

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Entergy Services, Inc.

Docket No. ER05-993-000

ORDER REJECTING TARIFF REVISION

(Issued July 19, 2005)

1. On May 20, 2005, Entergy Services, Inc. (Entergy), on behalf of the Entergy Operating Companies,¹ submitted for filing, pursuant to section 205 of the Federal Power Act², proposed revisions to Schedule 2-Reactive Supply and Voltage Control Services from Generation Sources (reactive power) of its Open Access Transmission Tariff (OATT) to pass through the costs that third-party generators may charge Entergy for such service. In this order the Commission rejects the revised Schedule 2, without prejudice.

Background

2. Schedule 2 of Entergy's OATT sets forth the rates, terms and conditions for reactive power. Prior to Order No. 888,³ the Commission allowed a one mill/kWh adder to transmission service charges for difficult to quantify costs; this one mill adder required no cost support.⁴ As a result of a settlement, Entergy recovered the costs of providing

¹ The Entergy Operating Companies include Entergy Arkansas, Inc., Entergy Gulf States, Inc., Entergy Louisiana, Inc., Entergy Mississippi, Inc., and Entergy New Orleans, Inc.

² 16 U.S.C. § 824(d) (2000).

³ *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888, 61 Fed. Reg. 21,540 (1996), FERC Stats. & Regs. ¶ 31,036 at 31,760-61, *order on reh'g*, Order No. 888-A, 62 Fed. Reg. 12,274 (Mar. 14, 1997), FERC Stats. & Regs. ¶ 31,048 (1997), *order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248 (1997), *order on reh'g*, Order No. 888-C, 82 FERC ¶ 61,046 (1997), *aff'd in relevant part sub nom. Transmission Access Policy Study Group v. FERC*, 225 F.3d 667 (D.C. Cir. 2000), *aff'd sub nom. New York v. FERC*, 535 U.S. 1 (2002).

⁴ Order No. 84, 45 Fed. Reg. 31,294 (May 7, 1984), FERC Stats. & Regs. ¶ 30,153 (1980), *clarified and reh'g denied*, Order No. 84-A, 12 FERC ¶ 61,017 (1980), *further clarified*, Order No. 84-B, 12 FERC ¶ 61,157 (1980).

various ancillary services through charges totaling one mill/kWh.⁵ Entergy's current charge for reactive power is two-tenths of a mill for each kWh.

3. Entergy states that when the current rate in Schedule 2 was originally accepted, it owned most of the generation located within its control area. Entergy states that it owns and operates this same generation today. Entergy states, however, that over the last four years, independent generator capacity has grown to over 17,000 MW as of December 31, 2003.

4. In Docket No. ER05-483-000, one of these independent generators, Cottonwood Energy Company, L.P. ("Cottonwood"), filed a rate for reactive power that it provided to Entergy Gulf States, Inc.; the rate was a monthly charge of \$283,237.82. On March 23, 2005, the Commission accepted Cottonwood's proposed reactive power rate for filing, effective February 1, 2005, subject to refund, and established hearing and settlement judge procedures.⁶

Proposed Revisions to Schedule 2

5. Entergy states that its current rate for reactive power services recovers less than a fully allocated cost-of-service for its generation facilities used to provide for such services.

6. As a result, Entergy proposes to convert the amount charged by third-party generators to Entergy for reactive power from a fixed amount to a cost/kWh rate, which will be added to the existing 0.2 mills/kWh rate. Entergy states that the pass-through portion will be based only on the revenue requirements for reactive power of independent generators approved or accepted by the Commission. The Cottonwood rate, the only one included in Entergy's proposed rate as of now, will raise the total charge to Entergy's customers for reactive power from 0.2 mills to 0.223 mills.⁷

7. Entergy states that its proposal is a simplified version of the model submitted by PJM Interconnection L.L.C. (PJM). In this case, the Commission recognized that it is appropriate to pass through such costs from third parties to transmission customers since such costs are accepted for filing.⁸ Entergy also notes that the Commission allowed

⁵ *Entergy Services, Inc.*, 104 FERC ¶ 61,254 (2003).

⁶ *See Cottonwood Energy Company, LP*, 110 FERC ¶ 61,303 (2005) (*Cottonwood*).

