

152 FERC ¶ 61,001
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

July 1, 2015

In Reply Refer To:
East Texas Electric Cooperative, Inc.
Docket No. EL15-54-000

Holland & Knight
800 17th Street, NW
Suite 1100
Washington, DC 20006

Attention: F. Alvin Taylor

Dear Mr. Taylor:

1. On March 17, 2015, you submitted for Commission acceptance or approval, on behalf of East Texas Electric Cooperative, Inc. (ETEC), ETEC's cost-based annual revenue requirement for its contribution to the supply of Reactive Power and Voltage Control from Generation Sources Service (reactive service) under the Midcontinent Independent System Operator, Inc. (MISO) Open Access Transmission, Energy and Operating Reserve Markets Tariff (Tariff) related to ETEC's 7.52 percent interest in the Plum Point Energy Station (Plum Point Station). As discussed below, we conditionally accept ETEC's proposed revenue requirement for reactive service effective July 1, 2015, subject to the outcome of the proceedings in Docket Nos. EL14-12-000 and EL15-45-000 (Complaint Proceedings), and subject to ETEC submitting a compliance filing within 15 days of the date of this order in which ETEC commits to provide refunds, as discussed herein.¹

2. ETEC states that it is a non-profit electric generating and transmission cooperative formed and operated pursuant to the Texas Electric Cooperative Corporation Act and is headquartered in Nacogdoches, Texas. ETEC was created by, and on behalf of, its

¹ Alternatively, the effective date will be the date the Commission makes ETEC's revenue requirement effective in a future order once it issues orders resolving the Complaint Proceedings.

members, Northeast Texas Electric Cooperative, Inc., Sam Rayburn G&T Electric Cooperative, Inc., and Tex-La Electric Cooperative of Texas, Inc. for the purpose of providing wholesale electric service to its members. Currently, ETEC has an annual peak load of approximately 1,840 MW and its members serve over 300,000 customers. ETEC has an undivided ownership in seven jointly-owned power plants totaling approximately 758 MW, including a 50 MW entitlement in Plum Point Station, 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 owned by Entergy Arkansas, Inc. (Entergy Arkansas). ETEC states that its share of Plum Point Station's reactive power production capability is utilized by MISO to provide reactive service pursuant to Schedule 2 of the MISO Tariff.

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

4. ETEC 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, and Schedule 2 sets forth the technical qualifications required for such designation.

5. In support of its filing, ETEC submitted the affidavit of Robert C. Smith. ETEC states that Mr. Smith developed ETEC'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, ETEC is seeking to recover fixed costs attributable to its reactive power production capability (fixed capability component). ETEC states that it is not seeking to recover costs associated with the production of reactive power. ETEC states that it reserves the right to seek such costs at a later time.

6. ETEC states 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. ETEC states that, to

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*)).

identify ETEC's investment in each of the four relevant categories of plant equipment, ETEC relied on a cost study of original construction costs that Plum Point Energy Associates, the operator of Plum Point Station, prepared and provided to the station's 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.

7. ETEC 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. ETEC states that the allocation factors used to derive ETEC's revenue requirement are explained in Mr. Smith's testimony.

8. In calculating ETEC's fixed charge rate, ETEC adopted and applied an 8.01 percent overall cost of capital for ETEC. As explained in Mr. Smith's testimony, he used the capital structure and cost rates of Entergy Arkansas, including the 12.38 percent return on equity currently authorized for use by Entergy Arkansas and other MISO transmission owners, in developing the weighted cost of capital incorporated in ETEC's fixed charge rate, because Plum Point Station is interconnected to the Entergy Arkansas transmission system. He states that the Entergy Arkansas capital structure and cost rates were obtained from company submittals in Docket No. ER14-108. ETEC recognizes that the 12.38 MISO-wide return on equity is the subject of the complaint proceeding in Docket No. EL14-12-000, which the Commission has set for hearing and settlement judge procedures. ETEC commits to adjust its fixed charge rate, and the resulting revenue requirement for reactive service, to reflect the effect of a final Commission order in Docket No. EL14-12-000 that modifies the currently authorized MISO-wide return on equity, and will make this adjustment effective in its revenue requirement on the same date that any change to the MISO-wide return on equity is made effective by the Commission.³ ETEC commits that if the Commission requires other MISO entities to make refunds in connection with implementing the Commission's determinations in Docket No. EL14-12-000, ETEC will make refunds of any Plum Point reactive compensation it may have collected that would be similarly affected by any return on

