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January 6, 2006

The Honorable Samuel W. Bodman
Secretary of Energy
United States Department of Energy
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Re: Department of Energy Docket No. EO-05-01, Order No. 202-05-3 on the Emergency Petition and Complaint of the Public Service Commission of the District of Columbia

Dear Secretary Bodman:

As required by Ordering Paragraph C of Order No. 202-05-3 ("DOE Order"), which the United States Department of Energy ("DOE") issued on December 20, 2005, Potomac Electric Power Company ("Pepco") has filed three notices with DOE regarding the necessity of taking one of the 230 kV transmission lines feeding into the Potomac River Substation out of service on January 9, 2006, for a period of eight days, and the further need to take the second 230 kV transmission line out of service on January 23, 2006, for a period of five days.

In response to Pepco's notices, the Virginia Department of Environmental Quality ("VDEQ") sent a letter to DOE on January 5, 2006, alleging, among other things, that Pepco's notices were in violation of the DOE Order and that Pepco had failed to justify the need for the outages of the two 230 kV lines. VDEQ closes its letter by "demand[ing] DOE order a postponement of PEPCO's planned outages of the 230kV transmission lines."[1] This letter responds to those allegations and further explains why outages of the two 230 kV transmission lines must occur as soon as possible to ensure electric reliability to the national capital region and to prevent the deleterious health and safety impacts that would occur in the event of an interruption in electric power service to that area.

In its letter, VDEQ asserts that "DOE does not have the legal authority to require the plant to operate in a manner that would result in modeled exceedances of the NAAQS [national

[1] Letter from R.G. Burnley, VDEQ, to the Honorable S.W. Bodman, DOE, at 4 (Jan. 5, 2006) ("VDEQ Letter").

ambient air quality standards]."[2] DOE has already addressed this comment in its decision and Order, concluding that it does have that authority and explaining that it is exercising that authority by harmonizing the interests in electric reliability and air quality concerns "to the extent reasonable and feasible by ordering Mirant to operate in a manner that provides reasonable electric reliability, but that also minimizes any adverse environmental consequences from operation of the Plant."[3]

In this respect, VDEQ's concerns as expressed in the VDEQ Letter appear to be with the DOE Order, rather than with Pepco's notices regarding planned outages of the 230 kV transmission lines that are fully consistent with the terms of that Order. VDEQ would have the DOE ignore DOE's responsibility to ensure electric reliability for the United States, including the national capital region. DOE has already rejected this approach in its decision and Order.

In the case of scheduled outages, the DOE Order requires the following:

> In instances of scheduled outages of one of the 230kV lines, PEPCO will give advance notice of the planned outage and estimated duration of such outage to Mirant, PJM, DOE, FERC, EPA and DEQ. The notice must be sufficiently in advance of the outage to allow Mirant to bring the required amount of generation needed for reliability purposes on line by the time the outage is scheduled. PEPCO will ensure that only those planned outages are needed to maintain or enhance the reliability of the 230kV lines (or to install new lines) are scheduled and that such outages are scheduled to minimize the environmental effects of the operation of the Plant.[4]

Pepco's notices regarding the planned outages of the 230 kV transmission lines were filed pursuant to the explicit terms of the DOE Order. That is, Pepco's notices of December 29, 2005, and January 4, 2006, explain what work is required on the two 230 kV transmission lines and why that work must take place as soon as possible. In short, during the outages, Pepco plans to perform critical maintenance on the two 230 kV transmission lines that is needed to ensure the reliability of the electric power supply to the national capital region will not be compromised. The following discussion provides further detail on the required work that needs to be performed on the lines and why it must take place immediately.

During the first outage, beginning on January 9, 2006, the first 230 kV transmission line (23106) will be taken out of service. Pepco selected this circuit first because "hotspots" have been detected on both the bus and line disconnects attached to this circuit at the Palmers Corner Substation. Hotspots occur when equipment operates at an elevated temperature due to mechanical problems.

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[2] *Id.* at 1.

[3] DOE Order, at 6, 8-9.

[4] *Id.* at 11, Ordering Paragraph C.

The second outage, beginning on January 23, 2006, is needed to repair the damaged circuit breaker on the other 230 kV transmission line (23107). This is the transmission line that failed in the early morning hours of December 16, 2005, and contains the circuit breaker that failed to close after temporary work was done on the line to bring it back into service. Even though transmission line 23107 is the line that failed in December, transmission line 23106 must be repaired first because of the hotspots. If Pepco took transmission line 23107 out of service first, this would increase the load on the hotspots identified on the 23106 circuit and possibly cause a failure of that equipment, resulting in the loss of both 230 kV transmission lines. Once the hotspots have been repaired on transmission line 23106 and that circuit has been restored to service, transmission line 23107 needs to be taken out of service to repair the malfunctioning circuit breaker. Delay of this outage to repair the circuit breaker could result in further damage to the circuit, which could necessitate an even longer outage in the future.

