

145 FERC ¶ 61,219  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Acting Chairman;  
Philip D. Moeller, John R. Norris,  
and Tony Clark.

Entergy Louisiana, LLC

Docket No. ER14-108-000

Entergy Arkansas, Inc.

Entergy Gulf States Louisiana, L.L.C.

Entergy Mississippi, Inc.

Entergy New Orleans, Inc.

Entergy Texas, Inc.

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

(Issued December 19, 2013)

1. On October 16, 2013, Entergy Services, Inc. (Entergy), on behalf of Entergy Louisiana, LLC, Entergy Arkansas, Inc., Entergy Gulf States Louisiana, L.L.C., Entergy Mississippi, Inc., Entergy New Orleans, Inc. and Entergy Texas, Inc. (collectively, the Applicants),<sup>1</sup> filed a proposed rate schedule<sup>2</sup> which specifies their cost-based revenue requirements for providing Reactive Support and Voltage Control from Generation Sources Service. As discussed below, we accept the proposed rate schedule and suspend it for a nominal period, to be effective on January 1, 2014, as requested, subject to refund, and establish hearing and settlement judge procedures.

**I. Background**

2. Entergy states that on December 19, 2013, the Applicants will become transmission-owning members of Midcontinent Independent System Operator, Inc. (MISO), integrate their operations into MISO, and become participants in the wholesale

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<sup>1</sup> Each of the Applicants is a subsidiary of Entergy Corporation.

<sup>2</sup> Entergy Louisiana, LLC, FERC FPA Electric Tariff, Other FERC Tariffs - CBR and MBR, [Reactive Power \(OpCos\), Reactive Power Revenue Requirement Rate Schedule, 0.0.0.](#)

markets pursuant to MISO's Open Access Transmission, Energy and Operating Reserve Markets Tariff (MISO Tariff).<sup>3</sup>

3. Following their integration into MISO, Entergy states that the Applicants' generating facilities that are registered with MISO and capable of producing and supplying reactive power to the transmission grid will be capable of being dispatched and operated to provide reactive power to the MISO transmission system for voltage support.<sup>4</sup>

4. Entergy maintains that the Applicants currently do not recover their costs of providing reactive power.<sup>5</sup> However, Schedule 2 of the MISO Tariff provides that MISO will determine rates for reactive power from generation sources for each transmission pricing zone in the MISO system.<sup>6</sup> As a result, Entergy states that the Applicants will become eligible to recover their costs of providing reactive power to MISO. MISO will collect the Applicants' reactive power revenue requirements from transmission service customers and pay the Applicants.

## **II. The Filing**

5. In support of its filing, Entergy states that the Applicants have determined their reactive power revenue requirements using the Commission-approved *AEP* methodology.<sup>7</sup> In summary, the following steps were followed: (1) identification of all equipment associated with the reactive power production capability of the Applicants' generating facilities and the installed cost of the identified equipment; (2) explanation of the calculations for the reactive allocation factor to be applied to the generators and

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<sup>3</sup> Entergy Transmittal Letter at 2. Entergy states that the Commission authorized, in *ITC Holdings Corp.*, 143 FERC ¶ 61,256 (2013), the Applicants' proposal to undertake a transaction in which subsidiaries of ITC Holdings Corp. will assume ownership of the Applicants' transmission facilities and transmission businesses. Entergy states that the proposed transaction also is subject to approval by several state regulatory commissions, which currently are considering approval applications. Entergy Transmittal Letter at 3.

<sup>4</sup> *Id.* at 3.

<sup>5</sup> Reactive power is required to maintain the voltage to deliver real power through transmission lines. When there is not enough reactive power, the voltage may become unstable. Ex. ENT-1 at 4 (Direct Testimony of Alan C. Heintz).

<sup>6</sup> Entergy Transmittal Letter at 3.

