

153 FERC ¶ 61,350
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Duke Energy Indiana, Inc.

Docket No. ER16-201-000

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

(Issued December 30, 2015)

1. On October 30, 2015, Duke Energy Indiana, Inc. (Duke) submitted a proposed Reactive Power Tariff, which sets forth its revenue requirement for the provision of Reactive Supply and Voltage Control from Generation or Other Sources Service (Reactive Service) by the Madison station (Madison).¹ In this order, we accept Duke's proposed Reactive Power Tariff for filing, and suspend it for a nominal period, to become effective January 1, 2016, subject to refund. We also establish hearing and settlement judge procedures.

I. Duke's Filing

2. Schedule 2 of the PJM Interconnection, L.L.C.'s (PJM) Open Access Transmission Tariff, which covers Reactive Service, provides that PJM will compensate owners of generation and non-generation resources for maintaining the 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.²

¹ Duke Energy Indiana, Inc., Tariffs, Rate Schedules and Service Agreements, [Tariff Volume No. 11, Reactive Supply and Voltage Control - PJM, 0.0.0.](#)

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

3. Duke states that it is making this Reactive Service filing to establish rates under which Duke will provide Reactive Services to PJM.³ Duke states that the Madison facility consists of eight generating units. Duke states that the Madison facility is interconnected with the Duke Energy Ohio, Inc. transmission system and is located in the PJM pricing zone for Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc., known as the DEOK zone.⁴

4. Duke states that the Madison facility's revenue requirement has been calculated in accordance with the *AEP* methodology,⁵ and consists of the fixed cost attributable to the production of reactive power (Fixed Capacity Component), and a Heating Losses Component.⁶ Duke proposes an annual revenue requirement of \$597,264.⁷ Duke requests an effective date of January 1, 2016.

5. Duke explains that the Fixed Capacity Component was calculated by: (1) identifying equipment associated with reactive power production and determining the installed cost of each asset; (2) calculating the reactive allocation factor for each category of reactive power production equipment and multiplying the installed cost of the reactive power production equipment by the reactive allocation factor; and (3) determining a fixed charge rate to apply to the allocated reactive power production equipment and multiplying that fixed charge rate by the reactive power production equipment investment. Duke states that it analyzed the reactive portion of investment in the following: (1) the generator and associated exciter equipment; (2) generator step-up transformers; (3) accessory electrical equipment; and (4) the balance of the plant. Duke states that because each of these groups of assets involves both real power and reactive power, the *AEP* methodology includes an allocation factor to separate each of the components between real and reactive power. Duke states that the application of this allocation factor to each of the four groups of investments results in the Fixed Capacity Component of the Reactive Service rate.

³ Duke Transmittal Letter, Docket No. ER16-201-000, at 3 (filed Oct. 30, 2015) (Transmittal).

⁴ *Id.*

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

⁶ Transmittal at 4-5.

⁷ *Id.* at 11.

6. Duke states that in determining the cost of capital it used a rate of return on equity of 10.88 percent, the authorized rate of return of Duke Energy Ohio, Inc., the utility to which the Madison facility is interconnected.

7. With regard to the Heating Losses Component, Duke 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. Duke states that, “[d]ue to the electrical resistance in each of the generator and [generator step-up transformer] windings, this incremental current causes Real Power to be consumed or ‘lost’ in the form of heat.”⁸

II. Notice and Responsive Pleadings

8. Notice of Duke’s October 30, 2015 filing was published in the *Federal Register*, 80 Fed. Reg. 68,528 (2015), with interventions and protests due on or before November 20, 2015. PJM and Hoosier Energy Rural Electric Cooperative, Inc. (Hoosier) submitted timely motions to intervene.

III. Discussion

A. Procedural Matters

9. Pursuant to Rule 214 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2015), PJM and Hoosier’s timely, unopposed motions to intervene serve to make them parties to this proceeding.

B. Substantive Matters

10. We find that Duke’s proposed revenue requirement for Reactive Service for the Madison 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 the hearing and settlement judge procedures ordered below.

11. Our preliminary analysis indicates that Duke’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 Duke’s proposed Reactive Power Tariff for filing, and suspend it for a nominal period to be effective January 1, 2016, subject to refund. We also establish hearing and settlement judge procedures.

⁸ *Id.* Ex. DEI-1 at 12-13.

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.⁹ 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.¹⁰ The settlement judge shall report to the Chief Judge and the Commission within thirty (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) Duke's proposed Reactive Power Tariff is hereby accepted for filing and suspended for a nominal period, to become effective January 1, 2016, 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 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 Duke'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.

(C) Pursuant to Rule 603 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.603 (2015), the Chief Administrative Law Judge is hereby directed to appoint a settlement judge in this proceeding within fifteen (15) days of the date of this

⁹ 18 C.F.R. § 385.603 (2015).

¹⁰ 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>).

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.