

153 FERC ¶ 61,241
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Garrison Energy Center, LLC

Docket No. ER15-2735-000

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

(Issued November 24, 2015)

1. On September 28, 2015, Garrison Energy Center, LLC (Garrison) submitted proposed Rate Schedule FERC No. 1 (Reactive Power Tariff),¹ which sets forth its revenue requirement for the provision of Reactive Supply and Voltage Control from Generation or Other Sources Service (Reactive Service) under Schedule 2 of PJM Interconnection, L.L.C.'s (PJM) Open Access Transmission Tariff (OATT) by its facility located in Dover, Delaware (the Facility). In this order, we accept for filing Garrison's proposed Reactive Power Tariff and suspend it for a nominal period, to become effective November 1, 2015, subject to refund, and subject to the outcome of the proceeding in Docket No. EL13-48-000.² We also establish hearing and settlement judge procedures. In addition, we grant Garrison's request for waiver of the Commission's 60-day prior notice requirement.

I. Garrison's Filing

2. Schedule 2 of PJM's OATT, which covers Reactive Service, provides that PJM will compensate owners of generation and non-generation resources for maintaining the

¹ Garrison Energy Center LLC, [Reactive Rate Schedule, Rate Schedule FERC No. 1, 0.0.0.](#)

² *Del. Division of Pub. Advocate v. Baltimore Gas & Elec. Co.*, 148 FERC ¶ 61,134, at P 1 (2014) (setting for hearing the complaint regarding the return on equity for Baltimore Gas & Electric Co. and Pepco Holdings Inc., and Pepco Holdings Inc.'s operating affiliates).

capability to provide reactive power to PJM. Specifically, Schedule 2 states that, for each month of Reactive Service provided by generation and non-generation resources in the PJM region, PJM shall pay each resource owner an amount equal to the resource owner's monthly revenue requirement, as accepted or approved by the Commission.³

3. Garrison states that it owns and operates the Facility, which is a natural gas- and oil-fired combined-cycle generation facility with a nameplate generating capability of 322 MW. According to Garrison, the Facility interconnects to the transmission system owned by Delmarva Power and Light Company (DPL) and is operated by PJM. Garrison explains that its obligation to provide Reactive Service to PJM and DPL, and its right to receive compensation for that service, is set forth in the Interconnection Service Agreement among Garrison, PJM, and DPL. Because PJM controls DPL's transmission facilities, Garrison continues, PJM is responsible for compensating Garrison for Reactive Service.⁴

4. Garrison states that it calculated the Facility's revenue requirement for Reactive Service contained in the Reactive Power Tariff in accordance with the *AEP* methodology.⁵ In particular, Garrison explains that its revenue requirement includes two components: (1) a component related to the fixed cost of the portion of the plant investment in the Facility that is attributed to the production of reactive power (Fixed Capability Component); and (2) a component related to heating losses that result from the production of reactive power (Heating Losses Component).⁶ In sum, Garrison proposes an annual revenue requirement of \$2,001,448.92, which includes \$1,955,337.14 for the Fixed Capability Component and \$46,111.78 for the Heating Losses Component.⁷

5. Garrison explains that it calculated the Fixed Capability Component by determining the portion of plant costs attributable to the production of reactive power and

³ PJM, Intra-PJM Tariffs, OATT, Schedule 2 (3.1.0).

⁴ Garrison September 28, 2015 Filing, Transmittal Letter at 2-3 (Transmittal Letter) (citing *PJM Interconnection, L.L.C.*, Docket No. ER14-1358-000 (Apr. 9, 2014) (unreported) (accepting the revised Interconnection Service Agreement among Garrison, PJM, and DPL)).

⁵ *Id.* at 4 (citing *Am. Elec. Power Serv. Corp.*, Opinion No. 440, 88 FERC ¶ 61,141, at 61,456-57 (1999)).

⁶ *Id.* at 3.

⁷ Garrison September 28, 2015 Filing, Exhibit A (Exhibit A).

by then applying a fixed charge rate. Specifically, Garrison states that it analyzed costs associated with: (1) the generator and associated exciter equipment; (2) the generator step-up transformers; (3) the accessory electrical equipment that supports the operation of the generator-exciter system; and (4) the balance of plant. According to Garrison, it is an independent power producer and thus does not have the requisite bond ratings used in a Discounted Cash Flow analysis. Therefore, Garrison contends that it is authorized to use the rate of return and return on equity of the utility to which the Facility is interconnected, i.e., of DPL.⁸ Garrison asserts that using DPL's return on equity and capital structure as a proxy is conservative because, as a merchant generator, Garrison faces greater market risks than those associated with a transmission provider like DPL.⁹

6. With regard to the Heating Losses Component, Garrison states that it included this component in the revenue requirement in order to recover the costs associated with “losses that occur from resistive heating associated with the armature winding and field winding of the generator and of increased eddy currents in the generator and associated step-up transformer.”¹⁰ Garrison explains that heating losses “can be calculated as the real power consumed to produce reactive power, and therefore constitute a cost that is directly attributable to the production of reactive power.”¹¹

7. Garrison requests waiver of the Commission's 60-day notice requirement¹² to permit an effective date for the Reactive Power Tariff of November 1, 2015. Garrison explains that PJM incorporates reactive power revenue requirements into Schedule 2 of its OATT effective the first day of the month in which the Commission accepts or approves the revenue requirement. Therefore, in order to prevent retroactive billing, Garrison asks for a November 1, 2015, effective date.¹³

⁸ Transmittal Letter at 4.

