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The PJM Board of Managers
PJM Interconnection, L.L.C.
955 Jefferson Avenue
Valley Forge Corporate Center
Norristown, PA 19403-2497

Re: 2011 RTEP: Request to Defer Board Action on Inclusion of Primary Power MS-V Project

Dear Board of Managers:

At the November 3, 2011 meeting of the Transmission Expansion Advisory Committee ('TEAC'), PJM's Office of the Interconnection ('OI') advised the TEAC, including Virginia Electric and Power Company ('Dominion Virginia Power or the "Company"'), that the OI would recommend a group of eight (8) reactive upgrade projects to the PJM Board for inclusion in the 2011 Regional Transmission Expansion Plan ('RTEP') as baseline reliability projects. These include a proposed project under which Primary Power, LLC ('Primary Power') would be designated to construct and own 250 MVAR of SVC facilities to interconnect with the existing 500 kV Mt. Storm-Valley transmission line at a point in Hardy County, West Virginia approximately 19 miles east of the Mt. Storm Power Station, which includes the Mt. Storm Substation ('Mt. Storm'), where the Mt. Storm-Valley line would be cut, and a new SVC installation would be built, for that purpose ('MS-V Project').

This letter will explain why the OI's planning process which led to the recommendation of the eight reactive upgrade projects materially failed to comply with PJM's Operating Agreement ('OA'), PJM's Regional Transmission Expansion Planning Protocol ('RTEPP') and the requirements of FERC Order Nos. 890 as reinforced by Order No. 1000.

Dominion Virginia Power, which is the operator and 60% owner of both the Mt. Storm-Valley line¹ and 100% owner of the Mt. Storm and Valley Substations, urges the PJM Board to defer action on the MS-V Project, for approximately 60-90 days, until the material violations of the OA, the RTEPP, and the requirements of FERC Order No. 890 as reinforced by Order No. 1000, with respect to the planning process that led to the OI's recommendation, can be remedied. The absence of any opportunity to present alternatives has deprived the OI and PJM of the opportunity to consider Dominion Virginia Power's proposed alternative of installing the new

¹ The 40% owner of the Mt. Storm-Valley Line is The Potomac Edison Company ("PE"), a subsidiary of FirstEnergy.

SVC capacity inside the fence at Mt. Storm in Grant County, West Virginia. The Company agrees that reactive power support is needed on the system, but disagrees that the remote location of the MS-V Project—approximately 19 miles east of Mt. Storm—is the best location.

Dominion Virginia Power has the highest regard for the PJM staff that support the OI and fully appreciates the technical, management and scheduling challenges they face in implementing the RTEPP. However, the OI failed to advise the TEAC that the MS-V Project had been submitted and was under consideration for inclusion in the 2011 RTEP, and provided no opportunity for the submission of alternatives. The OI first advised the TEAC at its August 4, 2011 meeting that reactive deficiencies were being studied. At the October 5 meeting, the OI presented the TEAC with a list of nine (9) potential reactive upgrade locations for evaluation, but the list did not include the MS-V Project. The TEAC was then informed at its November 3 meeting that the OI had decided to recommend a list of eight (8) projects, including the MS-V Project, to the Board for approval at its December meeting.² This was the first time the TEAC was made aware that the MS-V Project had even been submitted, or was under consideration, for inclusion in the RTEP.³ Moreover, no reason was provided for OI's selection of Primary Power to construct and own the MS-V Project.⁴

In order to limit opportunities for undue discrimination in transmission planning, and to increase opportunities for more efficient and cost-effective alternatives for meeting regional transmission needs, FERC Order No. 890 requires public utility transmission providers to conduct “coordinated, open and transparent” transmission planning, and these principles are reinforced and expanded upon in Order No. 1000.⁵ To implement this requirement, Section 11.4 of the OA provides that “[t]he Members shall participate in regional transmission expansion planning in accordance with the Regional Transmission Expansion Planning Protocol set forth in Schedule 6 to [the OA],” which contains the RTEPP. The RTEPP provides that the RTEP must be “developed through an open and collaborative process with opportunity for meaningful participation through” the TEAC. RTEPP Section 1.5.6(a). This is to be done through periodic meetings of the TEAC where its members can provide “advice and recommendations” to the OI “to aid in the development” of the RTEP, which must consider “other input from participants,” including “any indications of a willingness to bear cost responsibility” for an enhancement or expansion included in the plan, and any TO or other participant “may offer an alternative.” RTEPP Sections 1.3(b) and 1.5.6(f) and (h).

