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June 7, 2007

Steve Herling
Vice President, Planning
PJM Interconnection LLC
955 Jefferson Avenue
Norristown, PA 19403-2497

Re: Mirant Comments to the PJM Board of Manager on the May 9, 2007 Proposed Update to the PJM RTEPP

Dear Steve:

Attached find Mirant's comments on the proposed update to the Regional Transmission Expansion Plan as presented at the May 9, 2007 TEAC meeting. Please forward to the Board for their consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert Driscoll". The signature is fluid and cursive.

Robert Driscoll

Cc: Phil Harris, PJM
Bruce Campbell, Mirant

Mirant Comments on June 2007 RTEP Changes.

Mirant offers the following comments on the RTEP upgrades proposed for consideration by the PJM Board at its June 2007 meeting. Mirant's comments are limited to the inclusion of the proposed Amos – Kemptown 765kV project (A-K Project) in the RTEP with an in-service date of 2012.

Mirant is among the largest independent power producers (IPP) in the PJM region with 5,000 MWs of capacity on four sites in the Washington, DC area. Mirant believes that the A-K Project is an inefficient use of capital. The reliability concerns that the A-K Project purports to address could be more efficiently resolved through generation additions and retention.

Summary

The A-K Project proposed by AEP is estimated to cost \$1.8 billion. PJM Staff has determined that the A-K Project will address several overload conditions identified in PJM's transmission line loading models beginning in 2012. Mirant has three specific concerns that the PJM Board should consider before approving the A-K Project in the RTEP as proposed by PJM staff.

- First, PJM staff has proposed an unrealistic in-service date for the A-K Project, which if adopted by the PJM Board will do a disservice to the reliability of the PJM system.
- Second, the A-K Project will impose unreasonable costs on PJM transmission customers without resultant savings in generation costs.
- Lastly, the transmission line loading models used by PJM staff for determining the need for the A-K Project by 2012 are highly sensitive to projected generation retirements and additions. PJM staff, however, has not released the assumptions used in the models so there is no way for market participants to test the validity of the results. In addition, PJM staff failed to follow their own guidelines by not evaluating in the transmission line loading models generation additions with proposed in-service dates that are prior to 2012. Thus, the A-K Project may not be needed by 2012.

Discussion

1. The unrealistic in-service date proposed by PJM staff for the A-K Project, if adopted by the PJM Board, will not solve the reliability problems that may arise in 2012.

The proposed 2012 in-service date for the A-K Project is highly unlikely. By proposing such an unrealistic in-service date, the PJM staff is wagering the continued reliability of portions of the PJM system on one project. Before the PJM Board adopts the A-K Project in the RTEP with a 2012 in-service date, the PJM Board must ask itself what will happen if the project cannot be completed by that date. The PJM Board should be aware that the adoption of such an unrealistic in-service date will create uncertainty for generation developers analyzing the feasibility of siting generation projects in the constrained regions that would benefit from construction of the A-K Project. Uncertainty

for generation developers means that they will delay committing steel in the ground. Assuming that the PJM Board moves forward with the A-K Project in the RTEP, by the time that PJM realizes that the A-K Project cannot be completed on time, it likely will be too late for generation to be built to address the reliability problem. Thus, the PJM Board will be ensuring the very outcome that it is trying to avoid.

Mirant believes that should the PJM Board decide to retain the A-K Project in the RTEP, the project should have an in-service date consistent with the development and construction timeframes associated with this type of project. While recent Federal legislation grants FERC back-stop authority to site such projects, historically projects of this magnitude take much longer than 5 years to permit, site and construct. We note that AEP's last 765 kV transmission project, the 90 mile Wyoming-Jacksons Ferry project, took 16 years to permit and construct.¹ Therefore, an in-service date of 2015-2019 would be more realistic.

2. The A-K Project will impose unreasonable costs on PJM transmission customers without resultant savings in generation costs.

The A-K Project is estimated to cost \$1.8B. Whether a project of this magnitude can be built to budget is doubtful, but even if the project stays within its budget, the magnitude of the rate increase is staggering. Assuming that AEP requests the same carrying charge that APS requested for the 502 Junction – Loudon project, the annual revenue requirement for the A-K Project is approximately \$378 million. The total revenue requirement for all transmission owners in PJM is approximately \$1.664 billion. Thus, the A-K Project will cause transmission rates to increase approximately 22 percent on average. In addition, because FERC has held that PJM must socialize the costs of RTEP projects greater than 500 kV to all zones, some transmission customers will see rate increases significantly higher than 22 percent due to the A-K Project. A rate increase of this magnitude is not consistent with PJM Manual 14B which provides that RTEP will avoid the imposition of any unreasonable costs on transmission customers (page 54).

