

150 FERC ¶ 61,215
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

March 20, 2015

In Reply Refer To:
Bayou Cove Peaking Power, LLC
Docket No. ER15-502-001

King & Spalding, LLP
1700 Pennsylvania Avenue, NW
Washington, DC 20006-4706

Attn: Bruce L. Richardson

Dear Mr. Richardson:

1. On November 26, 2014, as amended on January 21, 2015, pursuant to section 205 of the Federal Power Act (FPA),¹ and Part 35 of the Commission's regulations,² Bayou Cove Peaking Power, LLC (Bayou Cove) submitted its proposed Rate Schedule FERC No. 2³ to establish its cost-based revenue requirement for providing Reactive Supply and Voltage Control from Generation Sources Service (reactive service) to the Midcontinent Independent System Operator, Inc. (MISO).⁴ As discussed below, we accept Bayou Cove's proposed revenue requirement for reactive service, suspend it for a nominal period to become effective April 1, 2015, subject to refund, and subject to the outcome of the proceeding in Docket No. EL14-12-000.

¹ 16 U.S.C. § 824d (2012).

² 18 C.F.R. pt. 35 (2014).

³ Bayou Cove Peaking Power, LLC, Bayou Cove Peaking Power LLC, [Reactive Service Rate Sch, Rate Schedule FERC No. 2 \(0.1.0\)](#).

⁴ Bayou Cove initially submitted its reactive service revenue requirement and cost support on November 26, 2014 (November Filing), which it amended on January 21, 2015 (January Filing).

2. Bayou Cove is a Delaware limited liability corporation and a wholly-owned indirect subsidiary of NRG Energy, Inc. Bayou Cove is an exempt wholesale generator with market-based rate authority that owns and operates the Bayou Cove facility (Facility), a natural gas fired generation facility with a capacity of approximately 393 megawatts (MW) located in Acadia Parish, Louisiana. Bayou Cove owns Units 2, 3, and 4 of the Facility. The City of Alexandria, Louisiana, (City of Alexandria) owns Unit 1. Bayou Cove operates all four units. The Facility interconnects to the Entergy Gulf States Louisiana, L.L.C. (Entergy Gulf States Louisiana) transmission grid and is located in the MISO market.

3. In the November Filing, Bayou Cove submitted its cost-based revenue requirement for the provision of reactive service to MISO with a requested effective date of February 1, 2015. In that filing, Bayou Cove asserts that its obligation to provide reactive service to Entergy Gulf States Louisiana and its right to receive compensation for such service is set forth in section 4.7.1 of the Interconnection and Operating Agreement by and between Bayou Cove and Entergy Gulf States Louisiana (Interconnection Agreement), last amended on October 15, 2008 in Docket No. ER09-76-000.⁵ Bayou Cove also states that as of November 1, 2005, generators interconnected to an Entergy Operating Company⁶ have not been recovering the cost of providing reactive service.⁷ However, with the December 19, 2013 integration of Entergy Gulf States Louisiana's transmission assets into MISO, Bayou Cove contends that Schedule 2 of the Entergy Open Access Transmission Tariff no longer governs. Instead, Bayou Cove states that MISO's Open Access Transmission, Energy and Operating Reserve Markets Tariff (MISO Tariff)⁸ now governs the right to compensation for reactive service.⁹

⁵ Bayou Cove November Filing at 3 (citing Entergy Services, Inc., Docket No. ER09-76-000 (Dec. 2, 2008) (delegated letter order).

⁶ The Entergy Operating Companies are Entergy Arkansas, Inc., Entergy Gulf States Louisiana, Entergy Louisiana, LLC, Entergy Mississippi, Inc., Entergy New Orleans, Inc., and Entergy Texas, Inc.

⁷ Bayou Cove November Filing at 3.

⁸ MISO, FERC Electric Tariff, Schedule 2, Reactive Supply and Voltage Control From Generation or Other (30.0.0).

⁹ Bayou Cove November Filing at 3.

4. Bayou Cove asserts that Schedule 2 of the MISO Tariff provides, among other things, for: (i) the supplier to make all appropriate filings with the Commission to justify its cost-based revenue requirement for reactive service; and (ii) MISO to pass through the reactive power revenues it receives to the supplier providing the service.

5. Bayou Cove's proposed annual revenue requirement for reactive service is \$599,983.07. Bayou Cove states that its filing is based on Bayou Cove's ownership interest in Units 2, 3 and 4 of the Facility, comprising approximately 295 MW. In support of its filing, Bayou Cove states that its Fixed Capability Component has been calculated by first determining the portion of the Facility's generator/excitation systems, accessory electric equipment, and the generator step-up transformers used to produce reactive power consistent with the *AEP* methodology.¹⁰ Bayou Cove asserts that because this equipment contributes to the provision of both real and reactive power, an allocator, which its witness describes, is applied to fairly apportion the cost of this plant between the real and reactive power components. Bayou Cove asserts that the Fixed Capability Component of the annual revenue requirement was then determined by applying a fixed charge rate, and that a leveled annual carrying approach is used to develop its annual revenue requirement.

6. Bayou Cove asserts that it has been the Commission's general policy to allow an independent power producer to use the authorized rate of return and return on common equity of an interconnected utility for reactive power compensation. Bayou Cove further asserts that it has therefore utilized the return on equity and capital structure included in Entergy Gulf States Louisiana's rate filing.¹¹ Bayou Cove recognizes that Entergy Gulf States Louisiana's proxy return on equity is the subject of a complaint proceeding in Docket No. EL14-12-000 (Complaint Proceeding), and Bayou Cove commits to file a compliance filing, limited to recalculating the revenue requirement using the return on equity established in the Complaint Proceeding, within 30 days of a final non-appealable order in that proceeding to establish prospectively a revised revenue requirement.

