

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>IN RE: APPLICATION OF TRANS-ALLEGHENY</b>	<b>:</b>	
<b>INTERSTATE LINE COMPANY FOR</b>	<b>:</b>	
<b>(I) A CERTIFICATE OF PUBLIC CONVENIENCE</b>	<b>:</b>	
<b>TO OFFER, RENDER, FURNISH AND/OR</b>	<b>:</b>	
<b>SUPPLY TRANSMISSION SERVICE IN THE</b>	<b>:</b>	
<b>COMMONWEALTH OF PENNSYLVANIA;</b>	<b>:</b>	
<b>(II) AUTHORIZATION AND CERTIFICATION</b>	<b>:</b>	
<b>TO LOCATE, CONSTRUCT, OPERATE AND</b>	<b>:</b>	<b>Docket Nos. A-110172</b>
<b>MAINTAIN CERTAIN HIGH VOLTAGE ELECTRIC</b>	<b>:</b>	<b>A-110172F0002</b>
<b>TRANSMISSION LINES AND RELATED ELECTRIC</b>	<b>:</b>	<b>A-110172F0003</b>
<b>SUBSTATION FACILITIES; (III) AUTHORITY</b>	<b>:</b>	<b>A-110172F0004</b>
<b>TO EXERCISE THE POWER OF EMINENT</b>	<b>:</b>	<b>G-00071229</b>
<b>DOMAIN FOR THE CONSTRUCTION AND</b>	<b>:</b>	
<b>INSTALLATION OF AERIAL ELECTRIC</b>	<b>:</b>	
<b>TRANSMISSION FACILITIES ALONG THE</b>	<b>:</b>	
<b>PROPOSED TRANSMISSION LINE ROUTES</b>	<b>:</b>	
<b>IN PENNSYLVANIA; (IV) APPROVAL OF AN</b>	<b>:</b>	
<b>EXEMPTION FROM MUNICIPAL ZONING</b>	<b>:</b>	
<b>REGULATION WITH RESPECT TO THE</b>	<b>:</b>	
<b>CONSTRUCTION OF BUILDINGS; AND</b>	<b>:</b>	
<b>(V) APPROVAL OF CERTAIN RELATED</b>	<b>:</b>	
<b>AFFILIATED INTEREST ARRANGEMENTS</b>	<b>:</b>	

**DIRECT TESTIMONY OF  
DAVID E. FLITMAN**

**Re: Introduction of witnesses; description and creation of TrAILCo;  
Allegheny's interest in transmission development; and  
support for Certificate of Public Convenience.**

**April 13, 2007**

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is David E. Flitman and my business address is 800 Cabin Hill Drive,  
3 Greensburg, Pennsylvania 15601.

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5 DUTIES AND RESPONSIBILITIES

6 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

7 A. I am employed by Allegheny Energy Service Corporation as President of Trans-  
8 Allegheny Interstate Line Company (“TrAILCo”) and the three operating  
9 companies that do business under the trade name “Allegheny Power” –  
10 Monongahela Power Company, The Potomac Edison Company and West Penn  
11 Power Company.

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13 EXPERIENCE AND EDUCATION

14 Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND  
15 EDUCATIONAL BACKGROUND.

16 A. I have been employed by Allegheny Energy Service Corporation since February  
17 2005, when I began work as the Vice President, Distribution and Customer  
18 Management for Allegheny Power. I was promoted to my current position as  
19 President of Allegheny Power in July 2006 and, since the formation of TrAILCo  
20 in October 2006, I have served as its President.

21 In addition to my work for Allegheny Power and TrAILCo, I currently serve on  
22 the Board of Directors of the Energy Association of Pennsylvania and the Board  
23 of Directors of the Southeastern Electric Exchange. In addition, I currently serve  
24 on the Distribution Committee of the Edison Electric Institute and formerly

1 served as a director of the Westmoreland County Chamber of Commerce in  
2 Westmoreland County, Pennsylvania.

