

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Cottonwood Energy Company, L.P.

Docket No. ER05-483-001

ORDER ON REHEARING

(Issued June 8, 2005)

1. Cottonwood Energy Company, L.P. (Cottonwood) seeks rehearing of an order issued in this proceeding on March 23, 2005 (March 23 Order).¹ For the reasons discussed below, we will grant, in part, and deny, in part, rehearing.

Background

2. On January 24, 2005, Cottonwood filed a proposed rate schedule specifying its revenue requirement for providing cost-based Reactive Support and Voltage Control from Generation Sources Service (reactive power). Cottonwood stated that, because it was a non-utility generator not generally subject to traditional rate regulation, and given what it termed as the relatively small revenue requirement proposed in its filing, it had sought to avoid any potential issues regarding return on equity (ROE) in the instant filing, and had incorporated in its annual carrying cost a conservative ROE based on a proxy of a Commission-accepted percentage reflected in a filing on behalf of Entergy Corporation, including Entergy Gulf States, Inc., the transmission owner with which Cottonwood's facility is connected. Cottonwood also stated that it had performed its cost calculations in accordance with the ratemaking methodology prescribed by the Commission in *American Electric Power Service Corporation*.²

¹ *Cottonwood Energy Company, L P*, 110 FERC ¶ 61,303 (2005).

² 88 FERC ¶ 61,141 (1999) (*AEP*).

3. In the March 23 Order, the Commission accepted Cottonwood's proposed rate schedule for filing, suspended it for a nominal period, to become effective February 1, 2005, subject to refund, and set it for hearing and settlement judge procedures, we noted a number of issues that should be considered, including whether Cottonwood's proposed revenue requirement is excessive given the amount of reactive power produced and the costs Cottonwood incurs to produce it, and whether the methodology used to develop the revenue requirement is appropriate given the type of facility at issue.

Request for Rehearing

4. On rehearing, Cottonwood contends that the Commission erred in setting for hearing the issue of whether Cottonwood's \$3.4 million annual revenue requirement for reactive power is excessive given the amount of reactive power produced and the costs Cottonwood incurs to produce it. It maintains that the Commission has strayed from its requirement that a generator not satisfy a "needs" test for reactive power. Cottonwood urges the Commission to continue to follow its precedent and exclude from the scope of the proceeding any inquiry into a "needs" test. It points out that, in *Rolling Hills Generating, LLC*,³ the Commission was confronted with the issue of whether generators filing revenue requirements for reactive power must show a need for such service, and unequivocally rejected such a requirement.

5. Cottonwood also argues that the Commission erred by setting for hearing the issue of whether the methodology used to develop the revenue requirement is appropriate given the type of facility at issue. It complains that the Commission's action departs from its longstanding approval of the *AEP* methodology. To the extent that the Commission inadvertently included within the scope of the hearing a review of the *AEP* methodology, Cottonwood requests that the Commission grant rehearing and eliminate that issue from the scope of the hearing.

Discussion

6. We will grant, in part, and deny, in part rehearing. First, we deny Cottonwood's request for rehearing with respect to the issue of whether the Commission erred in setting for hearing the reasonableness of Cottonwood's proposed \$3.4 million annual revenue

³ 109 FERC ¶ 61,069 (2004).

requirement for reactive power. The Commission did not direct that “needs” be set for hearing, and indeed never discussed the issue of need for reactive power in the March 23 Order. Rather, the Commission indicated that the hearing should consider whether Cottonwood’s proposed \$3.4 million annual revenue requirement was excessive. Cottonwood has brought nothing to our attention to warrant any modification or change of that determination.

7. We will grant rehearing with regard to the *AEP* methodology. Upon further consideration, we do not intend to reconsider the appropriateness of that methodology in this proceeding. Issues involving the *AEP* methodology are more appropriately addressed in a more generic proceeding and not in case-by-case litigation. In *FPL Energy Marcus Hook, L. P.*,⁴ in addressing the issue of changes to the *AEP* methodology, the Commission stated:

[A]ny changes need be implemented on a generic basis, and the Commission is continuing to examine the need for such changes in Docket No. AD05-1-000. Until the Commission finds that a change is warranted, the *AEP* Methodology has been shown to provide a just and reasonable method for evaluating the costs to be included in determining reactive power payments.

The Commission orders:

Rehearing is hereby denied, in part, and granted, in part, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.

⁴ 111 FERC ¶ 61, 168 at P 11 (2005).