

148 FERC ¶ 61,151  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

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

Plum Point Energy Associates, LLC

Docket No. ER14-2046-001

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

(Issued August 28, 2014)

1. In this order, the Commission accepts for filing a proposed rate schedule filed by Plum Point Energy Associates, LLC (Plum Point),<sup>1</sup> which sets forth its cost-based revenue requirement for Reactive Supply and Voltage Control from Generation Sources Service (reactive service), suspends it for five months, to become effective February 1, 2015, subject to refund, and establishes hearing and settlement judge procedures.

**I. Background**

2. Plum Point is a Delaware limited partnership and is indirectly owned by funds managed by EIF Management, LLC and by John Hancock Life Insurance Company (U.S.A.). Plum Point is an exempt wholesale generator with market-based rate authority that owns 56.85 percent of a coal-fired electric generation facility<sup>2</sup> with a total generator

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<sup>1</sup> Plum Point Energy Associates, LLC, FERC Electric Tariff, Reactive Power Tariff, [Plum Point Energy Assoc, Reactive Power Tariff, 0.1.0](#).

<sup>2</sup> The remaining owners of the facility are Empire District Electric Company (7.52 percent), Missouri Joint Municipal Electric Utility Commission (22.11 percent), East Texas Electric Cooperative, Inc. (7.52 percent), and Municipal Energy Agency of Mississippi (6 percent).

rating of approximately 670 MW near Osceola, Arkansas (Facility).<sup>3</sup> The Facility interconnects to the Entergy Arkansas, Inc. (Entergy Arkansas) transmission grid and is located in the Midcontinent Independent System Operator, Inc. (MISO) market.

3. Plum Point states that its obligation to provide reactive service to Entergy Arkansas is set forth in the Facility's Amended and Restated Interconnection and Operating Agreement by and between Plum Point and Entergy Arkansas dated February 9, 2011.<sup>4</sup> Prior to December 19, 2013, the provision of reactive service from the Facility was governed by the open access transmission tariff of the Entergy Operating Companies<sup>5</sup> (including Entergy Arkansas), which provided no compensation to generators for reactive service within the required power factor dead band.<sup>6</sup> However, Plum Point states, as a result of the December 19, 2013 integration of Entergy Arkansas' transmission assets into MISO, MISO's Open Access Transmission, Energy and Operating Reserve Markets Tariff (Tariff) now governs Plum Point's right to compensation for reactive service. Plum Point further states that Schedule 2 of the MISO Tariff permits eligible generators to recover costs associated with producing reactive power.<sup>7</sup>

4. On May 27, 2014, as amended on June 25, 2014, Plum Point filed the instant proposed rate schedule, setting forth its cost-based revenue requirement for reactive service. Plum Point states that the proposed rate schedule consists of an annual revenue requirement with two components: (1) a fixed capability component, which is designed to recover the portion of plant costs attributable to reactive power production capability; and (2) a heating loss component, which includes the increased generator and step-up transformer heating losses that result from the production of reactive power. Plum Point states that it reserves the right to amend its rate schedule should it elect to seek

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<sup>3</sup> Transmittal Letter at 3 (citing *Plum Point Energy Associates, LLC*, Docket No. ER08-451-000 (Mar. 6, 2008) (delegated letter order)).

<sup>4</sup> *Id.* at 4 (citing *Entergy Services, Inc.*, Docket No. ER11-2862-000 (Mar. 31, 2011) (delegated letter order)).

<sup>5</sup> The Energy Operating Companies includes Entergy Arkansas, Entergy Gulf States Louisiana, L.L.C., Entergy Louisiana LLC, Entergy Mississippi, Inc., Entergy Texas, and Entergy New Orleans, Inc.

<sup>6</sup> *Entergy Services, Inc.*, 113 FERC ¶ 61,040 (2005).

<sup>7</sup> Transmittal Letter at 4.

compensation for lost opportunity costs if the Facility is directed to modify its energy output to produce additional reactive power.