⁷ In its filing, Entergy notes that on May 17, 2005, Union Power Partners, L.P. filed a proposed reactive power rate in Docket No. ER05-977-000, proposing to annually collect \$4,153,421.37 from Entergy.

⁸ *PJM Interconnection, L.L.C.*, Docket No. ER00-3327-000 (Sept. 25, 2000) (unpublished letter order).

Virginia Electric and Power Company (*Dominion*) to pass through the reactive power costs of generators to transmission customers based on the load ratio share of transmission customers.⁹

8. Entergy requests waiver of the Commission's 60-day prior notice requirement so that its proposed rate may become effective February 1, 2005, subject to the outcome of the hearing established in *Cottonwood*. Entergy states that good cause exists to grant such waiver because February 1, 2005 is the effective date of Cottonwood's reactive power rate.

Notice, Interventions, and Protests

9. Notice of Entergy's filing was published in the *Federal Register*, 70 Fed. Reg. 32,316 (2005), with interventions and protests due on or before June 10, 2005. A timely joint intervention was filed by East Texas Electric Cooperative, Inc., Sam Rayburn G&T Electric Cooperative, Inc., and Tex-La Electric Cooperative of Texas. A timely joint intervention and protest was filed by South Mississippi Electric Power Association, Mississippi Delta Energy Agency, Clarksdale Public Utilities Commission, Public Service Commission of Yazoo City, and Arkansas Electric Cooperative Corporation (collectively, Joint Protestors). Entergy filed an answer to the protests.

10. Joint Protestors request that the filing be rejected for numerous reasons. Joint Protestors allege that Entergy is attempting to raise one component of its cost of service by 11.5 percent – that portion attributable to Cottonwood – without allowing the Commission to examine the other components of its cost of service – the portion attributable to Entergy itself. Joint Protestors note that Entergy concedes that if other independent generators file proposed reactive power rates, Entergy will reflect those other revenue requirements in its rates. Joint Protestors observe that Entergy does not address whether or not its own costs have changed, and has presented no cost of service data or analysis of its costs.

11. Joint Protestors state that, although Entergy claims that the proposed pass through formula is a simplified version of the formula submitted by PJM, Entergy acknowledges significant differences between how PJM and Entergy procure reactive power, and fails to identify or explain the differences between the formulas or procurement methods.

12. Joint Protestors state that Entergy has not complied with section 35.13(c) of the Commission's regulations for changes to rate schedules,¹⁰ by omitting from its filing the mandatory comparison of the current and proposed rates, leaving the Commission and customers unable to evaluate the impact of the proposed changes.

⁹ *Virginia Electric and Power Co.*, 108 FERC ¶ 61,108 (2004) (*Dominion*).

¹⁰ 18 C.F.R. § 35.13(c) (2005).

13. Joint Protestors request that the Commission require Entergy to provide the necessary information before the Commission makes a judgment regarding the acceptance of Entergy's proposed revisions for filing. If the proposed revisions are not rejected, Joint Protestors request that the Commission suspend the modifications and set them for hearing and deny the requested waiver of the Commission's 60-day prior notice requirement.

Discussion

Procedural Matters

14. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2005), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

15. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2005), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We are not persuaded to accept Entergy's answer and will therefore reject it.

Analysis

16. The Commission rejects Entergy's proposed revisions to Schedule 2, without prejudice.

17. Entergy is seeking to change only one component of its reactive power rate, without examination of the other components. The Commission will not evaluate Entergy's pass-through of its Cottonwood reactive power costs in isolation without also considering Entergy's costs from its own generation facilities. To evaluate Entergy's cost-of-service based rate for reactive power, the Commission must look at all of the costs that go into developing that rate.

18. We also reject Entergy's arguments that its "pass-through" approach for reactive power costs is similar to the approaches accepted for PJM and Dominion. In neither of these cases did the transmission provider retain its existing fixed rate for all reactive power costs (in Entergy's case, its 0.2 mills rate) and propose to add a rate component for one specific company's reactive power costs. Rather, both PJM and Dominion proposed to replace their existing fixed rates for all reactive power costs, including their own reactive power costs, with a formula rate that would permit them to recover reactive power costs from all generators providing reactive power.

The Commission orders:

Entergy's revised Schedule 2 is hereby rejected, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.