<sup>7</sup> *Id.* at 4 (citing *American Elec. Power Serv. Corp.*, 80 FERC ¶ 63,006 (1997), *order on reh'g*, 88 FERC ¶ 61,141 (1999) (*AEP*); *Dynegy Energy Midwest Generation, Inc.*, 121 FERC ¶ 61,025 (2007), *order on reh'g*, 125 FERC ¶ 61,280 (2009)).

exciters, step-up transformers, and accessory electrical equipment; (3) explanation of the application of the reactive allocation factors to each category of equipment to determine the total reactive investments; and (4) support of the development and application of the fixed carrying charges used to determine the reactive revenue requirements for the Applicants' facilities.<sup>8</sup>

6. Entergy states that, consistent with the *AEP* methodology, the Applicants' reactive power revenue requirements are determined for each of their generating units, not for each generating station, most of which have more than one generating unit.<sup>9</sup> The Applicants have identified 57 generating units registered with MISO that will provide reactive power to the MISO transmission system.

7. The proposed reactive power revenue requirement rate schedule identifies the Applicants' revenue requirements for each of the Arkansas, Louisiana, Mississippi, and Texas MISO transmission pricing zones.<sup>10</sup> According to Entergy, the rate schedule identifies the annual and monthly reactive power revenue requirement for each of the Applicants' generating units located in a given MISO transmission pricing zone and a total annual and monthly reactive power revenue requirement for the zone calculated as the total of the facility-specific revenue requirements for all of the Applicants' generating facilities in the zone. The Applicants' reactive power revenue requirements were developed on the basis of the costs of those units' reactive power production capabilities, utilizing a rate of return on equity (ROE) of 12.38 percent in determining the reactive power revenue requirements.

8. Entergy further states that, pursuant to Schedule 2, MISO will collect revenues from MISO transmission service customers in the pricing zones in which the Applicants' generating facilities are located and distribute those revenues to the Applicants.

9. Entergy requests that the Commission accept the reactive power revenue requirement rate schedule effective as of January 1, 2014 so Applicants may begin recovering their costs of providing reactive power beginning in January 2014.

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<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> *Id.* at 5.

### **III. Notice of Filing, Interventions, and Protests**

10. Notice of Entergy's filing was published in the *Federal Register*, 78 Fed. Reg. 64,490 (2013), with interventions and protests due on or before November 6, 2013. MISO, Arkansas Cities,<sup>11</sup> Arkansas Cities Co-Owners,<sup>12</sup> Union Power Partners, L.P., the Arkansas Electric Cooperative Corporation, East Texas Cooperatives, South Mississippi Electric Power Association, Municipal Energy Agency of Mississippi, and the Missouri Joint Municipal Electric Utility Commission filed timely motions to intervene. Calpine Corporation (Calpine) filed a timely motion to intervene and comments. The Arkansas Electric Cooperative Corporation and Mississippi Delta Energy Agency and its two members, Clarksdale Public Utilities Commission of the City of Clarksdale, Mississippi and Public Service Commission of Yazoo City of the City of Yazoo City, Mississippi (collectively Joint Customers) filed a timely protest. The NRG Companies<sup>13</sup> filed a motion to intervene out of time. On November 22, 2013, Entergy filed a request for leave to respond and response. On December 5, 2013, Joint Customers filed a request for leave to respond and response to Entergy.

11. Calpine states it is "heartened by Entergy's apparent recognition that generators operating in MISO are entitled to [r]eactive [p]ower compensation," as Calpine says this will help ensure that all generators are fairly compensated for their provision of reactive power.<sup>14</sup>

12. Joint Customers argue that the filing does not provide sufficient information to evaluate the claimed costs and ask the Commission to either reject the filing or issue a deficiency letter requiring Entergy to submit complete documentation and support for all costs included in the proposed reactive power rate schedules.<sup>15</sup> Joint Customers maintain that absent altogether from Entergy's filing are any supporting schedules, information input documents or actual workpapers. According to Joint Customers, the reactive power

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<sup>11</sup> Arkansas Cities consist of the City of Benton, Arkansas, the North Little Rock Electric Department, and the City of Prescott, Arkansas.