Furthermore, assuming that the A-K Project is designed to move generation from the west to east, it is simply not cost-effective to build this line when there is no evidence to the contrary that generation can still be built in the east without the need for a \$1.8 billion project to move the power to market. For example, for the same \$378 million annual payment, approximately 1,500 MW of clean, state-of-the-art gas-fired combined cycle power plants could be constructed near load in the east. That amount is nearly twice the capacity proposed for retirement in the PEPCO zone and approximately 10% of the

¹ See "AEP Dedicates Wyoming-Jacksons Ferry Line; Project Nears Completion 16 Years After Announced" available at:

<http://www.aep.com/newsroom/newsreleases/default.asp?dbcommand=displayrelease&ID=1281>.

See also "AEP: committed to coal and the environment: Mike Morris, chairman, president and CEO of American Electric Power, explains how AEP intends to make it work," Electric Light & Power, May, 2006. The interview is available at: http://uaelp.pennnet.com/articles/article_display.cfm?article_id=256343.

capacity currently in the queue for the Mid-Atlantic region.² The A-K proposal is not a prudent use of capital.

3. The assumptions used by PJM staff to justify the 2012 in-service date for the A-K Project are unknown and hence, untested by market participants.

A key assumption for the justification of the A-K Project appears to be the proposed retirement of 806 MW of PEPCO capacity, the majority of which is projected to retire in 2012. PJM, however, has not made their modeling assumptions for the A-K Project available for stakeholder review so market participants are left with making an educated guess as to drivers for the A-K Project. Before the PJM Board commits to including an estimated \$1.8 billion project in RTEP, market participants and the PJM Board should be absolutely certain that the assumptions used by PJM staff are correct.

Mirant has been analyzing the similar 502 Junction – Loudon project with PJM-provided modeling data. Our analysis shows that facility overloads are highly sensitive to the removal of 806 MW of PEPCO generation – perhaps by as much as 2 MW of transmission flow for each MW of generation that is retired. The correlation between transmission flows and generation retirements for the 502 Junction – Loudon project confirms the sensitivity of the results of the transmission line model to the assumptions used in the model.

For instance, several PJM officials have stated that in PJM’s transmission reliability planning process they have assumed that Mirant’s Potomac River Generating Station (“PRGS”) may no longer exist even though Mirant has not announced the retirement of PRGS. If PJM is actually excluding Mirant’s PRGS from PJM’s RTEP, that assumption would have an impact on the need for the A-K Project. Again, because PJM has not released the modeling assumptions, it is impossible for market participants to know for sure what is triggering the need for the A-K Project. Furthermore, excluding Mirant’s PRGS from RTEP would appear to be inconsistent with PJM’s Operating Agreement and Manuals which provide that RTEP is to reflect generation additions and proposed retirements.

Notwithstanding the uncertainty regarding what retirements are included in the RTEP analysis, the PJM Board should request that PJM staff provide a clear assessment of the potential for new generation to remedy the reliability concerns addressed by the A-K Project. The baseline report upon which PJM staff relies to forecast transmission line overloads in 2012 only includes proposed generation projects with a signed Facility Study Agreement through Queue O³. There is no apparent review of projects in Queues P, Q and R even though some of these projects may have projected in-service dates that could obviate the need for the A-K Project.

² There are 15,000 MW of generation proposed for in service dates by the 2nd quarter of 2012 that have active Feasibility and Impact Studies.

³ Per 2006 Baseline Report at <http://www.pjm.com/planning/rtep-baseline-reports/downloads/2006-baseline-report.pdf>. Facility Studies are completed after Feasibility and Impact Studies.

The PJM Board should require PJM staff to conduct a sensitivity analysis of proposed generation additions in the P, Q and R queues and projects in earlier queues for which Facility Studies have not been completed to determine the need for the A-K Project. This analysis is consistent with PJM Manual 14B (Generation and Transmission Interconnection Planning), Attachment D (Regional Transmission Expansion Plan – Scope and Procedure), Section IV, which contains several criteria for incorporating IPP plans in the RTEP, including testing the sensitivity of transmission expansion projects against proposed generation projects, regardless of whether those projects have executed a Facility Study Agreement. PJM should make the results of these sensitivity analyses public.

The uncertainty surrounding the assumptions used by PJM staff in the RTEP process highlights several areas in the process that could be improved by the PJM Board. Mirant notes that one of the improvements to the planning process developed by stakeholders in the context of economic expansion projects was a feature to identify and facilitate “market solutions” to proposed expansion projects. This feature allows market-based projects (*i.e.*, something other than rate-based transmission projects) to qualify as a market solution and the project would benefit from an expedited study processes. The PJM Board should adopt a similar feature for reliability expansion projects.

Conclusion

Mirant recommends that the PJM Board of Managers defer a decision on including the A-K Project as a reliability upgrade with a 2012 in-service date. Before approving a Reliability Upgrade that is highly unlikely to be in-service in 2012, PJM should evaluate the full scope of generation additions and delayed retirements that may defer the need for the A-K Project. In addition, PJM should clarify the assumptions used in their modeling and afford the market the opportunity to offer reliability solutions that could further defer the Project.