

200207105006 Received FERC OSEC 07/10/2002 11:19:00 AM in Docket#: RT01-2-000, RT01-86-000, RT01-87-000, RT01-95-000, RT01-98-000, RT01-99-000, EL02-65-000

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Regional Transmission Organizations	)	Docket Nos. RT01-99-000, 001,002 and 003
	)	
Midwest Independent System Operator	)	Docket No. RT01-87-000
	)	
New York Independent System Operator, Inc.	)	Docket Nos. RT01-95-000, 001 and 002
	)	
Bangor Hydro-Electric Company	)	Docket Nos. RT01-86-000, 001 and 002
	)	
PJM Interconnection, L.L.C.	)	Docket Nos. RT01-2-000, 001, 002 and 003
	)	
PJM Interconnection, L.L.C.	)	Docket No. RT01-98-000
	)	
Alliance Companies	)	Docket No. EL02-65-000

**COMMENTS OF THE  
VIRGINIA STATE CORPORATION COMMISSION**

Pursuant to the Commission’s June 18, 2002 “Notice of Request for Comments on Timeline and Report by the Northeast Independent System Operators on Seams Resolution” (“June 18 Notice”) issued in the above-noted dockets, the Virginia State Corporation Commission (“Virginia Commission”) hereby submits its comments.<sup>1</sup> Because the Virginia Commission believes that the resolution of seams issues should be addressed in the wider context of the Commission’s upcoming rulemaking on standardized market design (“SMD”), these comments do not specifically address the timelines or provide recommendations regarding specific seams related issues. Instead, the Virginia Commission offers the following general comments.

<sup>1</sup> The Virginia Commission notes that it has intervened in Docket Nos. RT01-99-000, RT01-98-000, RT01-87-000, and EL02-65-000.

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The Virginia Commission is the agency of the Commonwealth of Virginia charged by statute, and by the Constitution of the Commonwealth of Virginia,<sup>2</sup> with the regulation of utilities providing electric service in the Commonwealth. Among its other statutory duties, the Virginia Commission is required by the Virginia Electric Utility Restructuring Act to "participate in any and all proceedings concerning regional transmission entities furnishing transmission services within the Commonwealth, before the Federal Energy Regulatory Commission."<sup>3</sup>

The issue of seams resolution is of critical importance to the Virginia Commission. Development of fully functioning regional transmission organizations in which Virginia's electric utilities can participate should provide the foundation for more competitive wholesale capacity and energy markets, which in turn should help facilitate the development of retail access in the Commonwealth.

By way of background, the following is a list of the electric utilities in the Commonwealth and their current RTO status/proposed RTO plans:

- American Electric Power Service Corporation ("AEP"), acting on behalf of its operating companies, including Appalachian Power Company, entered into a Memorandum of Understanding with PJM Interconnection, L.L.C. ("PJM") on May 7, 2002, and a Memorandum of Understanding Among and Between PJM, National Grid, USA, and Participants in the Independent Transmission Company, to join PJM through a "GridCo" or, in the alternative, as an individual transmission owner;
- Delmarva Power & Light Company (Connectiv Power Delivery) is currently a member of PJM;
- Dominion Virginia Power Company ("Virginia Power") announced on June 25, 2002, that it had entered into a Memorandum of Understanding with PJM to establish PJM South, an arrangement that would allow

<sup>2</sup> Va. CONST. Art. XI, Sec. 2.

<sup>3</sup> Virginia Code § 56-579 C.

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Virginia Power's control area to be operated separately under the single PJM energy market.

- Kentucky Utilities d/b/a/ Old Dominion Power Company is currently a member of the Midwest Independent Transmission System Operator ("MISO");
- Potomac Edison Company, one of the Allegheny Power operating companies, is currently a member of PJM West (the PJM West arrangements became effective April 1, 2002);

The Virginia Commission recognizes that the Commission has requested input from state commissions and others regarding the timeline and report on seams resolution of the New England, New York, and PJM independent system operators. The Virginia Commission believes, however, that it is critical for the Commission to monitor as well the progress on seams resolution between other neighboring RTOs including PJM and MISO. These different seams should not be viewed in isolation, and should be addressed broadly in the SMD rulemaking. Indeed, at the June 12, 2002 Commission meeting, before knowing the final RTO plans of some of the former Alliance Companies, Commissioner Massey raised the following questions:

At some point I want MISO and PJM to comment on the configuration that we may end up with at the seam between PJM and MISO in the Midwest. If the companies continue with the choices that they have announced, does this configuration make sense? Will it cause problems? And I'd like for any of you that have an opinion about that to comment on it.<sup>4</sup>

Regardless of the ultimate configuration of PJM and MISO, seams related issues will continue to exist between the two entities. These issues are just as important as the seams issues existing between the Northeast ISOs. The seam between PJM and MISO now represents a potential barrier between the Northeastern and Midwestern markets.

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<sup>4</sup> Transcript, June 12, 2002 Commission meeting, pp. 121 – 23.

