



PIEDMONT ENVIRONMENTAL COUNCIL
Main Office P.O. Box 460 Warrenton, VA 20188 540-347-2334 Fax 540-349-9003

June 5, 2007

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BY:.....

PJM Board
c/o Phillip G. Harris
Chair
955 Jefferson Ave.
Valley Forge Corporate Center
Norristown, PA 19403-2497

Re: Comments on Transmission Expansion Advisory Committee May 9,
2007 Market Efficiency Analysis

Dear Mr. Harris:

The Piedmont Environmental Council (Piedmont) is a non-profit section 501(c)3 organization headquartered in Warrenton, Virginia. It was organized in 1972 to promote and protect the rural economy, natural resources, history, and culture of the Northern Virginia Piedmont. It is active in comprehensive land-use planning, land conservation, transportation and environmental issues in a 9-county region in the Northern Virginia Piedmont and adjoining areas in the Piedmont and the Shenandoah Valley.

How PJM operates and plans the high-voltage electric transmission grid in the Mid-Atlantic States, including Piedmont's service territory, substantially affects the interests of Piedmont and its members. Indeed, Piedmont is directly in the line of fire of PJM's advocacy for designation of a National Interest Electric Transmission (NIET) corridor in the region and its endorsement of the 502 Junction-Meadowbrook-Loudoun 500 kV transmission line (502 Junction Line).

Since Piedmont and its members would disproportionately suffer the impacts and bear the cost (in reduced property values and otherwise) of the PJM-advocated NIET corridor and 502 Junction Line, Piedmont is vitally interested in the quality and accuracy of PJM's regional transmission expansion planning processes. In Piedmont's view those processes are flawed in ways that systematically bias decisions in favor of adding and expanding high-voltage transmission lines and against alternative means for reliably and economically meeting the regional demand for electric energy.

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P.O. Box 542, Madison, VA 22747
130 W. Main St., Ste. 206, P.O. Box 266, Orange, VA 22960
277 Main Street, P.O. Box 110, Sperryville, VA 22742

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540-825-1707 Fax 540-825-1754
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Just as the solution to every problem in the eye of a hammer is a nail, PJM is predisposed to solve every supply and demand issue with transmission. A recent *Christian Science Monitor* article captured this predisposition when it quoted PJM spokesman Ray Dotter: "We can order transmission owners to build lines, but we cannot order generation to be built. . . . So if we are seeing overloads developing, the only thing we can order is power lines."

This predisposition is also apparent in the May 9, 2007 Market Efficiency Analysis of the PJM Transmission Expansion Advisory Committee (May 9 TEAC Report), which purports to provide the economic justification for the 502 Junction Line. In fact, the May 9 TEAC Report, as you know, is irrelevant to PJM's decision to approve the 502 Junction Line. It is also critically misleading.

The May 9 TEAC Report is irrelevant to the PJM Board's endorsement of the 502 Junction Line and the decision of Allegheny Power and Dominion Virginia Power to build it. Both the endorsement and the decision to build were made many months before the analysis in the May 9 TEAC Report was even undertaken. The May 9 TEAC Report was an afterthought and thus irrelevant.

In addition, the May 9 TEAC Report is critically misleading in the following respects:

1. The spreadsheet on page 3 — Economic Impact of 2006 RTEP Upgrades — forecasts changes in various costs, payments, and revenues, attributable to upgrades including the 502 Junction Line. But the spreadsheet withholds critically important information on who benefits from these changes. For example, it fails to disclose that the forecast reduction of \$140.4 million in 2010 production costs benefits only generators, and not the consumers who will pay for the 502 Junction Line.

2. The same spreadsheet on page 3 forecasts a reduction in "load payment" of \$621.2 million, implying that these are real ratepayer savings that will result from the 502 Junction Line. But, as you know, that is false. After load payments for congestion costs are flowed back as revenues from financial transmission rights, there is a net increase of \$169 million in ratepayer payments — which is mathematically the same as the increase in revenues to generators.

3. Because of the deceptive manner in which the data on page 3 are described they can be used — and irresponsibly have been used — to imply that the

(gross) change in load payments will flow through to ratepayers, which, as you know, is not the case.

4. The real significance of the May 9 TEAC Report is apparent from graphs on pages 10 (System Load Payment Savings Associated with 502 Junction Line) and 11 (Changes in System Generation Revenue with 502 Junction Line). Depending on what mix of generation resources are assumed in the future — G1, G2 or G3 — the projected load payments and generation revenues differ in 2016 by approximately \$1.5 billion and in 2021 by over \$2 billion. To suggest (as the May 9 TEAC Report Analysis plainly does) that it is the presence or absence of the 502 Junction Line (as opposed to the location and type of generation available in the future) that is driving either load payments or generator revenues is simply dishonest.

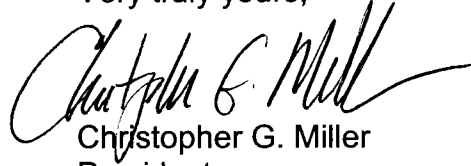
5. Finally, together the spreadsheet on page 3 and the graphs on pages 10 and 11 demonstrate that who economically benefits from the subject transmission expansions, including the 502 Junction Line, is fortuitous. It depends on how the PJM market mechanisms respond to various circumstances that cannot be forecast with any confidence. What is clear is that those mechanisms, while designed to send appropriate locational pricing signals to generation, were not designed to flow the economic benefits of transmission improvements through to the ratepayers who pay for the improvements.

PJM's predisposition to transmission solutions, coupled with its misleading use of data and forecasts, cause PJM to advocate costly and unsightly transmission projects where alternatives such as strategically sited generation projects, distributed generation and passive and active load management offer the same reliability at lower cost, with fewer environmental and cultural impacts. We understand that PJM cannot "order" that new generation be built or that demand be better managed. Nonetheless, an appropriately structured wholesale power market — over which PJM has influence — will provide the needed generation and load management. For instance, ISO New England recently reported receiving offers for 10,000 MW of new generation and 2,400 MW of new demand management for its initial Forward Capacity Market auction. This is almost three times what the New England market will need by 2015. As one ISO-NE engineer aptly observed: "If you put the money on the table, they will come!"

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Piedmont urges the PJM Board to reform its planning processes to eliminate transmission myopia and instead undertake an honest, transparent and unbiased evaluation of optimal combinations of transmission, central-station and distributed generation, and passive and active demand management. This evaluation should be completed before any further steps are taken in connection with designating a NIET corridor in the region or siting and constructing new high-voltage transmission lines, including the proposed 502 Junction Line.

Very truly yours,

A handwritten signature in black ink, appearing to read "Christopher G. Miller". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Christopher G. Miller
President
Piedmont Environmental Council

CGM