7. In the January Filing, Bayou Cove filed revised cost support, including supplemental information requested by Commission Staff. Bayou Cove states that while preparing the January Filing, it identified other errors in the calculation of the annual revenue requirement. Bayou Cove contends that the annual revenue requirement is now

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

¹¹ Bayou Cove explains that it is reasonable to use Energy Gulf States Louisiana's cost of capital because the Bayou Cove facility is interconnected to Entergy Gulf States Louisiana's transmission system. Bayou Cove November Filing, Testimony of Alan R. Lovinger at 15.

\$729,433.58. However, Bayou Cove states that it has elected not to adjust the rate schedule to reflect the increase at this time.

8. In the January Filing, Bayou Cove reiterates its request for an effective date of February 1, 2015 for the rate schedule and, to the extent necessary, requests waiver of the Commission's prior notice requirement to permit the requested effective date.¹² Bayou Cove states that, as in *Entergy Power*, the parties here were aware of a proposed revenue requirement for reactive service 60 days prior to the requested effective date. Further, because this filing makes no change to the annual revenue requirement set forth in the rate schedule, Bayou Cove contends that no party is prejudiced by the correction.

9. Notice of the November Filing was published in the *Federal Register*, 79 Fed. Reg. 71,992 (2014), with interventions and protests due on or before December 17, 2014. Notice of the January Filing was published in the *Federal Register*, 80 Fed. Reg. 4553 (2015), with interventions and protests due on or before February 11, 2015. The City of Alexandria filed a motion to intervene.

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

11. We accept Bayou Cove's proposed revenue requirement for reactive service for filing, suspend it for a nominal period to become effective April 1, 2015, subject to refund, and subject to the outcome of the Complaint Proceeding. As noted, Bayou Cove initially submitted its filing to provide reactive service to MISO on November 26, 2014. Bayou Cove subsequently revised its cost support and resubmitted its revenue requirement on January 21, 2015 and requests that the Commission grant waiver of the Commission's prior notice requirement to permit the February 1, 2015 requested effective date.

12. While the Commission may, at its discretion, waive the 60-day prior notice requirement if "good cause" is shown under section 205 of the FPA,¹³ Schedule 2 of the MISO Tariff provides a prospective effective date for proposed revenue requirements tied to generator self-certification of eligibility and Commission acceptance of a generator's proposed revenue requirement. Specifically, a generator may receive compensation under Schedule 2 of the MISO Tariff "where the Transmission Provider determines that

¹² Bayou Cove January Filing at 3 (citing *Entergy Power, LLC*, 148 FERC ¶ 61,224, at P 13 (2014) (*Entergy Power*)).

¹³ 16 U.S.C. §§ 824d(c)-(d) (2012); see *Central Hudson Gas & Elec. Corp.*, 60 FERC ¶ 61,106, at 61,337-39, *reh'g denied*, 61 FERC ¶ 61,089 (1992).

the Generation Resource is a Qualified Generator based on the requirements of paragraphs 1 - 4 in Section II.B.”¹⁴ MISO makes this determination after receiving notice from the generator under section II.C of Schedule 2, which provides

[t]o be eligible to receive compensation for its voltage control capability, a Generation Resource shall submit a request to the Transmission Provider certifying its compliance with paragraphs 1 - 4 of Section II.B and stating its cost-based revenue requirement as filed and accepted by the Commission.¹⁵

13. Finally, section II.C provides that “Qualified Generator status is effective on the first day of the month *immediately following acceptance of the revenue requirement by the Commission* or the first day of the month if Commission acceptance of such revenue requirement is on the first day of the month.”¹⁶ Accordingly, we deny the waiver request.¹⁷

14. Bayou Cove is using the interconnected utility’s cost structure and rate of return as a proxy for its own and the return on equity is the subject of the Complaint Proceeding. As such, Bayou Cove’s proposed reactive service rate schedule is hereby accepted for

¹⁴ MISO, FERC Electric Tariff, Schedule 2, Reactive Supply and Voltage Control From Generation or Other § II.A (30.0.0).

¹⁵ MISO, FERC Electric Tariff, Schedule 2, Reactive Supply and Voltage Control From Generation or Other § II.C (30.0.0).

¹⁶ *Id.* (emphasis added).

¹⁷ Schedule 2 of the MISO Tariff requires both Commission acceptance of a proposed revenue requirement and MISO approval of a generator’s self-certification of its compliance with paragraphs 1 - 4 of Schedule 2, section II.B. *See* MISO, FERC Electric Tariff, Schedule 2, Reactive Supply and Voltage Control From Generation or Other §§ II.A-C (30.0.0). Although Bayou Cove cites *Entergy Power* as support for its requested effective date, in an order approving Entergy Power’s offer of settlement in the *Entergy Power* proceeding, being issued concurrently with this order, the effective date of payments to Entergy Power under Schedule 2 will be the first day of the month immediately following MISO approval of the generator self-certification. *Entergy Power, LLC*, 150 FERC ¶ 61,217, at P 4 (2015).

filing and suspended for a nominal period to become effective April 1, 2015, subject to refund, and subject to the outcome of the Complaint Proceeding.

By direction of the Commission.

Nathaniel J. Davis, Sr.,
Deputy Secretary.