

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

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

Tenaska Virginia Partners

Docket Nos. ER04-680-000  
ER04-680-001

ORDER ACCEPTING TARIFF FILING, AS MODIFIED

(Issued May 28, 2004)

1. In this order, the Commission accepts for filing, as modified, to become effective May 1, 2004, Tenaska Virginia Partners, LP's (Tenaska) proposed rate schedule under which it specifies its rates for providing cost-based Reactive Support and Voltage Control from Generation Sources Service (reactive service) from its natural gas-fired, combined cycle electric generation facility (Facility) located near Palmyra, Virginia. This order benefits customers because it ensures the reliability of the Virginia Electric and Power Company d/b/a Dominion Virginia Power (VEPCO) transmission system.

**Background**

2. On March 26, 2004, as amended on April 9, 2004, Tenaska submitted for filing a rate schedule specifying its revenue requirements for providing reactive service for the Facility, which is located in VEPCO's service area. Tenaska requests an effective date of May 1, 2004, in order to accommodate an April/May 2004 operation date for the Facility.

3. Tenaska's obligation to provide reactive service to VEPCO and its right to receive compensation for such service is set forth in section 5.6 of the Generator Interconnection and Operating (IA) dated October 15, 2001 between VEPCO and Tenaska.<sup>1</sup> Pursuant to section 5.6.1 of the IA, Tenaska will provide VEPCO with reactive service. The IA provides for Tenaska to comply with VEPCO's directives to increase or decrease reactive service production, within the design and operational limits of the Facility's equipment in service and synchronized to the VEPCO transmission system at the time to the extent necessary to relieve Emergency Conditions (as defined in the IA). Section 5.6.3 of the IA specifically provides for compensation to Tenaska for supplying reactive service as set forth in the IA. Section 5.6.4 provides for a crediting mechanism or payment mechanism under which VEPCO compensates Tenaska for the provision of reactive service under Commission-approved rates.

---

<sup>1</sup> The Commission accepted the IA for filing on February 15, 2002, Virginia Electric and Power Company, Docket No. ER01-3032-002 (Letter Order issued February 15, 2002).

4. Tenaska states that with an IA that provides for VEPCO to compensate Tenaska for reactive service and VEPCO's intention to join PJM later this year, Tenaska now proposes (1) to charge VEPCO for this service only until VEPCO joins PJM, and (2) to charge PJM for this service thereafter, under the existing Schedule 2 provisions of the PJM Open Access Transmission Tariff (OATT).

5. Tenaska further explains that the Facility is subject to a long-term energy conversion agreement (ECA) with Coral Power, LLC (Coral Power) for its entire electrical production. Under the ECA, Coral Power will convert fuel owned and supplied by Coral Power into electricity. The ECA is based on negotiated rates under Tenaska's Rate Schedule FERC No. 1, Original Volume No. 1. Tenaska states that Coral Power intends to have the Facility dispatched into PJM under PJM's recently adopted dynamic scheduling rules.

### **The Instant Filing**

6. Tenaska states that the proposed rate schedule sets forth a cost-based rate that represents Tenaska's revenue requirements for reactive service, and that the revenue requirements are broken into three components: (1) fixed costs attributable to reactive service production capability (fixed capability component); (2) increased generator and step-up transformer heating losses that result from production of reactive service (heating losses); and (3) lost opportunity costs in the event the Facility is directed to modify its energy output to produce additional reactive service (lost opportunity cost component).

### **Fixed Capability Component**

7. The fixed capability component consists of fixed plant costs for those facilities that are needed to provide reactive service. The allocation factor is calculated, based on the relationship between real and reactive service, to determine the portion of plant costs that should be assigned to the provision of reactive service. The annual revenue requirement is then determined by applying a fixed charge rate. Tenaska explains that it uses a levelized annual carrying cost approach to develop the annual revenue requirement.

8. Tenaska states that because it is a non-utility generator not generally subject to traditional rate regulation, and given the relatively small revenue requirements proposed in this filing, Tenaska has sought to avoid any potential issues regarding return on equity in this filing, and has incorporated in its annual carrying cost a conservative return on equity and an overall rate of return based on a proxy of FERC-accepted percentages for VEPCO, the transmission owner with which the Facility is connected. Tenaska adds that while its use of these proxies is a conservative approach with regard to a competitive merchant plant like itself, the use of a proxy reflects a desire to minimize issues raised by this filing given the relative size of the annual revenue requirements proposed herein.

