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May 15, 2014

Mr. David Paylor, Director
Virginia Department of Environmental Quality
629 East Main Street
P.O. Box 10009
Richmond, Virginia 23240

Re: Request for Extension of Mercury and Air Toxics Standards (MATS) Compliance Date
Virginia Electric and Power Company (Dominion Virginia Power) - Yorktown Power
Station Units 1 and 2

Dear Mr. Paylor:

On February 16, 2012, the U.S. Environmental Protection Agency (EPA) published notice of final regulations under Section 112(d) of the Clean Air Act (CAA) for new and existing coal- and oil-fired electric generating units (EGUs). The regulations, commonly referred to as the Mercury and Air Toxics Standards (MATS), establish strict emission limits for particulate matter, hydrochloric acid and mercury on a 30-day rolling average basis for existing units. The MATS limits take effect on April 16, 2015.

Dominion Virginia Power (Dominion or the Company) owns and operates a number of coal- and oil-fired EGUs in Virginia that are subject to the MATS requirements, including three units at Dominion's Yorktown Power Station in Yorktown, Virginia: coal-fired Units 1 (159 MW) and 2 (164 MW) and oil-fired Unit 3 (818 MW). To comply with MATS on the oil-fired unit, the Company plans to operate Yorktown Unit 3 under the "limited use unit" provisions. These provisions apply to a liquid oil-fired electric steam generating unit with an annual capacity factor of less than 8% of its maximum or nameplate heat input, whichever is greater, averaged over a 24-month block contiguous period commencing April 16, 2015.

The coal-fired Yorktown Units 1 and 2 are not currently equipped with the necessary controls to achieve and maintain compliance with the MATS emissions limits. Dominion planned to retire both units by December 31, 2014 well in advance of the April 16, 2015 MATS compliance deadline; however, certain transmission upgrades have to be installed before the units can be retired without an adverse impact on the reliability of the electric grid. The transmission upgrades were originally anticipated to be completed prior to the summer of 2015. That timing would have permitted the retirement of Units 1 and 2 in advance of the MATS compliance deadline. Due to circumstances explained in detail below, this schedule has been delayed and is now expected to extend beyond the April 16, 2015 MATS compliance deadline. Accordingly, Dominion respectfully requests a one-year extension of the MATS compliance deadline for Yorktown Units 1 and 2, including all related performance testing, recordkeeping and reporting

requirements, and all applicable compliance dates set forth in 40 CFR Part 63, Subparts UUUUU and the applicable general requirements in 40 CFR Part 63 Subpart A.

Yorktown Retirements

On November 1, 2011, Dominion submitted an initial notification of the proposed deactivation of Yorktown Unit 1 to PJM Interconnection, L.L.C. (PJM), as required by the conditions of the PJM tariffs under which it operates. A copy of that notification is enclosed as Attachment A.

PJM evaluated the impacts of the Yorktown Unit 1 retirement on the integrity of the electric grid. PJM determined that the retirement of Yorktown Unit 1 will adversely affect the reliability of the PJM transmission system absent upgrades to the Transmission System. At that time, PJM and Dominion estimated that it would take approximately three and a half years (until approximately June 2015) to complete the transmission system upgrades necessary to alleviate the identified reliability impacts. Under the then-current system conditions, PJM and Dominion determined that completing the necessary transmission upgrades by June 2015 would eliminate the need to operate Yorktown Unit 1 beyond its initially proposed December 31, 2014 retirement date for reliability reasons. A copy of PJM's analysis (dated December 14, 2011), including a listing of specific reliability impacts, is provided as Attachment B.

During 2011 and into 2012, the Company was evaluating the option of converting Yorktown Unit 2 to natural gas fuel and therefore did not include Unit 2 in the deactivation notice. However, after evaluation of the potential repowering, the Company concluded that there was not enough firm gas supply to support year-round operation of gas-fired generation at Yorktown Unit 2, and that an expansion of the gas supply could not be completed until 2018. In addition, estimated costs to expand natural gas capacity to support generation in the area were significant and would exceed the cost of the transmission alternatives. On October 9, 2012, the Company notified PJM of the planned retirement of Yorktown Unit 2 effective December 31, 2014. PJM's response to the Unit 2 retirement notification (dated November 8, 2012), provided as Attachment C, specified that the Unit 2 retirement would not adversely affect the reliability of the electric transmission system provided that Unit 2 does not retire sooner than proposed and the previously identified baseline upgrades related to the retirement of Yorktown Unit 1 is completed prior to June 2015.

