.

<sup>1</sup> An alternative exists - Supplemental projects are a category of project that while included in the RTEP do not require Board approval and are not subject to cost allocation under the PJM tariff.

Additionally, the RTEP is not the appropriate mechanism to drive maintenance and repair of the existing system, including it here would be precedent setting. Nothing in the RTEP processes addresses this new process and there are no procedures related to it for PJM or transmission owners to follow or execute. RTEP projects are defined as and intended to be *new centrally planned facilities or expansions of existing facilities* with capacity additions required to maintain reliability or qualify as market efficiency projects. PJM studied the need to upgrade (or expand capacity) of the Mt. Storm-Doubs line during the last several years and determined it did not qualify for any of these categories of upgrade. Nonetheless, PJM proposes including the project via a category of "Operational Performance" - further described as "aging infrastructure". PJM indicates inclusion is justified because when repairs to the line are completed, it will become a "new" facility that would prevent operational problems should the "old" facility, without the rebuild, fail.

The Mt. Storm-Doubs line will not become a "new" facility; rather, the rebuild will merely return the existing line to a state of reliable operating condition. Applying the term aging infrastructure to transmission lines is ill-considered. Transmission lines require continual maintenance, repair and updating of component parts with contemporary materials in order to continuously operate efficiently and reliably. Under normal circumstances, a properly maintained line should not become impaired and the original construction date has no relevance to its current material condition and reliability performance. Exelon also notes that the only prior instance of PJM placing facilities to deal with 'aging infrastructure' in the RTEP were the spare 500/230kV autotransformers in 2006. In that instance PJM (1) conducted an extensive Probabilistic Risk Assessment; and (2) allocated the costs based on the existing allocation of costs for similar facilities already present at the location where the new equipment would be deployed.<sup>2</sup>

**PJM does not need to include repair of the Mt. Storm Doubs line in the RTEP**

PJM Transmission Owners are required by the Consolidated Transmission Owners Agreement (CTOA) to maintain transmission facilities in good operating condition and in accordance with Good Utility Practice. Transmission owners spend hundreds of millions of dollars each year maintaining, repairing and replacing equipment on the system, none of which is directed by or included in the RTEP process. It is routine for transmission owners to perform the incremental and ongoing maintenance and replacement of components required for transmission lines to operate reliably on an indefinite basis. While having to completely rebuild an entire transmission line in one fell swoop is a relatively unusual occurrence, it is also routine in the sense that whole portions of lines from time to time may be destroyed or damaged by weather or otherwise need replacing due to material condition. When that occurs, utilizing the latest technology replacement parts and materials often increases line capacity as a by product. Importantly, this maintenance and repair work is not included in the RTEP and is not subject to cost allocation. Maintaining the existing system in a reliable state is, in effect, a cost of admission as a PJM Transmission Owner. Board approval for maintenance and repair work is not and should not be required.

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<sup>2</sup> Docket No. ER07-424.

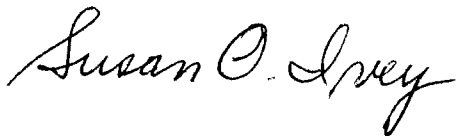
**Perverse incentives created**

Including maintenance and repair activities of existing facilities in the RTEP as baseline upgrades would create perverse incentives. Under this approach, Transmission Owners (or their load/customers) would be rewarded with reduced costs through cost allocation to others as a result of the owner allowing equipment to atrophy to the point of failure. Correspondingly, where the costs of maintaining a line in reliable operating condition are incurred incrementally over time, the associated costs would be included in the owner's license plate zonal rate. Under PJM's proposed approach, however, because work needs to be done all at once via a complete rebuild, costs otherwise allocated locally would be allocable to others. Should such a policy prevail, TOs will be incented to postpone or even forego maintenance of facilities. I fear there will be no end to the amount of equipment on the existing system that will be considered "old" or allowed to atrophy to the edge of failure, or needing complete rebuild so the owner can include it in a baseline RTEP project for allocation to others. This creates the wrong incentives for properly maintaining equipment, ensuring system reliability and minimizing costs.

To summarize, the problem posed by the Mt. Storm-Doubs line, is apparently nothing more than systemic corrosion, fatigued and failed equipment on an important PJM transmission line. The line needs a complete rebuild to restore it to reliable operating condition. Repairing the line will create additional capacity – a side benefit of rebuilding that PJM's RTEP analysis concluded is unneeded. The owners do not need Board approval to make needed repairs. Board approval as a RTEP baseline project will trigger improper and inappropriate cost allocation and perverse reliability incentives.

For all the reasons outlined above, I ask that the Board not approve a project that does not require its approval. Thank you in advance for your attention to this important matter.

Sincerely,



cc: Terry Boston (PJM)  
Michael Kormos (PJM) ✓  
Paul Bonney  
Steven T. Naumann  
Tom O'Neill  
Peter Thornton