⁹ *Id.* at 4-5.

¹⁰ *Id.* at 5.

¹¹ *Id.*

¹² 18 C.F.R. §§ 35.3, 35.11 (2015).

¹³ Transmittal Letter at 1 & n.3.

II. Notice and Responsive Pleadings

8. Notice of Garrison's September 28, 2015 filing was published in the *Federal Register*, 80 Fed. Reg. 59,772 (2015), with interventions and protests due on or before October 19, 2015. PJM submitted a timely motion to intervene.

III. Discussion

A. Procedural Matters

9. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,¹⁴ PJM's timely, unopposed motion to intervene serves to make it a party to this proceeding.

B. Substantive Matters

10. We find that Garrison's proposed revenue requirement for Reactive Service provided by the Facility, as set forth in the Reactive Power Tariff, raises issues of material fact that cannot be resolved based on the record before us, and that are more appropriately addressed in hearing and settlement judge procedures ordered below.

11. Our preliminary analysis indicates that Garrison's proposed Reactive Power Tariff has not been shown to be just and reasonable and may be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. Accordingly, we accept Garrison's proposed Reactive Power Tariff for filing, suspend it for a nominal period, to become effective November 1, 2015,¹⁵ subject to refund, and subject to the outcome of the proceedings in Docket No. EL13-48-000.¹⁶ We also establish hearing and settlement judge procedures.

¹⁴ 18 C.F.R. § 385.214 (2015).

¹⁵ We find good cause to waive the Commission's 60-day prior notice requirement to allow Garrison to be compensated for Reactive Service pending the outcome of the hearing and settlement judge procedures ordered herein, and subject to refund. *Id.* §§ 35.3, 35.11.

¹⁶ Although we are setting the proposed Reactive Power Tariff for hearing in its entirety, we note that the Commission set for hearing in Docket No. EL13-48-000 a complaint regarding the return on equity for Baltimore Gas & Electric Co. and Pepco Holdings Inc., and Pepco Holdings Inc.'s operating affiliates, including Delmarva Power

(continued ...)

12. While we are setting these matters for a trial-type evidentiary hearing, we encourage the participants to make every effort to settle their dispute before hearing procedures commence. To aid the participants 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.¹⁷ If the participants 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.¹⁸ The settlement judge shall report to the Chief Judge and the Commission within 30 days of the date of the appointment of the settlement judge, concerning the status of settlement discussions. Based on this report, the Chief Judge shall provide the participants with additional time to continue their settlement discussions or provide for commencement of a hearing by assigning the case to a presiding judge.

The Commission orders:

(A) Garrison's proposed Reactive Power Tariff is hereby accepted for filing, suspended for a nominal period, to become effective November 1, 2015, as requested, subject to refund, and subject to the outcome of the proceeding in Docket No. EL13-48-000, 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 the FPA, particularly sections 205 and 206 thereof, and pursuant to the Commission's Rules of Practice and Procedure and the regulations under the FPA (18 C.F.R. Chapter I), a public hearing shall be held concerning the justness and reasonableness of Garrison's Reactive Power Tariff, 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.

and Light Company, the outcome of which will have an impact on Garrison's proposed Reactive Power Tariff. *See Del. Division of Pub. Advocate v. Baltimore Gas & Elec. Co.*, 148 FERC ¶ 61,134 at P 1.

¹⁷ 18 C.F.R. § 385.603 (2015).

¹⁸ If the participants decide to request a specific judge, they must make their joint request to the Chief Judge by telephone at (202) 502-8500 within five (5) days of this order. The Commission's website contains a list of Commission judges available for settlement proceedings and a summary of their background and experience (<http://www.ferc.gov/legal/adr/avail-judge.asp>).

(C) Pursuant to Rule 603 of the Commission's Rules of Practice and Procedure,¹⁹ the Chief Judge is hereby directed to appoint a settlement judge in this proceeding within fifteen (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 participants decide to request a specific judge, they must make their request to the Chief Judge within five (5) days of the date of this order.

(D) Within thirty (30) days of the appointment of the settlement judge, 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 participants 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 sixty (60) days thereafter, informing the Commission and the Chief Judge of the participants' 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 fifteen (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.

¹⁹ 18 C.F.R. § 385.603 (2015).