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Some work is already being done with respect to the PJM/MISO seam. On January 21, 2002, PJM and MISO announced that the two organizations had executed a "Letter of Intent" to develop a single wholesale market for electricity producers and consumers within the footprint of both RTOs. Further, the merger of the Southwest Power Pool and MISO was conditionally approved by the Commission on May 31, 2002. According to James P. Torgerson, President and CEO of the Midwest ISO, the joint and common market between MISO and PJM is going to be "operational" in 2005, with "an enhanced market portal that would permit transactions between Midwest and the PJM" in 2004.<sup>5</sup> This will undoubtedly be a complex and challenging undertaking that will require a significant dedication of resources by PJM, MISO, SPP and other stakeholders. The Virginia Commission believes FERC has taken a step in the right direction with its July 3, 2002 letter to various former Alliance Companies, the North American Electric Reliability Council ("NERC"), the East Central Area Reliability Coordination Agreement ("ECAR"), Mid-America Interconnected Network, Inc. ("MAIN"), National Grid, USA, the Midwest ISO, and PJM, requesting that the respondents address the reliability and operational concerns which have arisen from the former Alliance Companies' proposals to join PJM and MISO. In addition to reliability and operational concerns, the Virginia Commission would also recommend that FERC address transmission rate panaches in the broader PJM-MISO-SPP region.

Moreover, while the resolution of seams related issues between PJM and neighboring RTOs is extremely important, the Virginia Commission believes that PJM is faced with other, even more immediate challenges. Recent announcements by AEP,

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<sup>5</sup> *Id.*, p. 123.

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Virginia Power and others will potentially cause a tremendous expansion in PJM's own internal operations. Such expansion will almost certainly tax PJM's resources, which, in light of other on-going PJM initiatives, risk growing thin. Therefore, it is critically important that the Commission be careful not to focus the RTOs under its jurisdiction on one single initiative, at the risk of shortchanging other vitally important undertakings. The proposed PJM expansions involving Virginia utilities are of course extremely important to the Virginia Commission. Such expansions must be addressed quickly and appropriately and must not take a back seat to other PJM initiatives. In short, the FERC should not narrowly focus on strict adherence to a timeline for resolving seams issues between the Northeast ISOs if such action detracts from other important RTO-related undertakings.

The Virginia Commission urges the Commission to recognize the importance of the PJM/MISO joint and common market effort, the need to address other PJM/MISO seams issues, and the potential expansion of PJM West and South. The Commission should monitor these developments on a parallel track to that of the Northeast RTOs seams resolution, in conjunction with the SMD rulemaking.

When monitoring the progress of seams resolution among the various RTOs and the proposed expansion of PJM, the Virginia Commission recommends the Commission keep the following considerations in mind:

- How to mitigate any rate "pancake" that will have to be paid by customers importing energy from another RTO, including consideration of an inter-RTO rate;<sup>6</sup>

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<sup>6</sup> The Virginia Commission is encouraged by Mr. Torgerson's remarks at the Commission's June 12 meeting: the "Midwest ISO does support the Staff's suggestions

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- How to coordinate planning and expansion to ensure that adequate transmission is built not only for reliability purposes, but to ensure the viability of vibrant wholesale electric markets as well if enhanced transmission facilities will further the development of competition and represent an economic alternative to other demand-side or generation options;<sup>7</sup>
- How to ensure there will be no internal seams within different control areas of PJM;<sup>8</sup>
- How to address congestion between RTOs;
- How to manage congestion within expanded RTOs;
- How to identify load pockets and effectively address associated market power concerns; and
- How to coordinate RTO operations, emergency response, curtailment, the scheduling of transactions, etc. involving multiple RTOs.

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that were presented at the Commission meeting May 30th to eliminate inter-RTO rate pancaking.” June 12 Transcript at p. 129. The Virginia Commission previously recommended such an inter-RTO rate, between the Alliance Companies and PJM/PJM West. *See, e.g.,* Initial Comments on Offer of Settlement of the Virginia State Corporation Commission, *Illinois Power Company, et al.* (March 30, 2001). With the proposed shift in boundaries, an inter-RTO rate between MISO and PJM/PJM-West/PJM-South, for example, may now be appropriate.

<sup>7</sup> The Virginia Commission notes the concern expressed by Mr. Torgerson: “The overlapping RTOs are going to compound the difficulty in planning, coordinating, effectuating transmission enhancements in the generation interconnection when we have to do these studies for those areas.” Transcript, June 12, 2002 Commission meeting, p. 129.

<sup>8</sup> The Virginia Commission wishes to correct any misimpression that may have been created during a discussion at the June 26, 2002 Commission meeting. The Virginia Commission has not required Virginia Power to maintain its own control area within PJM or engaged in any discussion with Virginia Power on this issue.

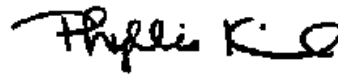
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The Virginia Commission appreciates this opportunity to provide its input on this issue of vital importance and looks forward to continuing to work with the Commission on monitoring the progress of resolution of seams between various regional transmission organizations and the continued development or expansion of RTOs in Virginia.

Respectfully submitted,

THE VIRGINIA STATE CORPORATION  
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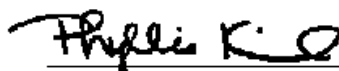
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**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon each person on the service list compiled by the Secretary of the Commission in this proceeding.

Dated at Washington, this 10<sup>th</sup> day of July, 2002.



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