³ Exhibit ETC-1 at 26-27.

equity change adopted in that docket.⁴ ETEC also commits that if the Commission conditionally accepts its proposed reactive power revenue requirement subject to the outcome of a hearing or settlement judge procedures, ETEC will make refunds with interest of any revenues they collect for reactive service to the extent such revenues are in excess of the revenue requirements that the Commission ultimately approves in this proceeding following the completion of any such hearing or settlement judge procedures.

9. Mr. Smith states that the total annual fixed charge rate he calculated for ETEC is 13.91 percent. Mr. Smith explains that ETEC's 13.91 percent annual fixed charge rate was applied to ETEC's aggregate investment in the relevant four categories of equipment at Plum Point Station, resulting in an annual cost-based revenue requirement for ETEC's provision of reactive supply and voltage control service from its ownership interest in Plum Point Station of \$84,412 per year.⁵

10. ETEC explains that, although it is not subject to the Commission's plenary jurisdiction under the Federal Power Act, it has attempted to provide all of the information itemized in 18 C.F.R. § 35.13 to support its request for approval of its revenue requirement. ETEC requests that the Commission accept its revenue requirement effective on the first day of the first month immediately following Commission acceptance, or if Commission acceptance occurs on the first day of the month, on that day. To the extent required, ETEC requests that the Commission grant waiver of the requirements of 18 C.F.R. § 35.13 and any other Part 35 requirement that may be applicable to its filing and any other necessary waivers to permit the approval of ETEC's revenue requirement to become effective as requested.

11. Notice of ETEC's filing was published in the *Federal Register*, 80 Fed. Reg. 15,777 (2015), with interventions and protests due on or before April 7, 2015. None was filed.

12. ETEC is using the authorized rate of return, including return on common equity, of Entergy Arkansas, the interconnected utility, as a proxy for its own rate of return. Entergy Arkansas' return on common equity is the subject of the complaint proceeding in Docket No. EL14-12-000,⁶ as ETEC acknowledges, as well as a complaint proceeding in

⁴ *Id.* at 27.

⁵ *Id.* at 28-29.

⁶ *See Ass'n of Bus. Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc.*, 149 FERC ¶ 61,049 (2014).

Docket No. EL15-45-000.⁷ ETEC commits to adjust its fixed charge rate, and the resulting revenue requirement for reactive service, to reflect the effect of a final Commission order in Docket No. EL14-12-000 that modifies the currently authorized MISO-wide return on equity. We find that ETEC's proposed revenue requirement should be subject to the outcome of both the complaint proceeding in Docket No. EL14-12-000 and the complaint proceeding in Docket No. EL15-45-000. Therefore, given that we are not setting ETEC's proposed revenue requirement for hearing or settlement judge procedures, and its refund commitment is otherwise limited to the return on equity resulting from Docket No. EL14-12-000, we conditionally accept ETEC's proposed revenue requirement for reactive service effective July 1, 2015, subject to ETEC submitting a compliance filing within 15 days of the date of this order in which ETEC supplements its commitment to provide refunds to also reflect the outcome of the complaint proceeding in Docket No. EL15-45-000. Alternatively, in the absence of such a commitment, the effective date will be the date the Commission makes ETEC's proposed revenue requirement effective in a future order once it issues orders resolving the Complaint Proceedings.⁸

By direction of the Commission.

Nathaniel J. Davis, Sr.,
Deputy Secretary.

⁷ See *Arkansas Elec. Coop. Corp. v. ALLETE, Inc.*, 151 FERC ¶ 61,219 (2015).

⁸ See, e.g., *Lively Grove Energy Partners, LLC*, 140 FERC ¶ 61,252, at P 2 (2012).