

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeen G. Kelly.

Indiana Municipal Power Agency

Docket No. ER05-971-000

ORDER ACCEPTING RATE SCHEDULE

(Issued July 14, 2005)

1. In this order the Commission accepts the Indiana Municipal Power Agency's (IMPA) proposed rate schedule for providing cost-based Reactive Supply and Voltage Control from Generation Sources Services (Reactive Power) and denies a request to set the case for hearing.

Background

2. Providers of Reactive Power in PJM Interconnection, L.L.C. (PJM) are permitted to recover their costs of providing Reactive Power in accordance with Schedule 2 of PJM's Open Access Transmission Tariff (OATT). On May 16, 2005, IMPA, a member of PJM, filed an initial Rate Schedule No. 2 and supporting cost data to establish its revenue requirement for providing Reactive Power in PJM. IMPA states that it filed its monthly reactive power revenue requirements in accordance with Schedule 2 of PJM's OATT for such Commission approval as may be required. IMPA states that its proposed rate schedule sets forth a cost-based rate that represents IMPA's fixed cost revenue requirement for providing Reactive Power capability. IMPA further states that it may receive additional compensation from PJM for reductions in real power that are for the purpose of increasing the amount of reactive power support to the transmission system, known as lost-opportunity costs.

3. IMPA explains that the tendered Reactive Power revenue requirement consists of fixed plant costs for the plant facilities in or near Anderson, Indiana and Richmond, Indiana that are needed to be capable of providing Reactive Power to the PJM control area. To determine an annual revenue requirement, IMPA states that it developed an annual fixed charge to apply to the total amount of plant investment associated with providing Reactive Power service. IMPA states that it used an overall rate of return

based on a proxy derived from the capital structure and return on equity for the American Electric Power Service Corp. (AEP), the owner of the transmission system with which the IMPA's combustion turbine stations interconnect. The resulting proposed monthly charge to PJM is \$40,750, subject to reduction depending upon the resolution of the proceeding in Docket No. ER05-751 in which AEP's proposed return on capital is under review.¹

4. IMPA also requests that the rate schedule and its revenue requirements for Reactive Power become effective on July 1, 2005.

Notice Of Filing And Responsive Pleadings

5. Notice of IMPA's filing was published in the *Federal Register*, 70 Fed. Reg. 29,731 (2005), with interventions or protests due on or before June 6, 2005. AEP, on behalf of certain operating companies of the AEP System² (collectively, AEP), filed a motion to intervene and protest out of time on June 10, 2005. IMPA filed an answer to AEP's motion to intervene and protest on June 14, 2005.

6. AEP states that it is the largest transmission load serving entity in the AEP zone and will bear a significant portion of the cost of paying IMPA. AEP asks the Commission to set IMPA's proposed rate schedule for hearing, on the grounds that IMPA's proposal appears to be unjust and unreasonable and that the revenue requirement is not adequately supported. AEP argues that IMPA's annual revenue requirement is flawed. One example of the difference between IMPA's analysis and AEP's analysis regards Accessory Electric Equipment Allocator on Line 9 of Exhibit IMPA-2, Schedule 1. AEP states that IMPA's proposal suggests that 41.59 percent of IMPA's costs were assigned to power production. AEP states that when it calculated its own costs for reactive power service, its allocator for Accessory Electric Equipment was 15 percent. In short, AEP argues that IMPA's allocation is too high and is unsupported.

7. AEP also compares IMPA's Generator/Exciter Auxiliary Load and total plant auxiliary load with the loads levels supported by Rolling Hills Generating, LLC (Rolling Hills) for their plant.³ AEP argues that IMPA's revenue requirement calculation claims

¹ See *American Electric Power Service Corp.*, 111 FERC ¶ 61,305 (2005).

² Appalachian Power Co., Columbus Southern Power Co., Indiana Michigan Power Co., Kentucky Power Co., Kingsport Power Co., Ohio Power Co., and Wheeling Power Co.

³ See *Rolling Hills Generating, L.L.C.*, 109 FERC ¶ 61,069 (2004).

Generator/Exciter Auxiliary Load level many times the levels supported by Rolling Hills. Likewise, AEP argues that IMPA's Remaining Cost of Production Plant numbers are three times that which AEP has supported for its generators. AEP asserts that IMPA has not provided sufficient support to reasonably understand the numbers provided and why they vary from similar generators and therefore asks the Commission to set the case for hearing to investigate IMPA's cost of service.

8. Finally, AEP asserts that there is a substantial question regarding which customers should be charged for the reactive power service provided by IMPA's units. According to AEP, the generators at issue are not connected to the AEP transmission system, but are more closely associated with the Public Service Company of Indiana, a Cinergy affiliate and Midwest Independent Transmission System Operator, Inc. (Midwest ISO) transmission owner and Midwest ISO zone. AEP states that to reach the AEP system, reactive power from the IMPA generators would have to travel through the IMPA and municipal system transformers, plus several miles of municipal/IMPA distribution lines. However, AEP argues, the IMPA generators are connected immediately to adjacent Cinergy lines.

9. IMPA filed an answer to AEP's protest. IMPA states that AEP was properly served with the original filing and that its data is adequately supported. Regarding the Accessory Electric Equipment Allocator, IMPA directs the reader to other lines in the study which provides input for the disputed figure. IMPA also objects to AEP's characterization of other generators as being comparable. Also with regard to the disputed Line 9, IMPA explains that the number is not an allocation to power production, but that it identifies the share of accessory electric equipment that supports the generator/exciter system and is allocated to reactive to the same partial extent as the generator/exciter itself. IMPA defends its data regarding the Remaining Production Plant Investment Allocator by stating that this is supported in Schedule 1, Attachment B.

