

148 FERC ¶ 61,141
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Chairman;
Philip D. Moeller, Tony Clark,
and Norman C. Bay.

Homer City Generation, L.P.

Docket No. ER14-2281-000

ORDER ACCEPTING AND SUSPENDING PROPOSED RATE SCHEDULE AND
ESTABLISHING HEARING AND SETTLEMENT JUDGE PROCEDURES

(Issued August 26, 2014)

1. On June 27, 2014, Homer City Generation, L.P. (Homer City) submitted a proposed rate schedule for its cost-based reactive power revenue requirement for the reactive power production capability of its 1,884 megawatt coal-fired electric generation facility located near Homer City, in Indiana County, Pennsylvania (Homer City Generating Station or Plant).¹ The reactive power production capability from the Homer City Generating Station will be utilized by PJM Interconnection, L.L.C. (PJM) to provide reactive supply and voltage control services pursuant to Schedule 2 of the PJM Open Access Transmission Tariff (PJM Tariff).² For the reasons discussed below, the Commission will accept Homer City's proposed rate schedule for filing, suspend it for a nominal period, to become effective August 1, 2014, subject to refund, and establish hearing and settlement judge procedures.

¹ Homer City Generation, L.P., Reactive Supply and Voltage Control Service Tariff, [Reactive Power Tariff, 1.0.0](#).

² Schedule 2 of the PJM Tariff, Reactive Supply and Voltage Control from Generation Sources Service, compensates owners of generation and non-generation for making their reactive power production capability available to PJM. Schedule 2 provides that, for each month of Reactive Supply Service provided by generators in the PJM region, PJM shall pay each generation owner an amount equal to the generation owner's monthly revenue requirement as accepted or approved by the Commission.

I. Background

2. Homer City is a Delaware limited partnership established to own and operate the Homer City Generating Station. General Electric Capital Corporation indirectly owns approximately 95 percent of the Homer City Generating Station and Metropolitan Life Insurance Company owns approximately five percent. The Homer City Generating Station is interconnected with the Pennsylvania Electric Company (Penelec) and the New York State Electric Gas Corporation transmission systems, and operates within PJM.³

3. The Commission granted Homer City market-based rate authority on November 29, 2012, in Docket Nos. ER13-55-000 and ER13-55-001.⁴ Homer City states that because Penelec is a Transmission Owner member in PJM, and has transferred operational control of its facilities to PJM, PJM is responsible for making Reactive Service payments to Homer City under Schedule 2 of the PJM Tariff. Homer City states that Schedule 2 provides that PJM will incorporate Homer City's reactive power revenue requirement into the PJM Tariff, effective on the first day of the month in which the Commission issues an order accepting the rate schedule for filing.⁵

II. Details of the Filing

4. Homer City states that its proposed rate schedule is a cost-based rate schedule that sets forth Homer City's reactive power revenue requirement. Homer City claims that its reactive power revenue requirement was calculated in accordance with the Commission-approved *AEP* methodology⁶ and is consistent with reactive rate filings by other merchant generators. Homer City states that it utilized a levelized annual carrying charge cost approach to develop the annual reactive power revenue requirement.⁷ Homer City

³ Homer City June 27, 2014 filing (June 27 Filing) at 2.

⁴ Homer City Generation, L.P., Docket Nos. ER13-55-000 and ER13-55-001 (November 29, 2012) (delegated letter order).

⁵ June 27 Filing at 2-3.

⁶ *American Electric Power Service Corp.*, Opinion No. 440, 88 FERC ¶ 61,141 (1999), *order on reh'g*, 92 FERC ¶ 61,001 (2000) (*AEP*) (setting forth a methodology to develop cost-based rates for reactive power capability revenue requirements based on a set of standard assumptions about the types of equipment on conventional electric generators that contribute to provision of reactive power, and appropriate allocation of the cost of that equipment between real and reactive power production).

⁷ June 27 Filing, Ex. HC-1 at 18.

explains that, while the *AEP* methodology permits a reactive power revenue requirement to consist of a Fixed Capability Component and a Heating Loss Component, Homer City's proposed reactive power revenue requirement consists solely of the Fixed Capability Component. Homer City states that it reserves the right to seek to add a Heating Loss Component to its reactive power revenue requirement at a later date.⁸

4. Homer City states that the Fixed Capability Component is the annual cost of that portion of the Plant investment that is attributed to the production of reactive power. Homer City explains that this component is calculated by determining the investment in the Plant's generator/exciter, generator step-up transformers (GSU), and accessory equipment used to produce reactive power and applying an annual carrying charge to such investment.⁹