5. Plum Point proposes a total reactive service revenue requirement for the fixed capability component of \$682,608 as a fixed monthly charge of \$56,884.<sup>8</sup> Plum Point explains that the fixed capability component was calculated by first determining the portion of the Facility's generator/excitation systems, generator step-up transformers, accessory electric equipment, and the balance of plant used to produce reactive power.<sup>9</sup> Plum Point then applies an allocator to apportion the cost of this plant between real and reactive power, which is then further allocated according to Plum Point's 56.85 percent ownership share. Finally, Plum Point applies a levelized fixed charge rate to the costs to develop the annual revenue requirement. Plum Point states that this methodology is consistent with Commission precedent and the *AEP* methodology.<sup>10</sup>

6. Plum Point explains that its proposed heating loss component reflects that a significant amount of loss occurs from ohm heating associated with the armature winding and field winding of the generator and losses in the generator step-up transformer.<sup>11</sup> Plum Point states that these heating losses are a function of generator current, which in turn is a function of reactive power production. Plum Point further states that the real power consumed by ohm heating losses is a cost that is directly attributable to reactive power production. Plum Point proposes a total reactive service revenue requirement for its heating loss component of \$272,505. Therefore, Plum Point proposes a total annual revenue requirement of \$955,113 with the monthly charge of \$79,593.

7. Plum Point states that, in circumstances where an entity is an independent power producer not generally subject to traditional rate regulation nor to cost-of-service accounting, the Commission's Uniform System of Accounts or a Commission established rate of return, the Commission has approved the use of the underlying cost of capital and capital structure of the rates of the utility to which the generator is interconnected as a

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<sup>8</sup> Plum Point amended its initial May 27, 2014 filing on June 25, 2014 to correct a calculation error of including both the sinking fund depreciation rate and the straight line depreciation rate in the fixed carrying charge which changed the Fixed Capability Component from \$864,730 to \$682,608.

<sup>9</sup> Transmittal Letter at 5.

<sup>10</sup> *Id.* at 4 (citing *American Electric Power Service Corp.*, 88 FERC ¶ 61,141 (1999), *order on reh'g*, 92 FERC ¶ 61,001 (2000) (*AEP*)).

<sup>11</sup> *Id.* at 6.

conservative estimate of an independent generator's return.<sup>12</sup> Therefore, Plum Point states that it is adopting the return on equity (ROE) of 12.38 percent that the Commission has approved for use by all transmission owners in MISO and Entergy Arkansas' recently filed and Commission-accepted capital structure.<sup>13</sup> In its June 25 Filing, Plum Point acknowledges the pending challenge to the MISO transmission owners' currently-authorized ROE in Docket No. EL14-12-000 and states that it is willing to commit to making its ROE subject to the outcome of that pending proceeding, on a prospective basis only.<sup>14</sup>

8. Plum Point states that, pursuant to Schedule 2 of the MISO Tariff, Plum Point will be eligible to begin recovering its cost of providing reactive service within MISO on the first day of the month immediately following Commission acceptance or on the first day of the month if the Commission accepts the proposed rate schedule effective the first day of the month. Therefore, Plum Point requests an effective date for the proposed revenue requirement of September 1, 2014. In addition, Plum Point states that, under Schedule 2 of the MISO Tariff and pursuant to discussions with MISO staff, MISO will certify Plum Point as a Qualified Generator<sup>15</sup> upon Commission acceptance of the proposed reactive service revenue requirements.<sup>16</sup> Plum Point requests waiver of any of the Commission's prior notice requirements<sup>17</sup> that are not applicable to this filing or are necessary to permit the Reactive Service Tariff to become effective as requested.<sup>18</sup>

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<sup>12</sup> *Id.* at 5-6.

<sup>13</sup> *Id.* at 6; Exhibit No. PPEA-1 at 16.

<sup>14</sup> June 25 Transmittal Letter at 6-7.

<sup>15</sup> A Qualified Generator is defined in the MISO Tariff as "The Generation Resource(s) having the technical capability of providing reactive supply and voltage control as determined by the Transmission Provider in accordance with the provisions specified in Schedule 2 of this Tariff." MISO, Module A, 1.Q, Definitions-Q.

<sup>16</sup> Plum Point states that it satisfies the technical requirements under MISO Tariff Schedule 2 for Qualified Generator status. Transmittal Letter at 4.

<sup>17</sup> *See* 18 C.F.R. pt. 35 (2014).

<sup>18</sup> Transmittal Letter at 7.

