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August 30, 2013

**HAND DELIVERY**

Mr. Joel H. Peck, Clerk  
c/o Document Control Center  
State Corporation Commission  
Tyler Building – First Floor  
1300 East Main Street  
Richmond, Virginia 23219

**RE: Application of Virginia Electric and Power Company For Approval and Certification of Electric Facilities: Surry-Skiffes Creek 500 kV Transmission Line; Skiffes Creek-Wheaton 230 kV Transmission Line; and Skiffes Creek 500 kV-230 kV-115 kV Switching Station**

**Case No. PUE-2012-00029**

Dear Mr. Peck:

Enclosed for filing in the above-captioned proceeding is an original and fifteen copies of the Comments of Appalachian Voices, Chesapeake Climate Action Network, and the Virginia Chapter of the Sierra Club (collectively, "Environmental Respondents") to the Report of Alexander P. Skirpan, Jr., Senior Hearing Examiner. I have included an extra copy to be date-stamped and returned with our courier.

If you should have any questions regarding this filing, please call me at (434) 977-4090.

Sincerely,

Angela Navarro  
Southern Environmental Law Center

cc: Parties on Service List  
Commission Staff

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

APPLICATION OF )  
 )  
VIRGINIA ELECTRIC AND POWER )  
COMPANY )  
 ) Case No. PUE-2012-00029  
For approval and certification of electric facilities: )  
Surry-Skiffes Creek 500 kV Transmission Line, )  
Skiffes Creek-Wheaton 230 kV Transmission Line, and )  
Skiffes Creek 500 kV-230 kV-115 kV Switching Station )

COMMENTS OF ENVIRONMENTAL RESPONDENTS TO THE REPORT OF  
ALEXANDER P. SKIRPAN, JR., SENIOR HEARING EXAMINER

Pursuant to Rule 120 C of the Rules of Practice and Procedure of the State Corporation Commission ("Commission"), 5 VAC 5-20-120 C, Appalachian Voices, Chesapeake Climate Action Network, and the Virginia Chapter of the Sierra Club, (collectively, "Environmental Respondents"), by counsel, submit these Comments to the *Report of Alexander P. Skirpan, Jr., Senior Hearing Examiner*, which was filed in the above-captioned proceeding on August 2, 2013 ("Hearing Examiner's Report" or "Report").

**I. BACKGROUND.**

On June 11, 2012, Virginia Electric and Power Company ("Dominion" or the "Company") filed an application (the "Application") with the Commission for approval and certification of the Surry-Skiffes Creek 500 kV Transmission Line, Skiffes Creek-Wheaton 230 kV Transmission Line, and Skiffes Creek 500 kV-230 kV-115 kV Switching Station (collectively, the "Proposed Project") pursuant to Virginia Code § 56-46.1 and § 56-265.1 *et seq.* The Company requested approval of the Proposed Project in order to address the potential violation of mandatory North American Electric Reliability Corporation ("NERC") Reliability Standards in the North Hampton Roads Load Area. The Company's Application states that the

need for the Proposed Project is being driven by continued load growth in the North Hampton Roads Load Area over the past 10 years. Application at 3. Further, the Company plans to retire Yorktown Power Station (“Yorktown”) Units 1 and 2 and Chesapeake Energy Center (“Chesapeake”) Units 1 through 4 by December 31, 2014, and the Company states that the planned Yorktown retirements will create NERC Reliability Violations in the North Hampton Roads Load Area beginning in the summer of 2015. *See* Report at 127.

In the Company’s analysis of potential solutions to alleviate the NERC Reliability Violations, the Company considered generation alternatives to the Proposed Project and determined that “retrofitted, repowered, or new generation in the North Hampton roads Load Area is an uneconomical alternative to the Proposed Project.” *See* Report at 18. At the direction of the Hearing Examiner, and in response to the recommendations offered in the pre-filed testimony of John W. Chiles on behalf of the Staff of the State Corporation Commission (“Staff”), the Company performed additional studies that evaluated preserving generation at Yorktown through a combination of three transmission and generation alternatives as well as a generation-only alternative. *See* Report at 8. The additional studies analyzed whether such alternatives would address the potential NERC Reliability Violations and at what cost. *See* Report at 109.

On March 1, 2013, Environmental Respondents filed a Motion and Notice of Participation in this proceeding to evaluate these additional studies and any potential plans to preserve coal-fired generation at Yorktown or Chesapeake. On March 11, 2013, the Hearing Examiner issued a Ruling accepting Environmental Respondents’ Notice of Participation. Environmental Respondents participated in the public hearing, which convened on April 9, 2013

and concluded on April 18, 2013, and filed a post-hearing brief, in both public and confidential form, on May 23, 2013 ("Post-Hearing Brief").