10. As for AEP's charge that the Cinergy zone of Midwest ISO may benefit more than does AEP's from the reactive power capability that IMPA maintains within the AEP zone of PJM, IMPA responds that the instant filing does not cover IMPA's Midwest ISO Reactive Power costs. Rather, it is limited to reactive facilities that are located within the AEP transmission zone, connected to AEP-owned transmission lines through generation-outlet lines whose voltage AEP classifies as transmission, operated as resources dedicated to the PJM market and subject to PJM's real and reactive power dispatch instructions. In response to AEP's argument that the portion of IMPA's reactive investment located within AEP should be excluded from the AEP-zone reactive rates, IMPA responds that AEP is charging IMPA and other AEP-zone customers for reactive power capability from units that are actually remote from the AEP-owned transmission area and, through its network operating agreement with IMPA, AEP required IMPA to manage the power factor of its Anderson and Richmond loads. In addition, IMPA argues that because

Midwest ISO's Schedule 2 employs a license-plate structure, it would be difficult or impossible to recover Anderson and Richmond reactive costs from Midwest ISO-area load.

Discussion

Procedural Matters

11. Given the early stage of this proceeding, the interest, and the lack of prejudice to other parties, the Commission will grant AEP's motion to intervene and protest. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2004), prohibits an answer to a protest unless otherwise ordered by the decisional authority. The Commission will accept the IMPA's answer because it has provided information that assisted us in our decision-making process.

Analysis

12. The only issue before the Commission is IMPA's recovery of its reactive power annual revenue requirement from PJM pursuant to Schedule 2 of PJM's OATT. PJM's OATT governs how PJM allocates these costs. Schedule 2 of the OATT provides that the "Zonal Generation Owner Monthly Revenue Requirement," which is used to determine charges for Reactive Power, is "the sum of the monthly revenue requirements for each generator located in a zone." Under Schedule 2 of PJM's OATT, it is required to make a tariff filing with the Commission showing the zone from which the revenues are to be recovered. Accordingly, the Commission finds that whether IMPA's revenue requirements are recovered from the AEP zone is beyond the scope of this filing.⁴ This issue should be addressed at the time PJM makes its tariff revisions reflecting the addition of revenue requirements applicable to IMPA, pursuant to Schedule 2 of its OATT. Furthermore, PJM does not require any analysis of the location or of the availability of the unit providing reactive power on its system in order for that unit to be eligible to charge for reactive power. Therefore, under PJM's OATT, IMPA is eligible for reactive power compensation.

13. The Commission disagrees with AEP's contentions that IMPA's annual revenue requirement is flawed. AEP's argument that IMPA's compensation for revenue requirements should be based on a comparison of other generators is inconsistent with the

⁴ See *CED Rock Springs, LLC*, 110 FERC ¶ 61,083 at P 13 (2005).

PJM OATT and AEP's own methodology.⁵ In *AEP*,⁶ the Commission did not require AEP to base its calculation for revenue requirements for reactive power on a comparison of other generators allocators, but rather, the allocation factors were based on the capability of the generator.⁷

14. Therefore the Commission finds no merit in AEP's argument that IMPA's support for revenue for reactive power is flawed because IMPA's Generator/Exciter Load and Remaining Cost of Production Plant does not compare to other generators.

15. Finally, contrary to AEP's argument that IMPA failed to support these calculations, the Commission finds that IMPA provides detailed support for its calculations of the Generator/Exciter Load and the Remaining Cost of Production Plant allocators in Schedule 1 of its filing. In Exhibit IMPA-1 (at 9), IMPA explains that, in determining the Generator/Exciter Investment and Accessory Electric Equipment, the AEP Methodology considers costs that are usually booked to FERC Account Nos. 314, 323, 333, and 334 of the Commission's Uniform System of Accounts to account for the costs associated with turbine generators. The AEP Methodology then isolates the portions of selected sub-accounts that are specific to the generator/exciter. Similarly, according to IMPA, with regard to Accessory Electric Equipment, the AEP Methodology considers costs that are usually booked to FERC Account Nos. 315, 324, 334, and 345 of the Uniform System of Accounts, and then isolates portions of select sub-accounts to incorporate the Accessory Electric Equipment costs that support the generator/exciter. For both units at Anderson, and for two of the three at Richmond, IMPA states that it referred to these accounts to determine the percentage that contributes to reactive power production. For the third Richmond unit's ratio, IMPA explains (at Exhibit IMPA-1, at 10) that the General Electric Company provided the ratios for Generator/Exciter Investment and for Accessory Electric Equipment to the total turbine generator cost. The Commission finds this approach consistent with the methodology adopted in *AEP* and rejects AEP's protest in this regard.

16. The Commission reviewed IMPA's calculations and found them to be well supported and consistent with *AEP*. Under Schedule 2 of PJM's OATT, IMPA can

⁵ See *WPS Westwood Generation, L.L.C.*, 101 FERC ¶ 61,290 at P 14 (2002) (recommending that all generators seeking reactive recovery that have actual cost data and support use the method employed in *American Electric Power Service Corporation*, 88 FERC ¶ 61,141 (1999) (*AEP*) (establishing the AEP Methodology)).

⁶ 88 FERC ¶ 61,141.

⁷ *Id.* at 61,457.

qualify to receive payment for reactive power to the extent that its revenue requirement is accepted or approved by the Commission. Consistent with this provision, and based on the record, the Commission will accept IMPA's revenue requirement for recovery pursuant to Schedule 2 of PJM's OATT and reject AEP's request to set these matters for hearing.

The Commission orders:

IMPA's revenue requirement for reactive power service is accepted for recovery pursuant to Schedule 2 of PJM's OATT, as explained in the body of the order, to become effective July 1, 2005, as requested.

By the Commission.

(S E A L)

Linda Mitry,
Deputy Secretary.