3 Prior to joining Allegheny Power, I worked for E.I. du Pont de Nemours and  
4 Company for twenty years, most recently as Global Business Director for the  
5 Nonwovens Business Group. I started my career and held several plant  
6 management positions at DuPont's facility in Parkersburg, West Virginia. I  
7 served in various management positions at DuPont's facilities in West Virginia,  
8 Michigan, Switzerland, Delaware and Tennessee.

9 I hold a Bachelor of Science in Chemical Engineering from Purdue University.

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PURPOSE OF TESTIMONY

12 Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY?

13 A. The purpose of my testimony is to:

- 14 • Identify the other witnesses who will be providing direct testimony on  
15 behalf of TrAILCo in this proceeding;
- 16
- 17 • Describe the overall interest of Allegheny Energy, Inc. ("Allegheny") in  
18 transmission development;
- 19
- 20 • Describe TrAILCo;
- 21
- 22 • Explain why Allegheny created TrAILCo;
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- 24 • Provide support for granting TrAILCo a certificate of public convenience  
25 to be a public utility in Pennsylvania; and
- 26
- 27 • Sponsor the Table of Nomenclature setting forth the defined terms used in  
28 the Application and in the direct testimony filed by TrAILCo in this  
29 proceeding.

INTRODUCTION OF WITNESSES

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Q. PLEASE IDENTIFY THE OTHER WITNESS WHO WILL BE PROVIDING DIRECT TESTIMONY ON BEHALF OF TRAILCO IN THIS PROCEEDING.

A. Three witnesses will support the need for the Trans-Allegheny Interstate Line (“TrAIL”). They are:

- Lawrence A. Hozempa, Senior Engineer for TrAILCo and Allegheny Power (TrAILCo Statement No. 2);
- Steven R. Herling, Vice President of Planning for PJM Interconnection, L.L.C. (“PJM”) (TrAILCo Statement No. 3); and
- Scott Gass, Principal Consultant for PowerGEM (TrAILCo Statement No. 4).

Two witnesses will address the siting of TrAIL. They are:

- Jack Halpern, Senior Consultant with The Louis Berger Group, Inc. (TrAILCo Statement No. 5); and
- Alan Fleissner, Senior Consulting Engineer for TrAILCo and Allegheny Power (TrAILCo Statement No. 6).

Mr. Fleissner will also support TrAILCo’s request for authorization to exercise eminent domain power, if necessary, in connection with the construction of TrAIL.

Other witnesses and the general areas of their testimony are:

- John Bodenschatz, Senior Engineer for TrAILCo and Allegheny Power, testifying regarding the design, engineering, construction, operation and maintenance of the TrAIL, including support for TrAILCo’s request for an exemption from local zoning regulation for any “buildings” to be constructed in connection with TrAIL (TrAILCo Statement No. 7);
- Dr. William Bailey, Principal Scientist for Exponent, testifying regarding the effects of electric and magnetic fields from TrAIL (TrAILCo Statement No. 8);



1 with neighboring systems; (2) ensuring reliable and economical power supply; (3)  
2 maximizing utilization of generation resources; (4) providing flexibility for  
3 operating contingencies and future uncertainties; and (5) planning for the long-  
4 term.

5 This philosophy continued when the Allegheny Power companies joined  
6 PJM in April 2002 and transferred functional control of their transmission  
7 systems to PJM. As part of PJM's exercise of functional control, it has  
8 responsibility for regional planning of the transmission system.

9 In May 2005, PJM announced the Project Mountaineer concept. As  
10 conceived, Project Mountaineer would consist of one or more transmission  
11 system reinforcement projects to enhance the west-to-east transfer capability of  
12 the entire PJM Transmission System. PJM envisioned its independent planning  
13 process, known as the Regional Transmission Expansion Planning Protocol, as the  
14 vehicle for identifying a comprehensive plan for Project Mountaineer.

