COMMONWEALTH OF VIRGINIA
BEFORE THE
STATE CORPORATION COMMISSION

APPLICATION OF	**)**	
	)	
TRANS-ALLEGHENY INTERSTATE LINE COMPANY	**)**	**Case No. PUE-2007-000____**
	)	
For approval and certification of electric transmission facilities under Va. Code § 56-46.1 and the Utility Facilities Act, Va. Code § 56-265.1 *et seq.*	**)**	

APPLICATION OF TRANS-ALLEGHENY INTERSTATE LINE COMPANY FOR APPROVAL AND CERTIFICATION OF ELECTRIC FACILITIES FOR THE CONSTRUCTION OF 500 kV TRANSMISSION LINE

DIRECT TESTIMONY OF
DAVID E. FLITMAN

April 19, 2007

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

A. I am employed by Allegheny Energy Service Corporation, a subsidiary of Allegheny Energy, Inc. ("Allegheny"). I am President of Trans-Allegheny Interstate Line Company ("TrAILCo") and the three operating companies that do business under the trade name "Allegheny Power" – Monongahela Power Company, The Potomac Edison Company and West Penn Power Company.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND EDUCATIONAL BACKGROUND.

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

In addition to my work for Allegheny Power and TrAILCo, I currently serve on the Board of Directors of the Energy Association of Pennsylvania and the Board of Directors of the Southeastern Electric Exchange. In addition, I currently serve on the Distribution Committee of the Edison Electric Institute and formerly served as a Director of the Westmoreland County Chamber of Commerce in Westmoreland County, Pennsylvania.

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

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

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to:

- Identify the other witnesses who will be providing direct testimony on behalf of TrAILCo in this proceeding,
- Describe Allegheny's overall interest in transmission development,
- Describe TrAILCo,
- Explain why Allegheny created TrAILCo, and
- Support TrAILCo's request that the Commission approve the application filed in this proceeding by the end of 2007.

Q. WILL THE USE OF VARIOUS TERMS IN YOUR TESTIMONY BE CONSISTENT WITH THE DEFINITIONS ASSIGNED TO THOSE TERMS IN THE TABLE OF NOMENCLATURE ATTACHED TO THE APPLICATION AS EXHIBIT 2?

A. Yes. In addition, I may define additional terms in my testimony.

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;
- Steven R. Herling, Vice President of Planning for PJM Interconnection, L.L.C. ("PJM"); and
- Scott Gass, Principal Consultant for PowerGEM;

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

- Jack Halpern, Senior Consultant with The Louis Berger Group, Inc.;
- Cyril Welter, Senior Project Manager for Burns & McDonnell Engineering Company, Inc.; and
- Alan Fleissner, Senior Consulting Engineer for TrAILCo and Allegheny Power.

Other witnesses and the general areas of their testimony are:

- John Bodenschatz, Senior Engineer for TrAILCo and Allegheny Power, testifying regarding design, engineering, construction, operation and maintenance of TrAIL;
- Dr. William Bailey, Principal Scientist for Exponent, testifying regarding the effects of electric and magnetic fields from TrAIL;

- Dr. Gary Johnson, Senior Managing Engineer of Exponent, testifying regarding the effects of electric and magnetic fields and audible noise from TrAIL;
- Mark Mader, Director, Rates, for Allegheny Power, testifying regarding the impact of TrAIL on the retail rates of Allegheny Power.

Q. PLEASE DESCRIBE ALLEGHENY'S COMMITMENT TO REGIONAL TRANSMISSION DEVELOPMENT.

A. In the late 1960s, the Allegheny Power companies embarked on an ambitious plan to develop a 500 kV transmission system to overlay their 138 kV and 230 kV systems. The decision to construct a 500 kV system was based not only on the need to meet the forecasted load growth on the Allegheny Power system, but also to increase the reliability of the Allegheny Power system by establishing additional interconnections with transmission systems of neighboring utilities.

Construction proceeded in three phases that were completed in 1967, 1970 and 1973. Upon the completion of all three phases, Allegheny Power had added interconnections with the Pennsylvania Electric Company, Virginia Electric and Power Company ("Dominion Virginia Power"), Baltimore Gas & Electric Company, Potomac Electric Power Company, American Electric Power, and the operating companies of the current FirstEnergy Corp. Allegheny's commitment to the extra-high voltage ("EHV") transmission system (i.e., 345 kV and higher) of the Allegheny Power companies was at that time and continues today to be based

on a philosophy of (1) having a strong transmission system to integrate generation with load areas and to support interconnections with neighboring systems; (2) ensuring reliable and economical power supply; (3) maximizing utilization of generation resources; (4) providing flexibility for operating contingencies and future uncertainties; and (5) planning for the long-term.

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

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

Following PJM's announcement of Project Mountaineer, Allegheny Power began reviewing various transmission system enhancement opportunities within the Allegheny Power transmission zone ("Allegheny Power Zone") that would provide significant increases in west-to-east transfer capability within the entire PJM Region and could be incorporated into PJM's Regional Transmission Expansion Plan ("RTEP"). As a result, Allegheny Power, in a proposal submitted to PJM on February 28, 2006, proposed the construction of a 500 kV transmission line

identified as the "Trans-Allegheny Interstate Line" to meet those requirements and as an effective solution for addressing long-term reliability issues in the PJM Region. Allegheny Power requested that the project be included in the RTEP as a part of a major expansion of the PJM Transmission System.

