

107 FERC ¶ 61,083  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;  
Nora Mead Brownell, Joseph T. Kelliher,  
and Suedeen G. Kelly.

Virginia Electric and Power Company                      Docket No. ER04-588-000

ORDER REJECTING GENERATOR IMBALANCE SERVICE SCHEDULE

(Issued April 26, 2004)

1. In this order, the Commission rejects the filing of Virginia Electric and Power Company (Company), doing business as Dominion Virginia Power (Dominion Virginia Power), in which it proposes to add a generator imbalance service schedule to its open access transmission tariff (OATT).<sup>1</sup> This order benefits customers by ensuring that the rates, terms and conditions of transmission service are just and reasonable.

**Background**

2. On February 26, 2004, the Company submitted for filing a generator imbalance service schedule (Schedule) as Schedule 4G under the Company's OATT, asserting that the Schedule would allow the Company to match any differences in an hour between the amount of energy scheduled by a generating facility and the amount actually generated and delivered by the generating facility in that hour.

3. The effect of the Schedule is to calculate a monthly payment for generation imbalance service resulting from the total hourly charges for the month. The filing describes the method of calculation for these payments: when the generating facility undersupplies generation, the imbalance charge for the hour in which that occurs will be the greater of \$14/MWh, or the hourly average price of the PJM Interconnection L.L.C. (PJM) real time locational marginal price (LMP) for power imported into the Dominion Virginia Power / PJM Interface. The Company states that the \$14/MWh price is the cost

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<sup>1</sup> Virginia Electric and Power Company's OATT was accepted for filing in an unpublished letter order on July 21, 2000 in Docket No. ER00-2739-000.

of Dominion Virginia Power's least expensive generating facility operating on automatic generation control, and is the same charge adopted by the Company for its energy imbalance service schedule.<sup>2</sup>

4. The present filing proposes that if the generating facility undersupplies or oversupplies generation by less than two percent of the applicable generating schedule, the hourly generation imbalance charge will be the hourly imbalance price multiplied by the net energy imbalance for that hour. Similarly, if the generating facility undersupplies generation by more than two percent of the applicable generating schedule, the hourly generation imbalance charge will be 110 percent of the hourly imbalance price multiplied by the net energy imbalance for that hour, and if the generating facility oversupplies generation by more than two percent of the applicable generating schedule, the hourly generation imbalance charge will be 90 percent of the hourly imbalance price multiplied by the net energy imbalance for that hour. However, the Company proposes that if a generator experiences a forced outage, the charge would be waived if the transmission customer submits a new schedule within ten minutes. In addition, no payments would be made if a generating facility has not first submitted a schedule, as the generator imbalance service is intended to balance scheduled energy only. The Company also states that the proposal will avoid duplicative charges as there will be a reduction for generator imbalance service charges when imbalances are already covered by the Company's OATT.

5. Under the proposal, where a generating facility is penalized for imbalances, the Company will credit the penalty revenues received to non-offending transmission customers taking service under the Company's OATT. This crediting mechanism will remain in place until the generating facility has access to a generator imbalance market.

#### **Notice, Interventions, Protests and Answer**

6. Notice of the Company's filing was published in the Federal Register, 69 Fed. Reg. 11,005 (2004), with comments, protests, and interventions due on or before March 18, 2004. On March 17, 2004, Old Dominion Electric Cooperative (Old Dominion) filed a motion to intervene, request for clarification and conditional protest. On March 18, 2004, North Carolina Electric Membership Corporation (NCEMC) filed a motion to intervene, Coral Power, LLC (Coral Power) filed a motion to intervene and comments, and Tenaska Virginia Partners, LP (Tenaska) filed a motion to intervene. On April 1, 2004, the Company filed an answer to the interventions and protests.

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<sup>2</sup> The Energy Imbalance Service Schedule was accepted by the Commission in an unpublished Letter Order on October 21, 2002 in Docket Nos. ER02-2537-000 and ER02-2537-001.

7. Old Dominion expresses concern about the possibility of transmission customers being charged for generator imbalances twice under the Company's proposal, once under the new schedule 4G that is the subject of the present filing, and once under the Company's existing OATT. Old Dominion further states that the Company's transmittal letter in the present filing, which is intended to describe the proposed schedule to be added to the Company's OATT, does not, in fact, correctly describe the effect of the new schedule. Old Dominion also contends that the grandfathering provisions proposed by the Company should also be extended to include certain units controlled or owned by Old Dominion.