15 Following PJM's announcement of Project Mountaineer, Allegheny Power  
16 began reviewing various transmission system enhancement opportunities within  
17 the Allegheny Power Zone at PJM that would provide significant increases in  
18 west-to-east transfer capability within the entire PJM Region and could be  
19 incorporated into PJM's Regional Transmission Expansion Plan ("RTEP"). As a  
20 result, Allegheny Power, in a proposal submitted to PJM on February 28, 2006,  
21 proposed the construction of a 500 kV transmission line identified as the "Trans-  
22 Allegheny Interstate Line" to meet those requirements and as an effective solution  
23 for addressing long-term reliability issues in the PJM Region. Allegheny Power

1 requested that the project, along with the Prexy Facilities, be included in the  
2 RTEP as a part of a major expansion of the PJM Transmission System.

3 In June 2006, the PJM Board of Managers approved a five-year RTEP that  
4 included a modified version of TrAIL as proposed by Allegheny Power. The PJM  
5 Board designated Allegheny Power as the transmission owner responsible for  
6 constructing TrAIL and designated Dominion Virginia Power as responsible for  
7 constructing the final 30 to 40 miles of transmission line necessary to connect  
8 TrAIL to Dominion's Loudoun Substation in Loudoun County, Virginia.

9 In conjunction with the submission of the proposal to PJM, Allegheny and  
10 Allegheny Power also sought Federal Energy Regulatory Commission ("FERC")  
11 approval of certain financial incentives for the TrAIL project owner. These  
12 incentives were authorized by FERC in an order issued on July 20, 2006 in  
13 Docket No. EL06-54-000.

14 Allegheny's commitment to regional transmission development has not  
15 ended with the authorization to proceed with the development of TrAIL.  
16 Allegheny Power continues to be an active participant in PJM's regional planning  
17 process.

18 As described in detail by TrAILCo Witness Hozempa, Allegheny Power's  
19 transmission facilities, especially its 500 kV lines, are located at the geographical  
20 and electrical center of the PJM Transmission System. In addition, a significant  
21 portion of TrAIL facilities to be constructed in Pennsylvania is directly related to  
22 reliability improvements needed in Allegheny Power's Pennsylvania service  
23 territory.

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TRAILCO

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Q. WHAT IS TRANS-ALLEGHENY INTERSTATE LINE COMPANY?

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A. TrAILCo is a Maryland and Virginia corporation and a direct subsidiary of Allegheny Energy Transmission, LLC (“AET”), a Delaware limited liability company. AET is a direct subsidiary of Allegheny.

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Q. WHY DID ALLEGHENY CREATE TRAILCO TO FINANCE, CONSTRUCT, OWN AND OPERATE TRAIL?

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A. There are four primary reasons why Allegheny created TrAILCo to finance, construct, own and operate TrAIL. First, the ability to access debt capital to fund TrAIL at favorable terms is enhanced by having the debt held by TrAILCo. Regulated utility businesses, such as transmission-only companies, generally have lower debt costs than the unregulated energy services businesses included within the Allegheny corporate family. Thus, issuing debt at the level of the corporate entity that solely has exposure to the transmission business is expected to achieve more favorable financing terms. This situation is further compounded by the fact that Allegheny’s corporate debt ratings have been below investment grade since 2002. Allegheny’s lower debt ratings have increased its costs of capital and also have made various otherwise routine transactions more complicated and/or expensive. Moreover, the financial markets tend to view it favorably when debt financing occurs at the same corporate entity that owns the assets for which the financing is required. Accordingly, it is reasonable to expect that TrAIL will enjoy lower debt costs – and therefore lower costs to customers assigned those

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1 costs – as a result of being financed, constructed and operated by TrAILCo as a  
2 separate, single-purpose transmission entity.

3 Second, placing TrAIL within a separate legal entity allows for financing  
4 on a project basis, which also provides an opportunity to access debt on more  
5 favorable terms. In addition, a separate legal entity like TrAILCo will protect  
6 Allegheny Power retail ratepayers from shouldering the risks of the project.