5. Homer City states that the Fixed Capability Component of Homer City's reactive power revenue requirement was derived by first determining the total Plant investment in: (1) its generator-exciter system; (2) its GSU transformers; (3) its accessory electric equipment that supports the operation of the generator-exciter; and (4) the balance of Plant. Homer City explains that because each of these components contributes to the provision of both reactive power and real power, they were multiplied by a reactive power allocation factor to determine the investment properly allocated to reactive power. Homer City states that the resulting allocated investment for reactive power is \$10,676,075.¹⁰

6. Homer City notes that the Homer City Generating Station is undergoing a significant pollution control scrubber retrofit. Homer City claims that a portion of Construction Work in Progress (CWIP) is related to reactive power production capability of the Plant. Homer City states that a 0.15 percent allocation factor (as approved by the Commission in *AEP*) was used to allocate \$836,345 of CWIP to the cost of production plant which increased the annual reactive power revenue requirement by \$87,434.¹¹

7. Homer City asserts that for merchant generators such as itself, the Commission permits, as a proxy, the use of the authorized rate of return and return on common equity of an interconnected utility for reactive power compensation because an interconnected

⁸ June 27 Filing at 3.

⁹ *Id.*

¹⁰ *Id.* (referencing Ex. HC-3).

¹¹ *Id.* at 4 (referencing Ex. HC-3).

utility's return is a conservative estimate of a merchant generator's return since the merchant generator faces more risk. Homer City states that since Penelec, the interconnected utility, does not have a transmission formula rate on file with PJM, it utilized the return on equity and capital structure included in Penelec's most recent retail rate case before the Pennsylvania Public Utility Commission.¹² Homer City contends that it faces market risks that are greater than those normally associated with a monopoly transmission and distribution utility with captive customers like Penelec. Further, Homer City argues that adopting such a proxy is just and reasonable.¹³

8. Homer City states that applying a fixed charge rate of 20.07 percent to the four components of reactive power investment at the Homer City Generating Station, and adding a component for a balance of plant related to CWIP results in an annual reactive power revenue requirement of \$2,229,690.¹⁴

9. Homer City requests waiver of the Commission's 60-day notice requirement¹⁵ to permit the rate schedule to become effective July 1, 2014.

III. Notice and Responsive Pleadings

10. Notice of Homer City's filing was published in the *Federal Register*, 79 Fed. Reg. 38,528 (2014), with interventions and protests due on or before July 18, 2014. PJM filed a timely motion to intervene.¹⁶ No protests were filed.

¹² *Id.* at 4 (citing *2006 General Rate Case of Metropolitan Edison Co and Pennsylvania Electric Co.*, Pennsylvania Public Utilities Commission, Docket No. R-00061367 (March 1, 2007)).

¹³ *Id.* at 4.

¹⁴ June 27 Filing, Ex. HC-1 at 21-22 (referencing Ex. HC-3).

¹⁵ 18 C.F.R. § 35.3 (2014).

¹⁶ In its motion to intervene, PJM requested that the Commission allow an effective date of the first day of the month in which the rate schedule is accepted in order to avoid retroactive billing adjustments.

IV. Commission Determination

A. Procedural Matters

11. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2014), PJM's timely, unopposed motion to intervene serves to make it a party to this proceeding.

B. Substantive Matters

12. We find that Homer City's proposed rate schedule raises issues of material fact that cannot be resolved based on the record before us and are more appropriately addressed in the hearing and settlement judge procedures we order below. Our preliminary analysis indicates that Homer City's proposed rate schedule has not been shown to be just and reasonable and may be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. Homer City's current reactive power revenue requirement on file with PJM for the Homer City Generating Station is \$1,159,211.¹⁷ Homer City's proposed reactive power revenue requirement is \$2,229,690, an increase of \$1,070,479, or nearly twice its current reactive power revenue requirement. Significantly, Homer City has not explained in its filing why this increase is just and reasonable. Additionally, while the Commission's regulations allow for inclusion of CWIP for pollution control facilities in rate base,¹⁸ Homer City has not adequately supported the inclusion of CWIP in its reactive power revenue requirement. Accordingly, we will accept Homer City's proposed rate schedule for filing, suspend it for a nominal period, to become effective August 1, 2014,¹⁹ subject to refund, and establish hearing and settlement judge procedures. Finally, we note that Homer City

¹⁷ The Commission has approved revisions to the PJM Tariff to require that PJM generators' reactive power revenue requirements be posted on the PJM website, rather than being included in Schedule 2 of the PJM Tariff (<http://www.pjm.com/markets-and-operations/market-settlements/reactive-supply.aspx>). PJM Interconnection, L.L.C., Docket No. ER08-339-000 (February 13, 2008) (delegated letter order).