During the hearing and in the Post-Hearing Brief, Environmental Respondents acknowledged that there are fair questions to be asked about the Proposed Project, its impacts, and alternatives that may address the potential NERC Reliability Violations, but we did not take a position as to the siting of the transmission line. Rather, we argued that the Commission, in deciding the outcome of this proceeding, should: (1) preserve the Company's plan to retire all of the coal-fired units at Yorktown and Chesapeake by December 31, 2014, and (2) reject the alternative options that would require extending the life of coal-fired generation at Yorktown. *See Post-Hearing Brief at pages 4-14.* We also pointed out that the Company failed to meaningfully examine potential demand-side management ("DSM") or distributed solar resources targeted to the North Hampton Roads Load area, which could help address the potential NERC Reliability Violations while reducing the impact of the Proposed Project on historic resources along the James River. *See Post-Hearing Brief at pages 15-17.* Environmental Respondents incorporate these arguments by reference.

The Hearing Examiner issued a Report on August 2, 2013 summarizing the history of the case, providing findings, and recommending that the Application to construct the Proposed Project be granted. While Environmental Respondents take no position on the siting of the transmission line, for the reasons provided herein, Environmental Respondents respectfully request that the Commission, in deciding the outcome of this case, preserve the Company's plans to retire all coal-fired generation at Yorktown and Chesapeake by December 31, 2014.

**II. THE COMMISSION SHOULD PRESERVE THE COMPANY'S PLANS TO RETIRE THE COAL-FIRED UNITS AT YORKTOWN AND CHESAPEAKE.**

The Company based its decision to retire the heavily-polluting coal-fired units at Yorktown and Chesapeake – the oldest of which came online more than 60 years ago – on an analysis of the cost to comply with current and long-delayed environmental regulations required by federal statute or court order. These regulations include the Mercury & Air Toxics Standards (“MATS”), National Ambient Air Quality Standard (“NAAQS”) for Sulfur Dioxide, NAAQS for Ozone, the Cross State Air Pollution Rule (“CSAPR”) and the Clean Air Interstate Rule (“CAIR”), Federal Carbon Dioxide Regulations, Coal Combustion Byproducts (“CCB”), Clean Water Act Section 316(b), and Effluent Limitation Guidelines. *See Report at 153; see also Application at Appendix, pages 8-9.* The Company’s Application and pre-filed direct testimony supported the planned retirements, demonstrating that retrofitting these coal-fired units would be the most costly option for ratepayers and would fail to fully address the potential NERC Reliability Violations. The results of the additional studies that evaluated preserving generation at Yorktown through a combination of three transmission and generation alternatives as well as a generation-only alternative further support the conclusion that retaining generation at Yorktown would be an economically imprudent planning decision. *See Report at 102.*

**A. Because continuing to operate the coal-fired units at Yorktown and Chesapeake is risky and expensive for reasons even beyond what Dominion has acknowledged, retirement is the prudent option.**

The Company’s decision to retire the coal-fired units at Yorktown and Chesapeake is based upon an evaluation of the cost to ratepayers of coal-fired generation, including an analysis performed as part of the development of Dominion’s Integrated Resource Plan (“IRP”). *See Report at 118.* Environmental Respondents initially raised concerns about the continued operation of the Yorktown and Chesapeake coal-fired units based on the economics of

environmental compliance costs in the Company's 2009 IRP docket. *See generally* Corrected Testimony of William Steinhurst, *2009 IRP Proceeding*, PUE-2009-00096 (pre-filed April 1, 2010; admitted into evidence June 8, 2010). Dominion's 2009 IRP failed to incorporate environmental compliance costs associated with its existing coal-fired generating units, and did not analyze the risks and uncertainties of continuing to operate these outdated, coal-fired units. Although the Commission did not order a compliance filing, it did find that "the issues raised by the Environmental Respondents relating to ... proposed environmental control standards, such as, for example mercury, *may have merit and should be considered by the Company in its future IRPs...*" Final Order, *2009 IRP Proceeding*, PUE-2009-00096, at 6 (Aug. 6, 2010) (emphasis added).