² The MS-V Project was described on slide 19 of the OI's presentation materials for the November 3 meeting as “250 MVAR SVC at a new station on the existing Mt. Storm-Valley 500 kV facility”.

³ Dominion Virginia Power certainly had no reason to expect that the MS-V Project, which had been previously submitted to PJM as merchant Project V3-020 but was withdrawn, was being considered by the OI as a baseline reliability project.

⁴ These same omissions also apply to another SVC project on the OI's November 3 list, under which the OI recommended that Dominion Virginia Power be designated to construct and own 150 MVAR of SVC facilities at its Pleasant View Substation (“PV Project”). If the Board agrees to refer the MS-V Project back to the OI for evaluation, as we request, we would have no objection to the PV Project receiving the same treatment.

⁵ *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890 (February 16, 2007), FERC Stats. & Regs. ¶ 31.241, PP 435-470; *Transmission Planning Cost Allocation by Transmission Owning and Operating Public Utilities*, Order No. 1000 (July 20, 2011), P 1. PJM will be required to submit Order No. 1000 compliance filings in the near term.

RTEPP Section 1.3(b) also states that the TEAC “shall be governed by the [TEAC] rules and procedures” set forth in Manual 14B, which requires that five-year and longer time-frame criteria violations “will be posted for review, evaluation and development of alternative remedies by all interested parties.” Manual 14B Section 2.3.12. PJM is required to “post [Transmission Owner (‘TO’)] and other stakeholder alternative upgrade remedies” made available by this process and to “periodically advise TEAC of the progress of the violations identification and production of upgrade alternatives.” *Id.* The TEAC meetings, to be conducted at least monthly, are available for stakeholders to “raise and discuss issues found in their reviews” of the proposed projects and alternatives that have been posted. These requirements were not met for the MS-V Project, however, which was not posted for evaluation by the TEAC until the day before the Nov 3 TEAC meeting at which time the final RTEP facilities were made known for the first time. As a result, the requirement of the RTEPP that TOs and other stakeholders have an opportunity to submit alternatives was also not met.

The criteria for inclusion of a proposed project in the RTEP, and for consideration of alternatives, are found in Section 1.4(d) of the RTEPP, which includes requirements that the RTEP avoid unnecessary duplication of facilities and imposition of unreasonable costs on any TO or any user of Transmission Facilities. Thus, a project should not be included unless it meets these criteria, and an alternative that best meets these criteria (e.g., avoids unnecessary duplication of facilities, reduces project cost, and offers greater electric and operating efficiency) should be selected. As FERC stated in Order No. 1000: “A ‘transmission facility selected in a regional transmission plan for purposes of cost allocation’ is one that has been selected, pursuant to a Commission-approved regional process, as a more efficient or cost-effective solution to regional transmission needs.”⁶ The opportunity to submit such an alternative to the MS-V Project was never provided to the TEAC or other stakeholders.⁷

The basis for selection of the entity to construct and own a project included in the RTEP, whether proposed by a TO or not, has been addressed by FERC, both with specific reference to Primary Power and in Order No. 1000. In *Primary Power, LLC*, Order on Petition for Declaratory Order and Related Determinations, 131 FERC ¶ 61,015 (2010), *pending rehearing* (“*Primary Power*”), Primary Power sought to bypass the RTEPP by asking FERC to direct PJM to designate Primary Power to construct and own four SVC projects, thereby making Primary Power, a non-TO, eligible for cost-based rates, if the projects were included in the PJM RTEP.⁸ Primary Power argued that it was the appropriate entity to build the projects “because it created and developed the concept, invested funds and has identified the need for a unified approach to the technology involved,”⁹ that it could not finance the projects unless it can demonstrate that it can recover its costs, and that “it would be unfair and discourage innovation if PJM designates

⁶ Order No. 1000, par. 5.

⁷ There is at least one alternative to the proposed MS-V Project – installation of the new SVC facilities at the Company’s Mt. Storm Substation, as described in a separate letter also sent today to the Board -- that would resolve the identified reactive deficiency more effectively and quickly, with reduced impacts and at a lower cost, than the MS-V Project.