¹⁸ 18 C.F.R. § 35.25(c)(1)(2014).

¹⁹ See *Central Hudson Gas & Elec. Co.*, 60 FERC ¶ 61,106, *reh'g denied*, 61 FERC ¶ 61,089 (1992). In allowing the August 1, 2014 effective date, we note PJM's request that the Commission allow an effective date of the first day of the month in which the rate schedule is accepted in order to avoid retroactive billing adjustments.

states that it reserves the right to add a heating loss component to its reactive power revenue requirement at a later date.²⁰

13. While we are setting these matters for a trial-type evidentiary hearing, we encourage the parties to make every effort to settle their dispute before hearing procedures are commenced. To aid the parties in their settlement efforts, we will hold the hearing in abeyance and direct that a settlement judge be appointed, pursuant to Rule 603 of the Commission's Rules of Practice and Procedure.²¹ If the parties desire, they may, by mutual agreement, request a specific judge as the settlement judge in the proceeding, otherwise the Chief Judge will select a judge for this purpose.²² The settlement judge shall report to the Chief Judge and the Commission within 30 days of the date of the appointment of the settlement judge, concerning the status of settlement discussions. Based on this report, the Chief Judge shall provide the parties with additional time to continue their settlement discussions or provide for commencement of a hearing by assigning the case to a presiding judge.

The Commission orders:

(A) Homer City's proposed rate schedule is hereby accepted for filing and suspended for a nominal period, to become effective August 1, 2014, subject to refund, as discussed in the body of this order.

(B) Pursuant to the authority contained in and subject to the jurisdiction conferred upon the Federal Energy Regulatory Commission by Section 402(a) of the Department of Energy Organization Act and the Federal Power Act, particularly sections 205 and 206 thereof, and pursuant to the Commission's Rules of Practice and

²⁰ Consistent with Opinion No. 498, Homer City would need to file a separate section 205 filing with appropriate cost support for consideration of the recovery of variable costs associated with heating losses. *Dynegy Midwest Generation, Inc.*, Opinion No. 498, 121 FERC ¶ 61,025, at PP 68-73 (2007); *order denying reh'g in part and granting reh'g in part*, 125 FERC ¶ 61,280 (2008).

²¹ 18 C.F.R. § 385.603 (2014).

²² If the parties decide to request a specific judge, they must make their joint request to the Chief Judge by telephone at (202) 502-8500 within five (5) days of the date of this order. The Commission's website contains a list of Commission judges and a summary of their background and experience (<http://www.ferc.gov/legal/adr/avail-judge.asp>).

Procedure and regulations under the Federal Power Act (18 C.F.R. Chapter I), a public hearing shall be held concerning the justness and reasonableness of Homer City's proposed tariff sheets, as discussed in the body of this order. However, the hearing shall be held in abeyance to provide time for settlement judge procedures, as discussed in Ordering Paragraphs (C) and (D) below.

(C) Pursuant to Rule 603 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.603 (2014), the Chief Administrative Law Judge is hereby directed to appoint a settlement judge in this proceeding within fifteen (15) days of the date of this order. Such settlement judge shall have all powers and duties enumerated in Rule 603 and shall convene a settlement conference as soon as practicable after the Chief Judge designates the settlement judge. If the parties decide to request a specific judge, they must make their request to the Chief Judge within five (5) days of the date of this order.

(D) Within thirty (30) days of the appointment of the settlement judge, the settlement judge shall file a report with the Commission and the Chief Judge on the status of the settlement discussions. Based on this report, the Chief Judge shall provide the parties with additional time to continue their settlement discussions, if appropriate, or assign this case to a presiding judge for a trial-type evidentiary hearing, if appropriate. If settlement discussions continue, the settlement judge shall file a report at least every sixty (60) days thereafter, informing the Commission and the Chief Judge of the parties' progress toward settlement.

(E) If settlement judge procedures fail and a trial-type evidentiary hearing is to be held, a presiding judge, to be designated by the Chief Judge, shall, within fifteen (15) days of the date of the presiding judge's designation, convene a prehearing conference in these proceedings in a hearing room of the Commission, 888 First Street, NE, Washington, DC 20426. Such a conference shall be held for the purpose of establishing a procedural schedule. The presiding judge is authorized to establish procedural dates, and to rule on all motions (except motions to dismiss) as provided in the Commission's Rules of Practice and Procedure.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.