

Katheryn B. Curtis
Vice President
Fossil & Hydro

Dominion Generation
Innsbrook Technical Center
5000 Dominion Boulevard, Glen Allen, VA 23060



May 11, 2011

Mr. Stephen J. Rourke
Vice President, System Planning
ISO New England, Inc.
One Sullivan Road
Holyoke, MA 01040-2841

RE: Non-Price Retirement Election for Salem Harbor Units 3 and 4.

Dear Mr. Rourke:

Pursuant to Section III.13.2.5.2.5.3(a)(iii) of the ISO-NE Open Access Transmission Tariff, Dominion Energy Salem Harbor, LLC hereby provides notice of its intention to retire Salem Harbor Units 3 and 4 on June 1, 2014, coincident with the commencement of the FCA 5 Capacity Commitment Period. While ISO-NE has determined that the units are needed for reliability during the FCA 5 commitment period as stated in your May 10th correspondence, the uncertainty and financial risks associated with future operation, caused in part by the current FCM rules, leaves no choice but to retire Salem Harbor after over 60 years of service supporting the energy and reliability needs of the region.

As Salem Harbor has communicated to the ISO-NE over the past several years, Salem Harbor Units 3 and 4 face mounting environmental compliance requirements that create a great deal of uncertainty about the nature and cost of future operation. Unfortunately, the current FCM rules provide little flexibility and force retirement as the only sensible solution in this environment. Under the FCM rules, a resource owner must submit de-list bids almost 4 years in advance of the commitment period with their best estimate of the costs to make units available as capacity resources. The bids are reviewed by the Internal Market Monitor and face potential mitigation. In Salem's case, the permanent de-list bids initially submitted by Salem Harbor were rejected and the alternative bids calculated by ISO-NE failed to reflect reasonable estimates of likely capital and operating costs associated with future environmental compliance. In fact, the alternatively determined bids completely removed the costs Salem Harbor expected to incur to serve as a capacity resource in FCA 5 for reliability or otherwise.

Cost-of-service agreements and related agreements, which may appear to provide a better option to handle uncertainty, are also problematic. The current FCM timeline governing Non-Price Retirement Requests requires plant owners like Salem Harbor to make a binding election to serve an identified reliability need long before knowing whether it will recover its costs under a cost-of-service or other arrangement. In this respect, the plant must commit to being available and, thereby, obligated to comply with environmental regulations long before

final cost recovery is determined by the Federal Energy Regulatory Commission. In addition, construction lead time requirements dictate that owners must begin spending millions of dollars toward compliance with no assurance that they will recover the costs. Moreover, even if a generator risks taking on the capacity obligation to meet ISO-NE's reliability need, there remains the very real possibility that ISO-NE will determine one year prior to the commitment period that the generator is no longer needed for reliability potentially stranding any investment made by the resource to meet a reliability need. Regrettably, no company can reasonably elect to travel this route notwithstanding a genuine desire to address a reliability need identified by ISO-NE.

Dominion recognizes the importance of reliability. However, the current regulations and market rules leave us no choice but to retire Salem Harbor Units 3 and 4 in accordance with our Non-Price Retirement request of February 10, 2011 despite the recent reliability determination. While a more fair and flexible set of rules might have produced a different outcome, the current market design does not support the continued operation of Salem Harbor irrespective any desire held by Dominion. Please contact Tim Morrissey if you have any questions regarding this retirement election.

Sincerely,

A handwritten signature in black ink that reads "KBCurtis". The letters are cursive and somewhat stylized.

Katheryn Curtis
VP F&H Merchant Operations

cc:

Vamsi K. Chadalavada, ISO-NE

Anne C. George, ISO-NE

David LaPlante, ISO-NE

Mark G. Karl, ISO-NE

Carissa P. Sedlacek, ISO-NE