In an effort to reduce any environmental impact on the area surrounding the Potomac River Generating Station, Pepco has added several additional activities to be performed on transmission line 23106 to prevent the need for additional planned outages and to avoid forced outages. In this way, Mirant will be able to operate the Potomac River Generating Station within the guidelines outlined in their compliance plan. The additional work activities that will take place during the 8 days of the outage of transmission line 23106 include:

- Refurbish 23106 bus disconnect;
- Refurbish 23106 line disconnect;
- Test, inspect, and repair oil circuit breaker;
- Relocate fiber optic relay control cable;
- Perform oil sample and testing of underground cable termination;
- Perform routine inspection and testing of the 230 kV reactor;
- Perform relay inspection and testing;
- Test and repair microwave radio system;
- Inspect and test 230 kV transformers;
- Inspect and test 230 kV breakers at Potomac River Substation; and
- Perform various communication control testing.

The second outage of the 23107 transmission line will repair the damaged circuit breaker located at Palmers Corner Substation and perform routine inspection and testing of the associated relays, reactor, and transformers. Pepco does not anticipate any extensive work to be performed on the associated equipment unless problems are detected on the similar equipment connected to the 23106 circuit.

Regarding both of these outages, waiting until the Potomac River Generating Station has its full trona capability in place could result in a catastrophic outage as detailed in Pepco filings in this DOE docket, as well as in Docket No. EL05-145-000 before the Federal Energy Regulatory Commission. Moreover, delaying the outages could result in further damage that could cause the transmission lines to be off-line for longer periods of time, resulting in more extensive outages and a greater need for operation of the Potomac River Generating Station by Mirant. Finally, good utility practice and PJM rules require that equipment degradation that impacts reliability be addressed as soon as possible. Under normal operating conditions at the

Potomac River Generating Station, Pepco would have taken an outage as soon as possible after the December 16, 2005 equipment failure. A January 9, 2006 start date, while not as soon as desirable, is as soon as practicable given the condition that exists at the Potomac River Generating Station. A delay in performing this work until late March would expose the national capital region to unacceptable blackout risks for three months or more (depending on the success of Mirant's trona testing) and, as noted above, could lead to a need for even longer outages of the transmission lines.

In summary, conditions exist on the two 230 kV lines that require immediate attention. Deferral of this work would significantly reduce the reliability of the electric supply to the national capital region. Pepco has taken every action within its power to reduce the length of these outages, as well as the need for additional outages, in response to environmental concerns.

Pepco wishes to make two final points in response to the VDEQ Letter. First, contrary to the VDEQ letter, the DOE Order specifically contemplates that the Potomac River Generating Station, during planned or unplanned outages, must "produce the amount of power (*up to its full capacity*) needed to meet demand . . . as specified by PJM for the duration of the outage."[5] As VDEQ notes, Mirant's obligation under the DOE Order is to "utilize pollution control equipment and measures to the maximum extent possible to minimize the magnitude and duration of any exceedance of the NAAQS."[6] Pepco fully expects that Mirant will take such measures to minimize any NAAQS-related concerns. As DOE explains in its Order, this approach strikes the appropriate balance between "provid[ing] reasonable electric reliability . . . [and] minimiz[ing] any adverse environmental consequences from operation of the Plant."[7]

Second, as Mirant has explained, VDEQ's suggestion that the DOE Order "would require the plant to operate in violation of the Clean Air Act"[8] is simply wrong. As Mirant states in its Operating Plan, "Mirant has not violated any emission limits applicable to the Plant . . . . Although Mirant intends to move expeditiously to make the changes necessary to achieve a permanent solution that does not cause or contribute to a modeled NAAQS exceedance, the CAA expressly allows for that transition to occur. . . ."[9] As Mirant further explains, "[t]he CAA does *not* state that an existing source *cannot operate* when a NAAQS modeled exceedance is discovered . . . . Virginia's obligation would be to address this problem by using its EPA-

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[5] *Id.* at 10 (emphasis added).

[6] VDEQ Letter, at 3.

[7] DOE Order, at 9.

[8] VDEQ Letter, at 2.

[9] Operating Plan of Mirant Potomac River, LLC in Compliance with Order No. 202-05-03, DOE Docket No. EO-05-01, at 9 (Dec. 30, 2005) ("Mirant Operating Plan").

approved State Implementation Plan. . . ."[10] This is consistent with comments provided by PJM, Pepco, and others, which DOE considered in issuing its Order.[11]

In sum, the DOE Order reflects a considered judgment by DOE to "direct Mirant to generate electricity at the Plant pursuant to the terms of this order."[12] The DOE Order specifically recognizes "the concerns that have been expressed concerning the potential adverse environmental consequences of operating the Plant . . . [and the] danger of an extended blackout."[13] Pepco's notices are in furtherance of the balance struck by DOE in its Order, and they fully comply with that Order.

Sincerely,

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[10] *Id.* at 12 (emphasis in original).

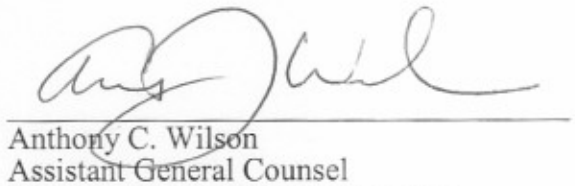
[11] *See* DOE Order, at 4-5.

[12] *Id.* at 8.

[13] *Id.*

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served on all parties of record in this proceeding on this 6th day of January, 2006.



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