Skiffes Creek Transmission Project

To address projected North American Electric Reliability Corporation (NERC) violations related to the Yorktown retirements, Dominion filed with the State Corporation Commission of Virginia (Commission) on June 11, 2012, an application for approval and certification of electric transmission facilities, consisting of construction of the Surry-Skiffes Creek 500 kV transmission line, the Skiffes Creek-Wheaton 230 kV transmission line, and the Skiffes Creek 500 kV-230

kV-115 kV Switching Station, and work at Dominion's existing Surry and Whealton stations (collectively, the Skiffes Creek project).¹

In its Application, Dominion stated that electric power flow studies projected violations of mandatory NERC Reliability Standards on existing facilities to occur by the summer of 2015, and that the failure to address these projected violations could lead to loss of service and potential damage to the Company's electrical facilities in the North Hampton Roads load area.² During the course of the Commission proceeding, all of the load flow studies conducted by Dominion were independently verified by the Commission Staff consultant, John Chiles. Mr. Chiles determined that with the retirement of either Yorktown unit, NERC reliability violations would occur beginning in 2015.³

In the Commission proceeding, Dominion explained how the Skiffes Creek project would resolve all of the identified NERC Reliability Violations in 2015 and address the risk of cascading outages by (1) providing a new source of bulk power from the 500 kV system to support the 230 kV system in the North Hampton Roads load area, (2) relieving loading on that system through the addition of a new 230kV source into the Peninsula east of Skiffes Creek, and (3) feeding existing east-west 230 kV and 115 kV lines to be split to receive power from Skiffes Creek Station.

In addition to Dominion and the Commission Staff, thirteen parties participated in the Commission proceeding, including Charles City County, James City County, and landowners, collectively and individually. The Virginia Department of Environmental Quality (DEQ) provided its report on the Skiffes Creek project on August 31, 2012. There were local public hearings and an evidentiary hearing at the Commission that lasted eight days.

On November 26, 2013, the Commission issued an Order approving the Certificate of Public Convenience and Necessity (CPCN) for the Skiffes Creek project to be constructed by Dominion (Approval Order). The Approval Order is included as Attachment D. In the Approval Order, the Commission found that the record demonstrated significant reliability risks beginning as early as 2015 in the North Hampton Roads load area. The Commission further found that to address the

¹ *Application of Virginia Electric and Power Company For Approval and Certification of Electric Facilities for the Surry-Skiffes Creek 500 kV Transmission Line, Skiffes Creek-Whealton 230 kV Transmission Line and Skiffes Creek 500 kV-230 kV-115 kV Switching Station*, Case No. PUE-2002-00029, Application (Jun. 11, 2012) (hereafter, Application).

² The North Hampton Roads load area includes the following: (i) Charles City County, James City County, York County, Williamsburg, Yorktown, Newport News, Poquoson, and Hampton; (ii) Essex County, King William County, King and Queen County, Middlesex County, Mathews County, Gloucester County, and the City of West Point; and (iii) King George County, Westmoreland County, Northumberland County, Richmond County, Lancaster County, and the City of Colonial Beach.

³ Approval Order at 21 (Nov. 26, 2013).

risks and maintain adequate reliability for customers, significant system upgrades are needed to serve the North Hampton Roads load area. The Commission approved all of the components of the Skiffes Creek project described above, but approved an alternative route for the 500 kV transmission line across the James River such that the line would cross the property of the James City County Economic Development Authority (EDA). Because the EDA is a unit of the County government, Dominion does not have the ability to acquire an easement across that property without agreement from the governmental entity. James City County and the EDA had represented during the evidentiary hearing that the EDA would willingly enter into such an agreement with Dominion.

Because no agreement had been executed between Dominion and the EDA, the Commission re-opened the record in an Order issued January 7, 2014 to hold a hearing to admit additional evidence on the rights that Dominion needed to construct the Skiffes Creek project across the EDA property. At that hearing, Dominion presented evidence on the schedule risks facing the project. These risks include the U.S. Army Corps of Engineers (Corps) permit process that had been initiated by Dominion in July of 2013 and the retirement of Yorktown Units 1 and 2 pursuant to MATS. On February 28, 2014, the Commission issued an Order Amending Certificates (Amending Order) to amend the Approval Order, approving the Company's proposed route for the 500 kV transmission line across the James River. The Amending Order is included as Attachment E. The basis for the Commission's amendment of the Approval Order included the Corps permit process and the importance of maintaining reliable electric service for customers in the North Hampton Roads load area, which could "no longer depend on Dominion's ability to obtain a right-of-way from the EDA" for construction of the Skiffes Creek project. The Amending Order reiterated the urgent need for the project and stated the following:

The Commission remains concerned about the serious reliability risks to the North Hampton Roads [Load] Area that supported, and continue to support, approval of the Certificated Project. Until the Certificated Project is placed in service to address those risks, the Commission expects Dominion to continue taking all reasonable steps to ensure reliable service is maintained in the North Hampton Roads Area. Such steps should include, but are not necessarily limited to, pursuing the limited extensions of the MATS Rule that are available to the Company and expeditiously pursuing all necessary approvals from the Army Corps.

