

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Monongahela Power Company and
Allegheny Energy Supply Company, LLC

Docket Nos. ER05-1270-000
ER05-1270-001

ORDER ACCEPTING RATE SCHEDULE FOR REACTIVE SUPPORT AND
VOLTAGE CONTROL FROM GENERATION SOURCES SERVICE

(Issued November 16, 2005)

1. In this order we accept for filing Allegheny Energy Supply Company, LLC's (Allegheny Supply) and Monongahela Power Company's (Monongahela Power) (Applicants) proposed rate schedules for Reactive Support and Voltage Control from Generation Sources Service (reactive power), effective November 1, 2005. These reactive power rate schedules set forth the rates that permit Applicants to recover their cost of providing reactive power in the PJM Interconnection, LLC (PJM) control area.

Background

2. On July 31, 2000, in Docket No. ER00-3327-000, PJM submitted for filing a revised Schedule 2 to its open access transmission tariff (OATT) to permit providers of reactive power, including merchant generators, to recover their costs of providing this service in PJM. Revised Schedule 2 provides a mechanism to include the revenue requirements of those generator owners that are not transmission owners in the charges for reactive power and to pay "each generation owner an amount equal to the generation owner's monthly revenue requirement as accepted or approved by the Commission." The filing was accepted in an unpublished letter order dated September 25, 2000.¹

The Applicants' Filings

3. On July 29, 2005, as supplemented on September 19, 2005, Applicants submitted proposed rate schedules and cost support for Allegheny Supply's and Monongahela Power's reactive power to be provided from the Bath County generation facility (Bath

¹ *PJM Interconnection, LLC*, Docket No. ER00-3327-000 (September 25, 2000) (unpublished letter order).

Facility) located in the PJM control area.² The Applicants request waiver of the Commission's regulations to allow an effective date of August 1, 2005 or alternatively October 1, 2005.

4. In the July 29, 2005, filing, the Applicants developed their reactive power revenue requirement using two components: (1) a fixed capability component which represents that portion of the plant fixed costs attributed to reactive power; and (2) a heating loss component which allows for recovery of the increased generator heating losses resulting from producing reactive power.

5. Applicants state that the fixed capability component includes fixed plant costs for those facilities that are needed to provide reactive power in the Dominion Zone within the PJM control area. The Applicants analyzed the costs associated with the reactive portion of the generator/exciter system and the generator step-up transformer in accordance with the methodology set forth in *American Electric Power Service Corp.*³ To determine an annual revenue requirement, the Applicants applied an annual fixed carrying charge rate to the plant costs allocable to the reactive power function.

6. The Applicants incorporated in the annual carrying cost a return on equity and an overall rate of return adopted from Allegheny Power, the PJM transmission owner with which Allegheny Supply is interconnected.

7. With regard to heating losses, Applicants explain that when a generator produces reactive power, there are significant heating losses associated with the generator and the generator step-up transformer. The Applicants state that the heating losses for the Bath Facility were determined based on the Locational Marginal Price for the hours that the unit was dispatched over a four year period.

8. On September 6, 2005, the Commission issued a deficiency letter requesting the Applicants to provide additional cost support for its reactive power revenue requirement. Specifically, the letter directed the Applicants to show how the use of proxy allocators for generator/exciter (24 percent), total accessory equipment cost (10 percent) and remaining total production plant (0.15 percent) were appropriate based on the plant costs of the Bath Facility. On September 19, 2005, the Applicants made a supplemental filing addressing the deficiency letter.

² The Bath Facility is owned by Dominion Virginia Power (Dominion) (60 percent) and Allegheny Generating Company (AGC) 40 percent. AGC is a generating company and subsidiary of Allegheny and it is owned by Allegheny Supply (77.03 percent) and Monongahela Power (22.97 percent).

³ Opinion No. 440, 88 FERC ¶ 61,141 (1999) (*AEP* methodology)

Notices and Interventions, Protests and Answer

9. Notice of the July 29, 2005, filing was published in the *Federal Register*, 70 Fed. Reg. 46,502 (2005), with interventions and protests due on or before August 10, 2005. PJM filed a timely motion to intervene and comments. Virginia Electric & Power Company (VEPCO) filed a timely motion to intervene and protest. Applicants filed an answer to VEPCO's protest.

10. Notice of the September 19, 2005, filing was published in the *Federal Register*, 70 Fed. Reg. 57,590 (2005), with interventions and protests due on or before October 3, 2005. PJM filed timely comments. Applicants filed an answer to PJM's comments.

11. VEPCO argues that the Applicants' specification of the Dominion zone in its rate schedules as the zone from which the Applicants' revenue requirements will be allocated is unnecessary, premature and could lead to confusion. VEPCO argues that the issue of the zone in which the Applicants' facility is located, which determines the zone to which the costs should be allocated, is not at issue in this proceeding. It states that this proceeding is limited to an evaluation of the justness and reasonableness of the Applicants' proposed revenue requirement. Therefore VEPCO requests the Commission direct the Applicants to remove from the rate schedules references to specific zones in which the facility is located.

12. In addition, VEPCO and PJM protest Applicants' request for waiver of the Commission's 60-day prior notice requirement to permit their rate schedules to go into effect on August 1, 2005. PJM also opposes Applicants' alternative effective date of October 1, 2005. Both VEPCO and PJM argue that the effective date should be on the first day of the month in which the Commission accepts the rates. PJM, in particular, notes that such an effective date facilities incorporating the revenue requirement into PJM's monthly billing and settlement system without the need for retroactive billing adjustments.

Discussion

Procedural Matters

13. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2005), the timely, unopposed motions to intervene serve to make the entities that filed 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) (2005), prohibits answers to protests unless otherwise ordered by the decisional authority. We are not persuaded to accept Applicants' answers to VEPCO and PJM and will, therefore, reject them.

Commission Review

14. We accept Applicants' proposed rate schedules to be effective November 1, 2005, which is consistent with PJM's billing procedures. In their supplemental filing, the Applicants provide cost data based on plant cost of the Bath Facility, supporting allocators for the generator/exciter of 30.26 percent, for total accessory equipment of 3.97 percent and for remaining total production of 0.96 percent. The Applicants' cost data based on plant costs of the Bath Facility results in a net increase to the Applicants' annual revenue requirement of \$112,336. Based on the Applicants' cost support the Commission finds that Applicants' use of proxy allocators in this case is conservative and therefore acceptable.

15. Applicants also amended their rate schedules in their supplemental filing removing specific references to the Dominion zone. This amendment satisfies VEPCO's concerns about the zone for allocation of revenue requirements for reactive power from the Bath Facility.

The Commission orders:

Applicants' proposed rate schedules are hereby accepted for filing effective November 1, 2005.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.