## II. Notice of Filings and Responsive Pleadings

9. Notice of Plum Point's May 27 Filing was published in the *Federal Register*, 79 Fed. Reg. 32,268 (2014), with interventions and protests due on or before June 17, 2014. MISO and the East Texas Cooperatives<sup>19</sup> filed timely motions to intervene. Arkansas Electric Cooperative Corporation (Arkansas Electric) filed a timely motion to intervene and protest.<sup>20</sup> Entergy, on behalf of itself and the Entergy Operating Companies, filed a timely motion to intervene and conditional protest (Entergy June Protest). Notice of Plum Point's June 25 Filing was published in the *Federal Register*, 79 Fed. Reg. 38,530 (2014), with interventions and protests due on or before July 16, 2014. Entergy filed a protest (Entergy July Protest). On July 25, 2014, Plum Point filed a motion for leave to reply and reply to Entergy's July Protest (Answer).

10. Arkansas Electric states that it has identified an error in Plum Point's calculation of its fixed carrying charge used to establish its reactive service revenue requirement, specifically, that Plum Point improperly included a component for both straight line depreciation expense and sinking fund depreciation expense.<sup>21</sup> Arkansas Electric argues that, under the levelized method that Plum Point uses to calculate its reactive service revenue requirement, only the sinking fund depreciation component is applicable to the total fixed carrying charge. Accordingly, Arkansas Electric states that the fixed carrying charge is overstated by 3.94 percent and that correcting the fixed carrying charge ultimately results in an annual revenue requirement that is \$182,585 lower. Arkansas Electric asserts that, without this correction, Plum Point's proposed rate schedule for reactive supply and voltage control service is unjust and unreasonable and requests that the Commission direct Plum Point make the correction. In the alternative, Arkansas Electric requests that the Commission set the proposed rate schedule for hearing.

11. In the Entergy June Protest, Entergy states that it does not contest Plum Point's filing of a rate schedule to recover its costs of providing reactive power.<sup>22</sup> Rather, Entergy points out that Plum Point has not shown its reactive service revenue requirement to be just and reasonable and notes that Plum Point proposes to use the

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<sup>19</sup> The East Texas Cooperatives are East Texas Electric Cooperative, Inc.; Sam Rayburn G&T Electric Cooperative, Inc.; and Tex-La Electric Cooperative of Texas, Inc.

<sup>20</sup> On July 16, 2014, Arkansas Electric filed a motion to withdraw its protest, conditioned on the Commission accepting Plum Point's amended filing.

<sup>21</sup> Arkansas Electric Protest at 4.

<sup>22</sup> Entergy June Protest at 4.

return on equity authorized for use by public utilities interconnected to MISO but subject to a challenge in a pending complaint proceeding in Docket No. EL14-12-000.<sup>23</sup> Entergy states that Plum Point's proposed reactive service revenue requirement should be subject to the outcome of that proceeding and that the Commission should direct Plum Point to clarify that this is the case. If Plum Point fails to do so, Entergy requests that the Commission should accept Plum Point's proposed reactive service revenue requirement subject to refund, suspend it for five months, and institute hearing procedures.

12. In the Entergy July Protest, Entergy states that it remains concerned that Plum Point's annual revenue requirement is significant and has not been shown to be just and reasonable. Entergy maintains that Plum Point failed to establish that it is entitled to any recovery for heating losses due to reactive power production and that inclusion of the heating loss component is not consistent with the *AEP* methodology.<sup>24</sup> Entergy notes that Plum Point did not provide the specific analysis it used for support of the market price for energy to produce the heating loss revenues.<sup>25</sup> Additionally, Entergy states that Plum Point has not demonstrated that lost energy sales at market-based rates is an appropriate item for inclusion in a cost-based reactive power charge.<sup>26</sup> Entergy requests that the Commission direct Plum Point to establish its entitlement to recovery for heating losses