In response to the Commission's Order on the 2009 IRP, the Company's 2011 IRP contained a more accurate consideration of the environmental compliance needs of the Company's existing coal-fired generating fleet. *See Report* at 118. The 2011 IRP evaluated compliance costs associated with retrofitting the Yorktown and Chesapeake units with new environmental control equipment, repowering the units with natural gas or converting the units to burn biomass, or retiring the units from service. *See Virginia Electric and Power Company's Integrated Resource Plan Filing, 2011 IRP Proceeding*, PUE-2011-00092, at 20-23 (Sept. 1, 2011). Based on this analysis, the 2011 IRP included plans to retire Chesapeake Units 1 and 2 and Yorktown Unit 1 by 2015, Chesapeake Units 3 and 4 by 2016, and Yorktown Units 2 and 3 by 2022. *See Report* at 118. The Company subsequently updated this analysis during the development of the 2012 IRP, and the filings in this docket reflect the Company's current plans to retire Yorktown Units 1 and 2 and Chesapeake Units 1 through 4 by December 31, 2014. *See id.*

The Company's analysis of the compliance costs associated with current and pending environmental regulations, which was set forth in the 2011 IRP and updated in the 2012 IRP, underscores why retirement of the coal-fired units at Yorktown and Chesapeake is a prudent planning decision and must continue on schedule. The Company analyzed the capital expenditures required to bring each of the Yorktown and Chesapeake coal-fired into compliance with the following environmental regulations: MATS, NAAQS for Sulfur Dioxide, NAAQS for Ozone, CSAPR and CAIR, CCB, Clean Water Act Section 316(b), and Effluent Limitation Guidelines. *See* Report at 153; *see also* Application at Appendix, pages 8-9. The Company's analysis revealed that retrofitting the units to preserve coal-fired generation would be the most expensive option. *See* Exhibit 110C, *Confidential* Rebuttal Testimony of Glenn A. Kelly (filed March 14, 2013), at Rebuttal Schedule 2, page 2.

The timeline for the Yorktown and Chesapeake retirements is largely driven by the compliance dates for the MATS rule. *See* Report at 154. The final MATS rule, issued by the Environmental Protection Agency ("EPA") in response to a federal court order, *New Jersey, et al. v. EPA*, 517 F.3d 574 (D.C. Cir. 2008), was published in the *Federal Register* on February 16, 2012 and requires that units achieve compliance by April 16, 2015. *See* 77 Fed. Reg. 9304. To comply with the rule, the Company has determined that each of the Yorktown and Chesapeake coal-fired units will require the installation of very expensive baghouses and scrubbers. *See* Report at 118; *see also* Exhibit 110, Rebuttal Testimony of Glenn A. Kelly (filed March 14, 2013) at Rebuttal Schedule 2, page 2. While the MATS rule includes language providing for a limited 1-year extension from the Virginia Department of Environmental Quality and an additional 1-year extension from EPA, even if the Company received such extensions it would only delay compliance with MATS by a year or two. *See* Report at 154. However, the Company

must have a plan for compliance in place that would include either investing in very expensive control equipment before the summer of 2015, when the units will be needed to meet reliability issues, or retiring the units and developing an alternative option.

In addition, the Company's assessment of compliance costs for the Yorktown and Chesapeake units includes prohibitively expensive retrofits that will come into effect just after the MATS timeline, including costs to comply with Clean Water Act Section 316(b) and the Ozone and Sulfur Dioxide NAAQS. *See* Report at 117. Moreover, the Company's assessment of these compliance costs does not include the cost to comply with potential federal carbon dioxide regulations. While the Company's analysis acknowledges the likelihood that a cap and trade program would be implemented by 2023, the cost to comply with such a program was not factored into the Company's total capital expenditure figures and the Company failed to examine a scenario where carbon costs would be applied earlier than 2023. *See* Exhibit 110 at Rebuttal Schedule 1, page 5. Finally, the Company's evaluation did not include an assessment of additional costs associated with continuing to operate these coal-fired units, including fixed and variable operations and maintenance ("O&M") costs.

As such, it is reasonable to assume that the Company has underestimated and undervalued the risks of continuing to operate Yorktown Units 1 and 2 and Chesapeake Units 1 through 4 as outdated, coal-fired units. Based on the analysis described above, and the potential for additional costs that the Company has failed to account for in its analysis, retiring these units is unquestionably the most cost-effective solution for ratepayers.

