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December 1, 2011

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 SVC facilities should be installed by Dominion Virginia Power at Mt. Storm. In a separate letter sent today to the PJM Board, Dominion Virginia Power, which is the operator and 60% owner of both the Mt. Storm-Valley line<sup>1</sup> 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 PJM Operating Agreement ("OA"), and PJM's Regional Transmission Expansion Planning Protocol ("RTEPP"), and of 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. As indicated in that letter, 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

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<sup>1</sup> 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 project – approximately 19 miles east of Mt. Storm – is the best location.

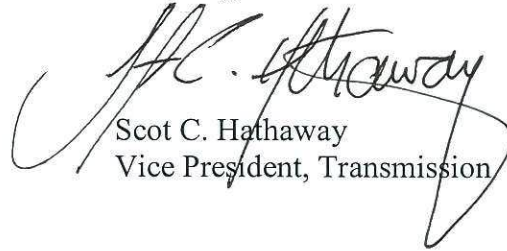
The need for the additional SVC facilities is driven by voltage deficiencies on the Mt. Storm 500 kV bus during various N-1-1 contingencies. Installing the SVC on a transmission line is less reliable than installing the SVC at Mt. Storm because there is higher probability of a line outage than on the Mt. Storm bus, making access to the benefit of the SVC less reliable than installation at Mt. Storm. Installation at Mt. Storm would better enable automation to integrate Volt/VAR logic to control the capbanks, generator units and SVC output to provide more efficient operation. This integration is more difficult to achieve if tapped off a line, without additional expense for dedicated communication to meet Cyber Security (“CIP”) requirements. Lower VAR losses will be experienced if installed at Mt. Storm because the VARs must travel from the remote SVC to the Mt. Storm bus before they can be effective. If located on the Mt. Storm bus -- the location of the voltage issue -- these losses would be reduced significantly, thereby improving the effectiveness of the SVC. Unit size also could be optimized to provide reliability benefits at Mt. Storm because that is where the VARs are needed. The Company’s studies indicate that installation at Mt. Storm could permit the size of the SVC facilities to be reduced by as much as 20%, from 250 to 200 MVAR. The Mt. Storm bus is regulated lower (520 kV) than the vast majority of other 500 kV buses in the area. Maintaining the availability of that bus is critical for the Load Deliverability test for the MAAC region, which is one of the key drivers for all of the SVCs and fixed capacitors the OI is recommending. The Company’s studies also show that SVC installation at Mt. Storm may enable the Company to re-tap the generator step-up (“GSU”) transformers to raise the bus to 525 kV, resulting in greater voltage range and significantly improved reliability for this critical interface point.

In addition to its technical advantages, installation of the SVCs at Mt. Storm would be achieved at a lower cost with less environmental impact and more quickly than the MS-V Project, which would require: three breakers, as opposed to two at Mt. Storm; acquisition of land and construction of a new SVC station on a greenfield site, plus interconnection facilities, at the remote location; a certificate of public convenience and necessity (“CPCN”) from the West Virginia Public Service Commission. Installation at Mt. Storm will not require a CPCN.

Compared to the MS-V Project, the Company’s alternative better meets the criteria for inclusion of a proposed project in the RTEP, and for consideration of alternatives, found in Section 1.4(d) of the RTEPP. Contrary to RTEPP Section 1.4(d)(i) and (ii), constructing a new SVC station, including three breakers, as proposed for the MS-V Project, would unnecessarily duplicate existing facilities at Mt. Storm, where only two breakers would be needed, and also would add unreasonable cost, compared to the Company’s alternative. As explained above, the Company’s alternative would maximize economic and operational efficiency, as required by RTEPP Section 1.4(d)(v), whereas the MS-V Project would not. Also as explained above, the Company’s alternative would increase coordination with existing systems, within the contemplation of Section 1.4(d)(vi), compared to the MS-V Project. Consideration of the Company’s alternative also would remedy the OI’s failure to do so, as required by RTEPP Section 1.4(d) iv).

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.

Sincerely,

A handwritten signature in black ink, appearing to read "Scot C. Hathaway". The signature is fluid and cursive, with a large loop at the end.

Scot C. Hathaway  
Vice President, Transmission

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