<sup>12</sup> Arkansas Cities Co-Owners consist of the Conway Corporation, the West Memphis Utilities Commission, and the City of Osceola, Arkansas.

<sup>13</sup> The NRG Companies are Louisiana Generating LLC, NRG Power Marketing LLC, GenOn Energy Management, LLC, Bayou Cove Peaking Power LLC, Big Cajun I Peaking Power LLC, NRG Sterlington Power LLC, Cottonwood Energy Company LP, and NRG Wholesale Generation LP.

<sup>14</sup> Calpine Comments at 3.

<sup>15</sup> Joint Customers Protest at 3.

filing includes many other instances where specific information underlying the revenue requirements calculations was not provided.

13. Joint Customers state that, if the Commission does not reject the reactive power filing as requested, they protest the filing because the resulting proposed rates would be excessive and therefore unjust and unreasonable and unduly discriminatory or preferential under the Federal Power Act (FPA).<sup>16</sup>

14. According to Joint Customers, in calculating its proposed reactive power revenue requirements, Entergy seeks to apply a levelized gross plant fixed charge rate to the portions of the specific production plants deemed to be providing reactive power service which will result in duplicative recovery of costs.<sup>17</sup> Joint Customers maintain that Entergy has been recovering production-related investment costs from its customers using the net plant method and that switching to a levelized methodology would allow Entergy to double recover capital costs for the reactive power portion of these assets. Joint Customers note that Entergy's reactive power filing fails to even mention the Commission's decision in Docket No. ER01-2214 where the Commission rejected Entergy's proposal to apply the levelized gross plant methodology to calculate ancillary services rates under Schedules 3, 5 and 6.<sup>18</sup> According to Joint Customers, Entergy's proposed use of the levelized cost methodology for the calculation of reactive power revenue requirements essentially seeks to reset the meter and restart depreciation of the same assets.<sup>19</sup>

15. Furthermore, according to Joint Customers, Entergy's filing emphasizes that in 2005, Entergy voluntarily set to zero the Entergy Operating Companies' charges for the provision of reactive power from their generating facilities.<sup>20</sup> However, Joint Customers note that in the Commission's order accepting Entergy's proposal to suspend collection of reactive power costs for affiliated generators, Entergy previously collected reactive power costs under Schedule 2.<sup>21</sup> Joint Customers reiterate that the duplicative recovery

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<sup>16</sup> *Id.* at 6.

<sup>17</sup> *Id.* at 6 and 9-11.

<sup>18</sup> *Id.* at 7-8 and 10 (citing *Entergy Servs., Inc.*, 109 FERC ¶ 61,095, at P 55 (2004)).

<sup>19</sup> *Id.* at 9-10.

<sup>20</sup> *Id.* at 11 (citing Entergy Transmittal Letter at 3, n.5 (citing *Entergy Servs., Inc.*, 113 FERC ¶ 61,040 (2005))).

<sup>21</sup> *Id.* (citing *Entergy Servs., Inc.*, 113 FERC ¶ 61,040 at P 26).

of plant investment costs previously recovered through depreciation is prohibited even if such costs were charged to the service of other customers.<sup>22</sup>