8. Coral Power argues that the proposed generation imbalance charges are unreasonable and asymmetrical. Coral power notes that the charge is based on PJM real-time prices, though Dominion Virginia Power is not a member of PJM. Coral Power argues that the filing is unfair especially when relevant market prices in PJM are very low or negative. Coral Power contends that the use of \$14/MWh as a ceiling on payments to generators for oversupply and as a floor for charges for under supply are lopsided and produce an unfair asymmetrical risk for generators in Dominion Virginia Power's service area. Coral Power states that the generation imbalance service charge is not just and reasonable because it arbitrarily caps payments for oversupply at \$14/MWh, while allowing payments for undersupply to rise to potentially very high market prices based on the clearing prices within the PJM control area.

9. The Company responds to Old Dominion's concern that the proposed generator imbalance charges will result in duplicative charges to the extent that a generating facility is serving load within Dominion Virginia Power's control area and is subject to energy imbalance charges under existing Schedule 4 of the Company's OATT. The Company also agrees to modify the Schedule to waive the charge for generator imbalance for both over and under delivery of generation that is offset by energy imbalance in Schedule 4. However, the Company does not agree that it should grandfather the specified generating units of Old Dominion as the relevant interconnection agreements do not contain generator imbalance service schedules and therefore, according to the Company, they do not qualify for grandfathering.

10. In response to Coral Power's submission, the Company agrees that it should modify proposed Schedule 4G to include the exception that the generator imbalance service schedule will not apply to generating facilities that are dynamically scheduled to another control area. The Company contends that the \$14/MWh price is justified as it protects Dominion Virginia Power against circumstances in which it may have to pay a generating facility for undersupplying, while at the same time this price provides a proper pricing signal to generating facilities and encourages them to adhere to their generation schedules. The Company states that it proposes to use the PJM LMP to eliminate any concern that it can somehow manipulate the price on which its generator imbalance

charges are based. Lastly, the Company rejects Coral Power's suggestion that payments to generators could be made in the form of payments-in-kind as this could encourage intentional under generation, as previously noted by the Commission.<sup>3</sup>

## Discussion

11. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2003), the timely, unopposed motions to intervene of Old Dominion, NCEMC, Coral Power and Tenaska serve to make them parties to this proceeding. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2003), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the Company's answer because it has provided information that assisted us in our decision-making process.

12. The Commission finds that the Company has not justified the use of a neighboring RTO's (PJM) LMP as a basis for calculating the payments to generators that oversupply and for assessing the charges payable by generators that undersupply given that the Company is not a member of PJM and has not indicated that purchases from the PJM market would be used to correct the imbalances. With respect to the Company's proposed \$14/MWh component of its generator imbalance charge, we agree with Coral Power's argument that a disparity exists when payments for an oversupply are capped at \$14/MWh and payments charged for undersupply are based on potentially high market clearing price. A generator that oversupplies could be significantly under compensated if its incremental cost exceeds the imbalance price and a generator that undersupplies could over compensate the Company if its incremental cost is less than the imbalance price.

13. Further, even if the generator's imbalance is within an acceptable deviation band, it will be assessed 100% of the generator imbalance charge which, as discussed above, may effectively result in a penalty charge when compared to either the generator's or the Company's incremental cost of producing the energy. Since generator imbalances within and outside the deviation band are typically tied to some measure of incremental costs, we find the Company's proposal inappropriate.

14. Finally, we note that the Company points out that its proposed generator imbalance charges are comparable to a retail energy imbalance service schedule that was accepted by the Commission on October 21, 2002.<sup>4</sup> However, the Commission notes that

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<sup>3</sup> See *Niagara Mohawk Power Corp.*, 86 FERC ¶ 61,009 at 61,028 (1999); *Arizona Public Service Co.*, 94 FERC ¶ 61,027 at 61,079 (2001).

<sup>4</sup> The energy imbalance service schedule was accepted by the Commission in an unpublished Letter Order on October 21, 2002, in Docket Nos. ER02-2537-000 and ER02-2537-001.

the retail energy imbalance service schedule was a temporary, transitional mechanism for providing energy imbalances until the Company receives regulatory approval to join PJM South. Given the limited applicability of the retail charges and the Company not being a member of PJM, the Company has not supported the use of this pricing method for the generator imbalance charges at issue. We also note that while protestors have expressed a preference for a return-in-kind compensation method, the Commission has found such an approach unacceptable because generators may intentionally under generate during periods in which the LMP is higher and seek to offset the imbalance by over generating during periods in which the LMP is low.<sup>5</sup>

15. As described above, VEPCO's proposed rate design is unsupported and, in a very fundamental way, is not properly linked to the actual cost of replacing or absorbing generation imbalances. Accordingly, we will reject the filing without prejudice to refiling of a proposal that addresses the concerns discussed above.

The Commission orders:

Virginia Electric and Power Company's filing is hereby rejected, as discussed in the body of this order.

By the Commission.

( S E A L )

Magalie R. Salas,  
Secretary.

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<sup>5</sup> See Niagara Mohawk Power Corp., 86 FERC ¶ 61,009 (1999).