

151 FERC ¶ 61,167
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

The Empire District Electric Company

Docket No. ER15-1405-000

ORDER ACCEPTING AND SUSPENDING PROPOSED RATE SCHEDULE AND
ESTABLISHING HEARING PROCEDURES

(Issued May 20, 2015)

1. On March 31, 2015, The Empire District Electric Company (Empire) filed a proposed rate schedule,¹ which sets forth Empire's cost-based revenue requirement for Reactive Supply and Voltage Control from Generation or Other Sources Service (reactive service) for Empire's 7.52 percent ownership interest in the Plum Point Energy Station (Plum Point Station). In this order, we accept for filing the proposed rate schedule, suspend it for a nominal period, to become effective June 1, 2015, subject to refund, and establish hearing procedures.

I. Background

2. Empire states that it is an investor-owned utility company that provides electric service to approximately 166,500 customers in southwest Missouri, southeast Kansas, northeast Oklahoma and northwest Arkansas. Empire is regulated by the Missouri Public Service Commission, the Kansas Corporation Commission, the Oklahoma Corporation Commission, the Arkansas Public Service Commission and FERC. Empire is a transmission-owning member of the Southwest Power Pool, Inc. regional transmission organization.

3. Empire states that Plum Point Station is a 670 MW (net) coal-fired electric generating station that has been in commercial operation since September 2010. The plant is located near Osceola, Arkansas, and is interconnected to the transmission system

¹ The Empire District Electric Company, FERC Electric Tariff, [FERC Elec Rate Sch No. 10, Reactive Power, Plum Point Energy Station, 0.0.0.](#)

owned by Entergy Arkansas, Inc. (EAI). Empire states that its share of Plum Point Station's reactive power production capability is utilized by Midcontinent Independent System Operator, Inc. (MISO) to provide Reactive Supply and Voltage Control from Generation or Other Sources Service pursuant to Schedule 2 of MISO's Open Access Transmission, Energy and Operating Reserve Markets Tariff (Tariff).

4. Empire seeks Commission approval to permit it to recover its cost-based revenue requirement for the reactive service production capability associated with its ownership of the Plum Point Station. Empire states that the Plum Point Station has been providing reactive power support to the MISO transmission system since EAI placed its transmission facilities under MISO's functional control on December 19, 2013. However, Empire has not yet begun recovering its costs of providing reactive support from Plum Point Station.

5. Empire states that, under Schedule 2 of the MISO Tariff, a Generation Resource must be determined by MISO to be a Qualified Generator in order to receive compensation for reactive service. Schedule 2 sets forth the technical qualifications required for a Generation Resource to be designated as a Qualified Generator. Empire states that the instant filing is to secure Commission acceptance of Empire's cost-based revenue requirement for providing reactive service as a necessary step towards obtaining Qualified Generator status for its ownership share of Plum Point Station.

6. In support of its filing, Empire submitted the affidavit of Robert C. Smith. Empire states that Mr. Smith developed Empire's proposed revenue requirement in accordance with the methodology approved by the Commission in *American Electric Power Service Corp.*² Consistent with the *AEP* methodology, Empire is seeking to recover fixed costs attributable to its reactive power production capability (fixed capability component). Empire states that it is not seeking to recover costs associated with incremental heating losses or other costs associated with the production of reactive power. Empire states that it reserves the right to seek such costs at a later point in time.

7. Empire asserts that the *AEP* methodology generally reflects the fixed costs associated with four groups of plant equipment that contribute to the provision of reactive power and voltage control service: (1) the generator-exciter system; (2) the generator step-up transformer; (3) Accessory Electrical Equipment that supports the operation of the generator-exciter; and (4) the remaining plant investment. Empire states that to identify Empire's investment in each of the four relevant categories of plant equipment, Empire relied on a cost study of original construction costs that Plum Point Energy Associates, the operator of the Plum Point Station, prepared and provided to the station's

² Application at 4 (citing *American Elec. Power Serv. Corp.*, 88 FERC ¶ 61,141 (1999), *order on reh'g*, 92 FERC ¶ 61,001 (2000) (*AEP*)).

other joint owners. For this purpose, Plum Point Energy Associates collected and reviewed original project construction records (such as plant construction accounting records and manufacturer invoices) and other information provided by major component vendors. From this, Plum Point Energy Associates compiled detailed information that allowed it to attribute the total original cost investment in Plum Point Station to specific systems and items of equipment within the plant, including the four categories of equipment identified in *AEP* as relevant for reactive revenue requirement determinations.

8. Empire explains that because plant components within each of the four relevant categories are involved in the production of both reactive power and real power, the *AEP* methodology calls for the application of appropriate allocation factors to separate the annual revenue requirements associated with these components between real power and reactive power production. Empire states that the allocation factors used to derive Empire's revenue requirement are explained in Mr. Smith's testimony and are derived and applied in Exhibit Nos. EDE-5 and EDE-5a.

9. In calculating Empire's fixed charge rate, Empire adopted and applied an 8.07 percent overall weighted cost of capital for Empire. For the cost of common equity, Empire states that it has included the 10.6 percent return on equity incorporated in the settlement approved by the Commission in Docket No. ER10-877-000, for use in pricing wholesale generation service.³ Empire states that Empire's 13.86 percent annual fixed charge rate was applied to Empire's aggregate investment in the relevant four categories of equipment at Plum Point Station, resulting in an annual cost-based revenue requirement for Empire's provision of reactive supply and voltage control service from its ownership interest in Plum Point Station to be \$84,092 per year, or \$7,007.67 monthly.⁴

10. Empire requests an effective date of June 1, 2015, for its proposed reactive service rate schedule.

II. Notice of Filing

11. Notice of Empire's filing was published in the *Federal Register*, 80 Fed. Reg. 18,612 (2015), with interventions and protests due on or before April 21, 2015. None was filed.

³ *Id.* at 6 (citing *The Empire Dist. Elec. Co.*, 137 FERC ¶ 61,106 (2011)).

⁴ *Id.*

III. Discussion

12. Empire's proposed revenue requirement raises issues of material fact that cannot be resolved based on the record before us and are more appropriately addressed in the hearing procedures ordered below. For example, Empire did not use the Commission's accepted discounted cash flow methodology to determine a rate of return.⁵ Thus, our preliminary analysis indicates that Empire'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. Therefore, we will accept Empire's proposed rate schedule for filing, suspend it for a nominal period, to become effective June 1, 2015, as requested, subject to refund, and set it for hearing procedures.

The Commission orders:

(A) Empire's proposed reactive service rate schedule is hereby accepted for filing and suspended for a nominal period to become effective June 1, 2015, as requested, 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 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 Empire's proposed revenue requirement for reactive service.

(C) 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 those 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

⁵ See *Martha Coakley, Massachusetts Attorney Gen. v. Bangor Hydro-Elec. Co.*, Opinion No. 531, 147 FERC ¶ 61,234 (2014), *order on paper hearing*, Opinion No. 531-A, 149 FERC ¶ 61,032 (2014), *order denying reh'g*, Opinion No. 531-B, 150 FERC ¶ 61,165 (2015).

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.