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<sup>23</sup> *Id.* at 4 (citing Association of Businesses Advocating Tariff Equity; Coalition of MISO Transmission Customers; Illinois Industrial Energy Consumers; Indiana Industrial Energy Consumers, Inc.; Minnesota Large Industrial Group; and Wisconsin Industrial Energy Group v. MISO; ALLETE, Inc. (for its operating division Minnesota Power, Inc. and its wholly-owned subsidiary Superior Water Light, and Power Company); Ameren Illinois Company; Ameren Missouri; Ameren Transmission Company of Illinois; American Transmission Company LLC; Cleco Power LLC; Duke Energy Business Services, LLC d/b/a Duke Energy Indiana, Inc.; Entergy Arkansas, Inc.; Entergy Gulf States Louisiana, LLC; Entergy Louisiana, LLC; Entergy Mississippi, Inc; Entergy New Orleans, Inc.; Entergy Texas, Inc.; Indianapolis Power & Light Company; International Transmission Company d/b/a ITC Transmission; ITC Midwest LLC; Michigan Electric Transmission Company, LLC; MidAmerican Energy Company; Montana-Dakota Utilities Co.; Northern Indiana Public Service Company; Northern States Power Company-Minnesota; Northern States Power Company-Wisconsin; Otter Tail Power Company; and Southern Indiana Gas & Electric Company, Complaint, Docket No. EL14-12-000 (filed Nov. 12, 2013)).

<sup>24</sup> Entergy July Protest at 3.

<sup>25</sup> *Id.*

<sup>26</sup> *Id.* at 4.

due to reactive power production and clarify that the proposed reactive service revenue requirement is subject to the MISO return on equity challenge. If Plum Point fails to do so, Entergy continues to request that the Commission accept Plum Point's proposed reactive service revenue requirement subject to refund, suspend it for five months, and institute hearing procedures.

13. In its Answer, Plum Point states that the Commission has found that the recovery of fixed costs in a separate heating losses component is inconsistent with the AEP methodology recommended by the Commission. However, Plum Point argues that the recovery of a separate heating losses component is permitted when it recovers variable costs that are actually incurred. Plum Point argues that, consistent with this precedent, the heating losses component reflects Plum Point's actual variable cost of heating losses, for which recovery is permitted under Commission precedent.<sup>27</sup>

### **III. Discussion**

#### **A. Procedural Matters**

14. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,<sup>28</sup> the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

15. Rule 213 of the Commission's Rules of Practice and Procedure<sup>29</sup> prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept Plum Point's answer because it has provided information that assisted us in our decision-making process.

#### **B. Substantive Matters**

16. Plum Point'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 ordered below. For instance, Plum Point did not provide adequate supporting documents for their generating facilities, such as a year's worth of operational data, in order to evaluate the heating loss component's level of reasonableness. In addition, Plum Point's calculation of the heating loss component

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<sup>27</sup> Plum Point Answer at 2-3.

<sup>28</sup> 18 C.F.R. § 385.214 (2014).

<sup>29</sup> 18 C.F.R. § 385.213(a)(2) (2014).

assumes full generator output at all times, which may not be consistent with operating procedures.

17. Our preliminary analysis indicates that Plum Point's proposed revenue requirement has not been shown to be just and reasonable and may be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. In *West Texas Utilities Co.*,<sup>30</sup> the Commission explained that, when its preliminary examination indicates that proposed rates may be unjust and unreasonable and may be substantially excessive, as defined in that order, it would generally impose a five-month suspension. In this proceeding, we find that the proposed rates may be substantially excessive. Therefore, we will accept Plum Point's proposed rate schedule for filing, suspend it for five months, to become effective February 1, 2015, subject to refund, and set it for hearing and settlement judge procedures.

18. While we are setting these matters for a trial-type evidentiary hearing, we encourage the parties to make every effort to settle their disputes 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.<sup>31</sup> 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.<sup>32</sup> The settlement judge shall report to the Chief Judge and the Commission within 30 days of the date of this order 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.

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<sup>30</sup> 18 FERC ¶ 61,189 (1982).

<sup>31</sup> 18 C.F.R. § 385.603 (2014).

<sup>32</sup> 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 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/availjudge.asp>).

The Commission orders:

(A) Plum Point's proposed rate schedule for reactive supply and voltage control service is hereby accepted for filing and suspended for a five month period, to become effective February 1, 2015, 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 by the Federal Power Act, particularly sections 205 and 206 thereof, and pursuant to the Commission's Rules of Practice and Procedure and the regulations under the Federal Power Act (18 C.F.R., Chapter I), a public hearing shall be held concerning Plum Point's proposed rate schedule, 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 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 days of the date of this order.

(D) Within 60 days of the date of this order, 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 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 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.