**B. The Company's additional studies demonstrate that preserving generation at Yorktown Units 1 and 2 is not a prudent planning decision.**

The Company's Application and pre-filed testimony supported the planning decision to retire Yorktown Units 1 and 2 by December 31, 2014. On January 11, 2013, Staff witness John



W. Chiles filed written testimony in which he suggested that the Company conduct additional studies, including assessing alternatives that combine a subset of the planned generation retirements and lower voltage transmission alternatives. *See Report at 90-91.* On January 30, 2013, the Hearing Examiner issued a ruling directing Dominion to conduct additional studies to look at alternatives consisting of constructing 230 kV underground lines, rebuilding 230 kV lines in the area, a combination of 230 kV transmission lines with retention of or new generation at Yorktown, and a stand-alone generation option at Yorktown. *See Report at 8.* The studies reveal that preserving generation at Yorktown through a combination of transmission and generation options or through a stand-alone generation option would be an unnecessarily expensive option for ratepayers. *See Report at 118-119.*

The first combination alternative (“Alternative A”), an underground 230 kV hybrid single circuit plus 1,008 MW and 1,449 MW of Yorktown generating capacity in 2015 and 2021, respectively, would cost \$1.2 billion for full compliance by 2021. *See Report at 109.* The second combination alternative (“Alternative B”), an underground 230 kV hybrid double circuit plus 159 MW and 551 MW of generation at Yorktown in 2015 and 2021, respectively, would cost \$1.117 billion for full compliance by 2021. *See id.* The third combination alternative (“Alternative C”), the rebuild of the existing James River crossing lines (230 kV) plus maintaining 552 MW and 505 MW of Yorktown generation in 2015 and 2021, respectively, would cost \$1.071 billion for full compliance by 2021. *See id.* Finally, the Company analyzed a stand-alone generation alternative at Yorktown, which would require retrofitting Yorktown Unit 1 (159 MW) to continue burning coal, repowering Yorktown Unit 2 to gas and oil (157 MW), and retrofitting Yorktown Unit 3 with a baghouse (818 MW) to comply with MATS. The total generation cost of this alternative would be \$1.345 billion for full compliance by 2021. *See id.*

The combination generation and transmission alternatives and the stand-alone generation alternative represent the most costly alternatives for the Company. *See Report at 152.* Further, Mr. Kelly noted in his rebuttal testimony that “the analysis only considered the incremental capital and firm gas transportation costs required to provide the Yorktown generation. It did not consider the future fuel costs and benefits of one option against the other or the additional labor and material costs required to operate these units because at this time it is not known precisely how often these units would be required to run for reliability under the various scenarios.” *See Exhibit 110 at 19.* As such, it is reasonable to assume that preserving generation at Yorktown will be even more costly than the Company’s analysis revealed. The most cost-effective option for the Company’s ratepayers is to retire the Yorktown units and develop alternatives – including targeted investments in energy-efficiency and distributed solar resources – to address the potential NERC Reliability Violations.

### III. CONCLUSION.

Ultimately, the Company’s analysis in this proceeding demonstrates that tremendous capital expenditures will be required to retrofit the coal-fired units at Yorktown and Chesapeake to comply with current and pending environmental regulations. While the Company did not incorporate all of the costs to continue operating these units into its analysis, including carbon costs associated with potential greenhouse gas regulations and future O&M costs, the Company’s analysis demonstrates that the planned retirements of these decades-old, heavy polluting coal-fired units lowers the cost and risk profile of Dominion’s resource mix, which benefits ratepayers over the long-term.

Further, the additional studies that the Company performed evaluating preserving generation at Yorktown through a combination of transmission and generation options and a

stand-alone generation option reveal that preserving generation at Yorktown is unnecessarily expensive for the Company's ratepayers. Each of these scenarios contains costs that are substantially higher than any of the transmission alternatives that Dominion analyzed.

For the foregoing reasons, Environmental Respondents respectfully request that the Commission, in deciding the outcome of this proceeding, take the following actions:

1. Preserve the Company's plan to retire all of the coal-fired units at Yorktown and Chesapeake by December 31, 2014; and
2. Reject the alternative options that would require extending the life of coal-fired generation at Yorktown.

Respectfully Submitted,



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**DATED: August 30, 2013**

**CERTIFICATE OF SERVICE**

I hereby certify that the following have been served with a true and accurate copy of the foregoing by electronic mail and by deposit in the U.S. Mail, first class, postage prepaid:

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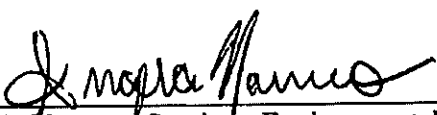
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**DATED: August 30, 2013**

  
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