7 The third reason stems from the challenges associated with financing  
8 TrAIL if it were owned by Allegheny Power. As referenced above, Allegheny  
9 and its regulated utility subsidiaries are on path to return to an investment grade  
10 credit rating. Having Allegheny Power borrow funds to finance a project of this  
11 magnitude could jeopardize that return and could restrict Allegheny Power's  
12 ability to borrow funds for other projects. If TrAIL were owned by Allegheny  
13 Power, certain state financing authorizations to construct the project would likely  
14 be required before construction authorization is received. Given the aggressive  
15 time frame set to build the project – less than five years – and the need to begin  
16 spending funds immediately, Allegheny Power would not have sufficient funds  
17 available to fund 100% of the project while waiting for these approvals.

18 Fourth, all of the revenue requirement associated with TrAIL will be  
19 recovered through FERC-jurisdictional rates under the PJM Open Access  
20 Transmission Tariff and, under PJM cost allocations, a significant portion of that  
21 revenue requirement will be recovered from load serving entities outside of the  
22 Allegheny Power Zone. By designating TrAILCo, rather than the Allegheny  
23 Power operating companies, to own the TrAIL assets, Allegheny Power's retail

1 customers will be protected from adverse consequences associated with the  
2 financing and the recovery of its revenue requirement from load serving entities in  
3 other PJM transmission zones.

4 Q. WHY IS TRAILCO A DIRECT SUBSIDIARY OF AET RATHER THAN  
5 ALLEGHENY?

6 A. By forming AET to own TrAILCo, Allegheny will be able to seek investors in  
7 the TrAILCo projects without causing those investors to become “public  
8 utilities” under either state law or the Federal Power Act. Instead, they will  
9 invest in AET as a holding company that will in turn own TrAILCo.

10 Q. WILL TRAILCO OWN ANY ASSETS OTHER THAN TRAIL?

11 A. Yes. Allegheny has designated TrAILCo to undertake Allegheny Power’s  
12 responsibilities to finance, construct, own, operate and maintain the Static VAR  
13 Compensator to be installed at the Black Oak Substation in Maryland that  
14 Allegheny Power was designated by PJM as the responsible transmission owner  
15 to construct. In addition, TrAILCo will undertake the responsibility to finance,  
16 construct, own, operate and maintain more conventional transmission upgrades,  
17 such as the two additional transformers at the Wylie Ridge Substation located in  
18 the northern panhandle of West Virginia to be installed in 2007.

19 Q. WHAT CRITERIA HAS ALLEGHENY USED FOR DETERMINING WHICH  
20 OF ALLEGHENY POWER’S RTEP RESPONSIBILITIES WILL BE  
21 UNDERTAKEN BY TRAILCO RATHER THAN ALLEGHENY POWER?

22 A. Generally, Allegheny intends to have TrAILCo undertake Allegheny Power’s  
23 RTEP responsibility if the cost of the project is in excess of \$2 million.

1 Q. WHY IS ALLEGHENY POWER ABLE TO TRANSFER ITS RTEP  
2 RESPONSIBILITIES TO TRAILCO?

3 A. The PJM Operating Agreement permits a transmission owner assigned  
4 responsibilities under an RTEP to make arrangements with another entity to  
5 fulfill those obligations.

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7 CERTIFICATE OF PUBLIC CONVENIENCE

8 Q. DESCRIBE THE REQUIREMENTS NECESSARY FOR OBTAINING A  
9 CERTIFICATE IN THE COMMONWEALTH OF PENNSYLVANIA.

10 A. Although I am not an attorney, I understand that before an entity can commence  
11 utility service to the public it must first obtain a certificate of public convenience  
12 from the Commission. To grant such a certificate, the Commission must "find  
13 and determine that the granting of such certificate is necessary or proper for the  
14 service, accommodation, convenience, or safety of the public." 66 Pa. C.S.  
15 § 1103.

16 I also understand that the Commission has interpreted this statutory  
17 mandate as requiring an applicant like TrAILCo to demonstrate a public need for  
18 the proposed service, the inadequacy of existing facilities for service in the  
19 proposed service territory and the applicant's fitness to provide the service.

20 There is clearly a need for electric transmission service in PJM,  
21 specifically in the Allegheny Power Zone. PJM's RTEP has identified the  
22 electrical need for TrAIL, and directed that these facilities be sited and  
23 constructed by 2011 in order to avoid reliability problems in Pennsylvania and

1 other portions of PJM. TrAILCo witnesses Hozempa, Herling and Gass also  
2 address the need for TrAIL and the inadequacy of existing transmission facilities  
3 in the affected portion of PJM. There is a clear public need for the additional  
4 transmission facilities that TrAILCo proposes to construct.