The Company's application for a Corps permit for the Commission-approved route is pending. Except for some limited work, the Company will not begin construction of the Skiffes Creek project until receiving a permit from the Corps. In addition, there are pending legal actions related to the Skiffes Creek project.⁴

⁴ There is currently pending in James City County Circuit Court a Petition for Declaratory Judgment and Injunction for Skiffes Creek Switching Station filed by James City County on May 23, 2013. In addition, James City County and another party to the Commission proceeding have filed petitions to appeal the November 26, 2013 Commission Order and notices of participation to appeal the February 28, 2014 Commission Order Amending Certificate.

Reliability Analysis

The Company has requested an update from PJM on the analysis of the reliability impacts of the retirements given the delay of the in-service date currently anticipated for the Skiffes Creek project. That updated analysis from PJM, included as Attachment F, is consistent with the previous analysis presented in Attachments B and C in requiring the availability of Yorktown Units 1 and 2 until completion of the Skiffes Creek project, currently estimated to be completed no later than the fourth quarter of 2016.

Because the Skiffes Creek project's commercial operations date now extends past the MATS compliance date of April 16, 2015, and Yorktown Units 1 and 2 must remain available during that time for electric reliability, the Company is hereby requesting a one-year (fourth year) extension of the MATS compliance deadline (i.e., until April 16, 2016) for Yorktown Units 1 and 2.⁵

Requested Action

DEQ is authorized to grant the requested extension under Section 112(i)(3)(B) of the CAA, 42 U.S.C. § 4212(i)(3)(B), and 40 CFR § 63.6(i)(3). For the retiring units included in this request, deactivation and the construction of additional transmission through the Skiffes Creek project is the MATS compliance strategy.

The MATS deadline extension will provide time to complete construction of the additional transmission facilities necessary to deactivate the units without risk of triggering the reliability issues identified by PJM, and provide the flexibility to dispatch these generation assets during the outages of other units where pollution control installations or replacement generation are being constructed in order to comply with MATS and other environmental obligations. The requested extension is consistent with U.S. EPA's discussion of the range of circumstances that might trigger a need for additional time to comply in the preamble to the final MATS rule.⁶

Dominion cannot predict the timing for Corps approval of the Skiffes Creek project. Current estimated timing is based on the assumption that no National Environmental Policy Act Environmental Impact Statement (EIS) would be required. Should the Corps ultimately determine that an EIS is required, the Corps process could be lengthened by up to one year. A one year extension of the Corps process would push the in-service date for the proposed Skiffes Creek project to after April 16, 2016, thereby making it necessary for Dominion to request further time before retirement of the Yorktown units. This request may take the form of a request for a U.S. EPA Administrative Order (AO), pursuant to the process that EPA outlined in

⁵ As noted previously, this extension request includes all related performance testing, recordkeeping and reporting requirements, and all applicable compliance dates set forth in 40 CFR Part 63, Subparts UUUUU and the applicable general requirements in 40 CFR Part 63 Subpart A.

⁶ See 77 *Fed. Reg.* 9410-12; February 16, 2012.

a December 16, 2011 memorandum issued by the Office of Enforcement and Compliance Assurance (OECA).⁷

The estimated construction schedule of the Skiffes Creek project also assumes that Dominion will be able to obtain from PJM timely outages of existing transmission lines required for safe construction of the project. Many outages will be required for construction of the project, which includes substantial use of existing rights-of-way occupied by existing, energized transmission lines. In addition, other delays in the transmission construction, permit delays, or further litigation could occur that may further postpone the deactivation of the coal units at Yorktown.

By requesting this one-year extension based on currently known commitments and obligations, Dominion does not waive its right to request additional time, as necessary, before the retirement of either or both of these units. Accordingly, in the event circumstances described above, or any other unforeseen circumstances, further delay the completion of the necessary project (and thereby push the retirement of either or both of the Yorktown coal units beyond April 16, 2016), the Company intends to inform EPA that the Company may need to pursue further relief, including an AO pursuant to the process discussed above.

Dominion appreciates your prompt consideration of this extension request, and Company representatives are available to meet with you and discuss this request and the enclosed supporting information, if necessary. Please contact me or Lenny Dupuis @ 804-273-3022 to arrange a meeting date or if you have any questions.

Sincerely,



Pamela F. Faggert

Attachments

CC: Mr. Michael S. Dowd – Virginia DEQ
Ms. Tamera Thompson – Virginia DEQ
Ms. Patricia Buonviri – Virginia DEQ
Ms. Diana Esher – U.S. EPA Region III
Mr. Brian Rehn – U.S. EPA Region III

⁷ See EPA OECA, Memorandum: The Environmental Protection Agency's Enforcement Response Policy For Use of Clean Air Act Section 113(a) Administrative Orders In Relation To Electric Reliability And The Mercury And Air Toxics Standard; December 16, 2011.