⁸ The MS-V Project was *not* one of the four SVC projects addressed in the *Primary Power* proceeding.

⁹ Primary Power’s claim to having particular capability to develop and operate SVC technology on a unified basis is without foundation. SVCs are not new technology to the industry, and several TOs in PJM, including Dominion Virginia Power, own and operate SVCs in a unified approach. Dominion Virginia Power has successfully operated and maintained SVC technology on its system for over 10 years.

another entity to build' the projects. *Primary Power*, PP 23-25. FERC found that the PJM OATT permits, but does not require, PJM to designate Primary Power to construct and own the projects and declined to direct PJM to do so, holding that PJM must designate projects under the relevant tariff provisions in a not unduly discriminatory manner: 'PJM must evaluate Primary Power's proposal in the same manner as any proposed cost-based project in the RTEP process, and *should use its procedures for evaluating competing projects*. (emphasis added)' *Primary Power*, PP 62-71. Order No. 1000 provides guidance as to the appropriate criteria for such evaluations:

As noted above, for one solution to be chosen over another in the regional transmission planning process, there should be an evaluation of the relative efficiency and cost-effectiveness of each solution. If a nonincumbent transmission developer is unable to demonstrate that its proposal is the most efficient or cost-effective, given all aspects of its proposal, then it is unlikely to be selected as the preferred transmission solution within the regional transmission planning process for purposes of cost allocation.

Order No. 1000 at n. 307. Unfortunately, FERC's directive that PJM 'use its procedures for evaluating competing projects' regardless of whether or not the entity being considered for designation is a TO was not followed for the MS-V Project, so it has not been evaluated against alternatives that may be more efficient or cost-effective.

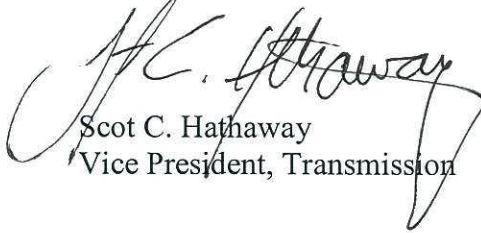
It is also important to note that these are not mere technical omissions without material consequences. An 'open and transparent' planning process is central to FERC's broad policy goal of removing the potential for undue discrimination in the transmission planning process, applied industry-wide in Order Nos. 890 and 1000 and specifically to PJM, which was directed by FERC to treat SVC upgrade projects proposed by Primary Power, a non-incumbent public utility developer, on the same basis as projects submitted by incumbent public utilities such as Dominion Virginia Power. A transmission planning process that selects a proposed project before notifying affected parties that the project has been submitted, and without providing an opportunity to review and evaluate the project or present alternatives, unduly discriminates in favor of the developer proposing that project and against the other TEAC participants and stakeholders. Such a process also has the effect of excluding the TEAC's evaluation of alternatives that may be more efficient or cost-effective, meaning that the process may not result in rates that are just and reasonable.

Paragraph 319 of Order No. 1000 preserved for incumbent transmission owners the right of first refusal to construct, own, operate and maintain upgrades to their own transmission facilities. As proposed to the TEAC, the MS-V Project would constitute an upgrade to the Company's transmission facilities. As a result, PJM's designation of Primary Power to construct, own, operate and maintain this project violates the Company's right of first refusal to construct, own, operate and maintain upgrades to its own transmission facilities. Furthermore, PJM's failure to explain why it designated Primary Power rather than the Company to construct this project is arbitrary and capricious, and without such explanation, the designation is unduly discriminatory to the Company.

The Board should refer the MS-V Project back to the OI so that it can receive the review and evaluation that would have occurred if the requirements of the RTEPP had been observed. This process would include the opportunity for PJM to fully consider the benefits of potential alternatives, including the Company's proposal, under which it would be designated to construct and own the additional SVC facilities at Mt. Storm.

Dominion also commits to working in good faith with the OI and interested stakeholders to improve the RTEPP to ensure compliance with Order Nos. 890 and 1000.

Sincerely,



Scot C. Hathaway
Vice President, Transmission

cc: Michael Kormos, PJM
Steve Herling, PJM
Paul McGlynn, PJM