5 Q. PLEASE IDENTIFY AND ADDRESS EACH OF THE FITNESS  
6 REQUIREMENTS NECESSARY FOR THE GRANTING OF A CERTIFICATE  
7 OF PUBLIC CONVENIENCE.

8 A. I understand that fitness involves three specific factors: (i) the technical capacity  
9 to meet the need in a satisfactory fashion; (ii) the financial ability to give reliable  
10 and responsible service to the public; and (iii) the ability to operate safely and  
11 legally. TrAILCo satisfies all three of these criteria.

12 First, through the Allegheny corporate family, which includes  
13 longstanding experience in the siting, construction, ownership and operation of  
14 electric transmission facilities, TrAILCo has unquestionable access to the  
15 technical capacity to provide finance, construct, own, operate and maintain  
16 transmission facilities within the PJM Region. Allegheny will provide all of the  
17 resources necessary to site, construct and maintain TrAIL consistent with the  
18 manner in which West Penn and Allegheny's other operating utilities have for  
19 decades.

20 Second, with respect to the financial fitness requirement, TrAILCo  
21 expects to raise the substantial capital necessary to site and build TrAIL via an  
22 expansive financing program currently on file with FERC. When approved, this  
23 program will provide TrAILCo sufficient capital to construct, own, operate and

1 maintain reliable and responsible transmission facilities to enable PJM to provide  
2 transmission service to the public. Subject to final approval by FERC, TrAILCo  
3 presently anticipates a financing program consisting of three components: (a)  
4 executing a loan agreement and related documents ("Loan Agreement") to borrow  
5 up to \$550 million, (b) entering into one or more Interest Rate Hedges for the  
6 purpose of hedging TrAILCo's interest rate exposure under the Loan Agreement  
7 and (c) issuing up to \$550 million of common stock to finance all or portions of  
8 the TrAIL, including facilities to be located in Pennsylvania. TrAILCo's  
9 proposed financing program is described in detail in an application it filed with  
10 the FERC at Docket No. ES07-24-000 on February 22, 2007. In addition, through  
11 cost allocations filed with FERC by PJM in Docket No. ER06-1271-000 in July  
12 2006 and TrAILCo's formula rate filed with FERC in Docket No. ER07-562-000  
13 on February 21, 2007, the mechanisms will be established to provide TrAILCo  
14 with the funds necessary to meet its annual revenue requirement. In short,  
15 TrAILCo expects to be in a strong financial position to construct, own, operate  
16 and maintain TrAIL.

17 Third, because of both the technical resources from Allegheny and its  
18 affiliated companies and the availability of substantial capital sources, TrAILCo  
19 will be able to safely and legally operate and maintain transmission facilities to  
20 enable PJM to provide transmission service to the public.

21 As a regulated public utility in the Commonwealth of Pennsylvania,  
22 TrAILCo will operate its business in accordance with the Pennsylvania Public  
23 Utility Code, the Commission's orders and regulations and all other rules,

1 regulations and statutes affecting the safety of its operations. However,  
2 TrAILCo's rates and related rate making are within the jurisdiction of FERC and  
3 not this Commission.

4 If the Commission approves TrAILCo's request for a certificate of public  
5 convenience as a public utility and the balance of its requests to, among other  
6 things, site the TrAIL facilities in Pennsylvania, TrAILCo will seek to timely  
7 complete the full siting and construction process in order to meet PJM's  
8 mandated 2011 in-service date.

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TABLE OF NOMENCLATURE

11 Q. PLEASE DESCRIBE THE TABLE OF NOMENCLATURE.

12 A. The Table of Nomenclature, attached to my testimony as TrAILCo Exhibit DEF-  
13 1, sets forth the defined terms and associated meaning used in TrAILCo's  
14 Application in this proceeding and the direct testimony submitted in support  
15 thereof.