16. Joint Customers argue that Entergy has not shown its proposed ROE of 12.38 percent to be just and reasonable.<sup>23</sup> Joint Customers maintain that Entergy's support consists of the claim that the Commission has permitted providers of reactive supply and voltage control from generation source services under Schedule 2 to use the ROE in Attachment O of the MISO Tariff for the purpose of establishing their reactive power revenue requirements. Joint Customers claim that Entergy offers no support for this proposition other than a cite to a delegated letter order and note that the Commission has consistently admonished against using such letter orders as support for filings submitted to the Commission.<sup>24</sup> Moreover, according to Joint Customers, the Commission has never made a blanket finding that the 12.38 percent ROE authorized for calculating the transmission revenue requirement is a just and reasonable ROE for all ancillary services provided under the MISO Tariff.<sup>25</sup> Rather, according to Joint Customers, the Commission specifically held that it did not approve a generic ROE for all MISO members to use in formulating ancillary services rates by approving a rate of return on equity for use in the MISO Tariff.<sup>26</sup>

17. Joint Customers also argue that Entergy's calculation of the production plant investment associated with the balance of plant to be allocated to reactive service after the assignment of certain production costs to the reactive functions results in duplicative allocation of certain facilities' costs.<sup>27</sup>

18. In addition, Joint Customers maintain that further analysis is necessary to evaluate the appropriateness of Entergy's treatment of the following elements of its reactive power revenue requirements calculations: (1) which administrative and general (A&G) expenses are included in the determination of its reactive revenue requirements and whether all such expenses relate to reactive power service; (2) whether certain income tax credits are

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<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

<sup>24</sup> *Id.* at 12 (citing *Millennium Pipeline Company, LLC*, 145 FERC ¶ 61,088, at P 10, n.11 (2013)).

<sup>25</sup> *Id.* at 13.

<sup>26</sup> *Id.* (citing *Detroit Edison Co.*, 105 FERC ¶ 61,264, at P 10 (2003)).

<sup>27</sup> *Id.* at 14-15.

reflected; and (3) whether specific reserves, including credit for customer-contributed capital, should be excluded from the reactive cost calculation.<sup>28</sup>

19. In the event that the Commission does not reject the reactive power filing, Joint Customers request that the Commission order an evidentiary hearing in order to determine the justness and reasonableness of the reactive power revenue requirements and implement settlement judge procedures regarding the reactive power filing.<sup>29</sup>

#### **IV. Discussion**

##### **A. Procedural Matters**

20. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2013), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

21. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2013), the Commission will grant the NRG Companies' late-filed motion to intervene, given its interest in the proceeding, the early stage of the proceeding and the absence of undue prejudice or delay.

22. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2013), prohibits an answer to a protest and to an answer unless otherwise ordered by the decisional authority. We are not persuaded to accept the answers and will, therefore, reject them.

##### **B. Substantive Matters**

23. Entergy's proposed rate schedule 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.

24. Our preliminary analysis indicates that Entergy's proposed rate schedule has not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory or preferential or otherwise unlawful. Therefore, we will accept Entergy's proposed rate schedule, suspend it for a nominal period, make it effective January 1, 2014, as requested, subject to refund, and set it for hearing and settlement judge procedures.

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<sup>28</sup> *Id.* at 16-18.

<sup>29</sup> *Id.* at 19.

25. While we are setting these matters for a trial-type evidentiary hearing, we encourage the parties to make every effort to settle their dispute before hearing procedures are commenced. To aid the parties 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.<sup>30</sup> If the parties 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.<sup>31</sup> 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 parties 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) Entergy's proposed rate schedule is hereby accepted for filing and suspended for a nominal period, to become effective January 1, 2014, as requested, 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 by 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 Entergy's reactive power filing. 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 (2013), 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 order. Such settlement judge shall have all powers and duties enumerated in Rule 603

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<sup>30</sup> 18 C.F.R. § 385.603 (2013).

<sup>31</sup> If the parties decide to request a specific judge, they must make their joint request to the Chief Judge by telephone (202) 502-8500 within five (5) days of this order. The Commission's website contains a list of Commission judges and a summary of their background and experience ([www.ferc.gov](http://www.ferc.gov)- click on Office of Administrative Law Judges).

and shall convene a settlement conference as soon as practicable after the Chief Judge designates the settlement judge. If the parties 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 parties 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 parties' progress towards 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.