In June 2006, the PJM Board of Managers approved a five-year RTEP that included a modified version of TrAIL as proposed by Allegheny Power. The PJM Board designated Allegheny Power as the transmission owner responsible for constructing TrAIL within the Allegheny Power Zone and designated Dominion Virginia Power as responsible for constructing the final segment of the transmission line in its transmission zone necessary to connect TrAIL to Dominion Virginia Power's Loudoun Substation in Loudoun County, Virginia (the "Loudoun Segment").

In conjunction with the submission of the proposal to PJM, Allegheny and Allegheny Power also sought approval of the Federal Energy Regulatory Commission ("FERC") for certain financial incentives for the TrAIL project owner. These incentives were authorized by FERC in an order issued in July 2006.

Allegheny's commitment to regional transmission development has not ended with the authorization to proceed with the development of TrAIL. Allegheny Power continues to be an active participant in the PJM's regional planning process. As described in detail by Mr. Hozempa, Allegheny Power's transmission facilities, especially its 500 kV lines, are located at the geographical and electrical center of the PJM transmission system.

Q. WHAT IS TRANS-ALLEGHENY INTERSTATE LINE COMPANY?

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

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

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, including 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 costs – as a result of being

financed, constructed and operated by TrAILCo as a separate, single-purpose transmission entity.

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

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

Fourth, all of the revenue requirement associated with TrAIL will be recovered through FERC-jurisdictional rates under the PJM Open Access Transmission Tariff and, under PJM cost allocations, a significant portion of that revenue requirement will be recovered from load serving entities outside of the Allegheny Power Zone. By designating TrAILCo, rather than the Allegheny Power

operating companies, to own the TrAIL assets, Allegheny Power's retail customers will be protected from adverse consequences associated with the financing and the recovery of its revenue requirement from load serving entities in other PJM transmission zones.

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

A. With AET as the holding company for TrAILCo, Allegheny will be able to seek investors in TrAILCo projects without causing those investors to become "public utilities" under either certain state laws or the Federal Power Act. Instead of investing directly in TrAILCo, they will invest in AET as a holding company that will in turn own and invest in TrAILCo.

Q. WILL TRAILCO OWN ANY ASSETS OTHER THAN TRAIL?

A. Yes, but none contemplated in Virginia at this time. Allegheny has designated TrAILCo to undertake Allegheny Power's responsibilities to finance, construct, own, operate and maintain the Static VAR Compensator to be installed at the Black Oak Substation in Maryland that Allegheny Power was designated by PJM as the responsible transmission owner to construct. In addition, TrAILCo will undertake the responsibility to finance, construct, own, operate and maintain more conventional transmission upgrades such as the two additional transformers at the Wylie Ridge Substation located in the northern panhandle of West Virginia to be installed in 2007.

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

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

Q. WHY IS ALLEGHENY POWER ABLE TO TRANSFER ITS RTEP RESPONSBILITIES TO TRAILCO?

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

Q. WHAT IS THE DATE BY WHICH TRAILCO REQUESTS THE COMMISSION TO ACT ON ITS APPLICATION?

A. We request that the Commission conclude its consideration of the application and issue an order granting the certificate of public convenience and necessity and the other relief sought by the application by April 18, 2008. TrAILCo is committed to full cooperation and coordination with the Commission and its staff to help meet this critical goal.

Q. WHY IS COMMISSION ACTION NEED BY THAT DATE?

A. To meet PJM requirements and assure continued reliability of the PJM Transmission System, including transmission facilities in Virginia, TrAIL must be financed, constructed and placed in service by June 2011. The Virginia Segments stretch approximately 28 miles, from the West Virginia state line to a point near

the western boundary of the Appalachian National Scenic Trail property ("Appalachian Trail"). To meet the aggressive schedule for placing TrAIL in service by June 2011, TrAILCo will be required to finance the construction of TrAIL and begin acquisition of negotiated easements during 2007 while this proceeding is pending before the Commission. More critical to meeting the June 2011 in-service date, will be the need for TrAILCo to commence condemnation proceedings, if necessary, and construction-related activities for the Virginia Segments in Spring 2008. These activities involve two major challenges.

- First, TrAILCo will be required to contact each owner of approximately 230 parcels of property for the purpose of acquiring an easement. Many parcels will have multiple owners. Many will have "absentee" owners, *i.e.*, owners who do not occupy the property or reside in other states or foreign countries. If TrAILCo is not able to identify and locate all owners or if good faith negotiations for the voluntary acquisition of easements are unsuccessful, eminent domain proceedings will need to be initiated. However, those proceedings cannot be initiated until the final route of the line has been determined. To assure the earliest commencement of construction in 2008, those proceedings must be commenced in Spring 2008. TrAILCo witness Fleissner provides a further discussion of the right-of-way to be acquired and the negotiation process.

- Second, TrAILCo will need to coordinate its efforts with those of Dominion Virginia Power.

For TrAILCo to begin these two types of activities – condemnation and construction – an order of this Commission granting the certificate sought by this Application is necessary.

Q. WILL TRAILCO BE REQUIRED TO OBTAIN APPROVALS IN OTHER STATES TO CONSTRUCT TRAIL?

A. Yes. TrAILCo has filed applications similar to the one in this proceeding with the Pennsylvania Public Utility Commission and the West Virginia Public Service Commission for authorization to locate portions of TrAIL in those states. In the case of all three states, it will be very important that siting of the line across state boundaries be coordinated to avoid non-connecting routes. The route we are proposing in this case provides for a continuous path from 502 Junction Substation in Pennsylvania across the state line into West Virginia and a continuation of the line across the West Virginia state line into Virginia. If the route approved for the state line crossings by any of the state commissions is different than the route TrAILCo has proposed, we may be required to ask the state commission in one side of the state line to adjust the authorized route.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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