16 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

17 A. Yes, it does. However, I reserve the right to file such additional testimony as  
18 may be necessary or appropriate.

### Table of Nomenclature

Term	Definition
502 Junction Segments	The portion of TrAIL extending from 502 Junction Substation to the TrAIL End Point.
502 Junction Substation	The new substation to be constructed at 502 Junction and owned by TrAILCo.
AET	Allegheny Energy Transmission, LLC, the parent of TrAILCo and a direct subsidiary of Allegheny
Allegheny	Allegheny Energy, Inc.
Allegheny Power	Monongahela Power Company, The Potomac Edison Company and West Penn Power Company, collectively
Appalachian Trail	National Park Service's Appalachian National Scenic Trail property.
Dominion Virginia Power	Virginia Electric and Power Company
FERC	Federal Energy Regulatory Commission
Loudoun Expansion	The expansion of Loudoun Substation to accommodate the Loudoun Segment. Dominion Virginia Power will own the expansion.
Loudoun Segment	The line to be constructed by Dominion Virginia Power from the TrAIL End Point to the Loudoun Substation. Portions of the Loudoun Segment will be owned either jointly by TrAILCo and Dominion Virginia Power or solely by Dominion Virginia Power. This term does not include Loudoun Substation.
Loudoun Substation	The existing and expanded substation in Loudoun County owned by Dominion Virginia Power.
Meadow Brook Expansion	The expansion of Meadow Brook Substation to accommodate TrAIL. TrAILCo will own the expansion.
Meadow Brook Segment	The portion of TrAIL extending from Meadow Brook Substation to the TrAIL End Point.
Meadow Brook Substation	The existing substation at Meadow Brook

Term	Definition
Mon Power	Monongahela Power Company
Mt. Storm Substation Expansion	The expansion of Mt. Storm Substation to accommodate TrAIL. Dominion Virginia Power will own the expansion.
Mt. Storm Substation	The existing substation at Mt. Storm, including any expansion by Dominion Virginia Power to accommodate TrAIL.
Pennsylvania 502 Junction Segment	The portion of the 502 Junction Segments in Pennsylvania.
Pennsylvania 502 Junction Facilities	502 Junction Substation and Pennsylvania 502 Junction Segment
PJM	PJM Interconnection, L.L.C.
Potomac Edison	The Potomac Edison Company
Prexy 138 kV Lines	The three 138 kV lines originating at Prexy Substation and connecting to the Allegheny Power transmission system.
Prexy Facilities	The Prexy Segment, the Prexy 138 kV Lines and the Prexy Substation
Prexy Segment	The portion of TrAIL extending from Prexy Substation to 502 Junction Substation. This term does not include the Prexy Substation, the 502 Junction Substation or the three 138 kV lines originating at Prexy Substation and connecting to the Allegheny Power system.
Prexy Substation	The new substation to be constructed at Prexy and owned by TrAILCo
RTEP	PJM's Regional Transmission Expansion Plan

State Line to Meadow Brook Segment	The portion of TrAIL from the VA-WV state line to Meadow Brook Substation.
TrAIL	The 500 kV transmission line to be constructed by TrAILCo from Prexy Substation to the TrAIL End Point and the portion of the Loudoun Segment owned by TrAILCo jointly with Dominion Virginia Power. This term includes the new Prexy and 502 Junction Substations and Meadow Brook Substation and the three 138 kV lines originating at Prexy Substation and connecting to the Allegheny Power transmission system. This term does not include expansion of the Mt. Storm Substation or portions of the Loudoun Segment owned by Dominion Virginia Power either solely or jointly with TrAILCo
TrAIL End Point	The point in Virginia where TrAILCo's sole ownership ends and the remainder of the line is owned either jointly by TrAILCo and Dominion Virginia Power or solely by Dominion Virginia Power.
TrAILCo	Trans-Allegheny Interstate Line Company
Virginia Segments	The portions of the 502 Junction Segments in Virginia.
West Penn	West Penn Power Company
West Virginia Segments	The portions of the 502 Junction Segments in West Virginia.