

151 FERC ¶ 61,195
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

June 2, 2015

In Reply Refer To:
Big Cajun I Peaking Power LLC
Docket No. ER15-1136-001

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

Attention: Neil L. Levy & Bruce L. Richardson

Dear Mr. Levy and Mr. Richardson:

1. On February 27, 2015, as amended on April 28, 2015, pursuant to section 205 of the Federal Power Act (FPA),¹ and Part 35 of the Commission's regulations,² Big Cajun I Peaking Power, LLC (Big Cajun) 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 Big Cajun's proposed revenue requirement for reactive service, suspend it for a nominal period to become effective June 1, 2015, as requested, subject to refund, and subject to the outcome of the proceedings in Docket Nos. EL14-12-000 and EL15-45-000 (Complaint Proceedings).

¹ 16 U.S.C. § 824d (2012).

² 18 C.F.R. pt. 35 (2014).

³ Big Cajun I Peaking Power LLC, FERC Electric Tariff, Big Cajun I Peaking Power LLC, [Reactive Service Supply, Rate Schedule FERC No. 2, 0.1.0](#).

⁴ Big Cajun initially submitted its reactive service revenue requirement and cost support on February 27, 2015 (February Filing), which it amended on April 28, 2015 (April Filing).

2. Big Cajun is a Delaware limited liability corporation and a wholly-owned indirect subsidiary of NRG Energy, Inc. Big Cajun is an exempt wholesale generator with market-based rate authority that owns and operates the Big Cajun facility (Facility), a natural gas fired generation facility with a capacity of approximately 430 megawatts (MW) located in Jarreau, Louisiana. Units 3 and 4 of the Facility, totaling approximately 266 MW, are the only units currently active. The Facility interconnects to the Entergy Gulf States Louisiana, L.L.C. (Entergy Gulf States) transmission grid and is located in the MISO market.

3. In the February Filing, Big Cajun submitted its cost-based revenue requirement for the provision of reactive service to MISO with a requested effective date of May 1, 2015. In that filing, Big Cajun asserts that its obligation to provide reactive service to Entergy Gulf States 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 Big Cajun and Entergy Gulf States (Interconnection Agreement), last amended on October 15, 2008 in Docket No. ER09-76-000.⁵ Big Cajun 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' transmission assets into MISO, Big Cajun contends that Schedule 2 of the Entergy Open Access Transmission Tariff no longer governs. Instead, Big Cajun 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

4. Big Cajun 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 Big Cajun February Filing at 3 (citing Entergy Services, Inc., Docket No. ER02-2073-000 (Jul. 18, 2002) (delegated letter order).

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

⁷ Big Cajun February Filing at 3.

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

⁹ Big Cajun February Filing at 3.

5. Big Cajun's proposed annual revenue requirement for reactive service is \$659,898.87. Big Cajun states that its filing is based on Big Cajun's ownership of Units 3 and 4 of the facility. In support of its filing, Big Cajun states that while the revenue requirement for reactive service typically consists of the fixed cost attributable to reactive power production capability (Fixed Capability Component) and the increased generator and step-up transformer heating losses that result from the production of reactive power, Big Cajun is only seeking to recover costs associated with the Fixed Capability Component. To calculate the Fixed Capability Component, Big Cajun states that it first determines 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 Big Cajun 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. Finally, Big Cajun states that a fixed charge rate was applied to determine the Fixed Capability Component, and that a levelized annual carrying approach is used to develop its annual revenue requirement.

6. Big Cajun 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. Big Cajun further asserts that it has therefore utilized the return on equity and capital structure included in Entergy Gulf States' rate filing.¹¹ Big Cajun recognizes that Entergy Gulf States' proxy return on equity is the subject of a complaint proceeding in Docket No. EL14-12-000, and Big Cajun commits to file a compliance filing, limited to recalculating the revenue requirement using the return on equity established in that complaint proceeding, within 30 days of a final non-appealable order in that proceeding to establish prospectively a revised revenue requirement.

7. In the April Filing, Big Cajun filed revised cost support, including supplemental information requested by Commission staff, as well as a revised proposed rate schedule. Big Cajun asserts that it has made a correction to its treatment of the accumulated deferred income taxes in its proposed carrying charge, reducing the total fixed charge

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 Big Cajun explains that Entergy Gulf States' rate filing is a conservative proxy for its overall rate of return and capital structure because, as the owner of a merchant generating facility, Big Cajun faces market risks that are greater than those normally associated with the service provided by a monopoly transmission provider. *Id.* at 5.

rate.¹² Based on this correction, Big Cajun contends that the annual revenue requirement is now reduced to \$546,589.60.

8. In the April Filing, Big Cajun requests an effective date of June 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.¹³ Big Cajun also requests that the Commission accept the revised proposed rate schedule for filing by May 29, 2015, to permit an effective date of June 1, 2015. Further, because this filing reduces the proposed annual and monthly revenue requirements, Big Cajun contends that no party is prejudiced by the correction.

9. Notice of the February Filing was published in the *Federal Register*, 80 Fed. Reg. 12,159 (2015), with interventions and protests due on or before March 20, 2015. Notice of the April Filing was published in the *Federal Register*, 80 Fed. Reg. 26,915 (2015), with interventions and protests due on or before May 19, 2015. None was filed.

10. Big Cajun is using the interconnected utility's authorized rate of return, including return on common equity, as a proxy for its own rate of return, and the return on common equity is the subject of the complaint proceeding in Docket No. EL14-12-000,¹⁴ as Big Cajun acknowledges, as well as a complaint proceeding in Docket No. EL15-45-000. Further, Big Cajun proposes to establish *prospectively* a revised revenue requirement using the return on equity established in the complaint proceeding in Docket No. EL14-12-000, within 30 days of a final non-appealable order in that proceeding. We find that Big Cajun's proposed revenue requirement should be subject to the outcome of both the complaint proceeding in Docket No. EL14-12-000 as well as the complaint proceeding in Docket No. EL15-45-000, and subject to adjustment not only prospectively following final non-appealable orders in those proceedings, but also as of the effective date of June 1, 2015, to track any changes to the return on common equity adopted in the Complaint Proceedings. Therefore, we accept Big Cajun's proposed revenue requirement for reactive service for filing, suspend it for a nominal period to become effective

¹² Big Cajun April Filing at 2.

¹³ *Id.* at 3.

¹⁴ *Assoc. of Businesses Advocating Tariff Equity*, 148 FERC ¶ 61,049 (2014).

June 1, 2015, as requested, subject to refund, and subject to the outcome of the Complaint Proceedings.

By direction of the Commission.

Nathaniel J. Davis, Sr.,
Deputy Secretary.