### **Heating Losses Component**

9. Tenaska states that when a generator produces reactive service, there are significant heating losses associated with the generators and in generator step-up transformer units. Tenaska explains that the losses can be calculated as the real power consumed to produce reactive power.

### **Lost Opportunity Cost Component**

10. Tenaska states that the lost opportunity cost component represents foregone energy revenues when the Facility is directed to restrict its real power output in order to provide a certain level of reactive service. Tenaska states that no actual charges for the lost opportunity component are included in Tenaska's revenue requirement, and that language is included in the rate schedule to recognize that Tenaska may be compensated under the circumstances described. Tenaska also states that the receipt of any such revenues will not alter Tenaska's revenue requirement for reactive service.

### **Notices, Interventions, and Protests**

11. Notices of Tenaska's original and amended filings were published in the Federal Register, 69 Fed.Reg. 18,364 and 69 Fed.Reg 21,827, with comments, protests, and interventions due on or before April 19, 2003. On April 16, 2004, Coral Power filed a motion to intervene with comments. On April 19, 2003, VEPCO filed a motion to intervene, comments, protest, request for suspension, and for establishment of settlement procedures. On April 28, 2004, Tenaska filed a response to VEPCO's motion.

### **VEPCO's Protest**

12. VEPCO argues that while the Tenaska Facility is not yet in commercial operation, Tenaska has requested an effective date of May 1, 2004 for its rate schedule. In addition, VEPCO notes that Tenaska states that it is obligated to operate with its generator voltage regulator in service and in automatic mode pursuant to its IA with Dominion Virginia Power. However, Tenaska offers no assurance that when the plant achieves commercial operation its voltage regulators will actually be in service and under Dominion Virginia Power control pursuant to voltage schedules, and that the plan will meet NERC standards for voltage reactive capabilities. VEPCO argues that it is unjust and unreasonable to require Dominion Virginia Power to pay for reactive support under these circumstances. VEPCO adds that in order to justify the May 1, 2004 effective date, Tenaska must offer commercial assurance that the plant will be in commercial operation, that it will meet NERC requirements for reactive capability, that it will operate with its voltage regulators in automatic mode, and that the Facility will be under Dominion Virginia Power's control pursuant to Dominion Virginia Power's voltage schedules. VEPCO states that given the absence of these commercial assurances, the Commission should suspend the proposed filing and order settlement proceedings so appropriate commercial arrangements can be negotiated.

13. VEPCO argues that Tenaska has established a rate design for recovery of costs associated with the sale of reactive capability that is different from the rate design that is currently in effect for the sale of reactive supply and voltage control to transmission customers using the Dominion Virginia Power system. VEPCO states that the differences in the Dominion Virginia Power and Tenaska rate designs make it difficult to develop a uniform Schedule 2 rate to be charged to all transmission customers using the Dominion Virginia Power system. VEPCO states that if the Commission accepts the Tenaska filing, it should protect Dominion Virginia Power from being unreasonably required to subsidize all transmission customers by paying Tenaska's revenue requirement without a mechanism to recover these charges uniformly from all transmission customers.

14. VEPCO states that at a minimum, adoption of Tenaska's proposal will require a modification of Dominion Virginia Power's OATT. VEPCO requests that the Commission suspend the proposed rate schedule for the maximum period to permit settlement discussions on how best to incorporate into the Company's OATT the reactive service requirements of Tenaska. VEPCO states that the Commission should not permit the Tenaska filing to become effective prior to the date on which the Commission allows modifications to Dominion Virginia Power's OATT.

15. VEPCO objects to Tenaska's proposal to collect its full revenue requirements for reactive service and voltage control as a flat monthly charge, without regard to the amount of capacity that is transmitted over the Dominion Virginia Power system.

16. VEPCO also objects to Tenaska's proposal to recover lost opportunity costs calculated pursuant to PJM's Operating Agreement prior to Dominion Virginia Power joining PJM. Specifically, the first paragraph of section 4, Original Sheet No. 2 of Tenaska's rate schedule apparently proposes to charge Dominion Virginia Power for lost opportunity costs prior to Dominion Virginia Power joining PJM, and the costs will be calculated pursuant to PJM's Operating Agreement. VEPCO argues that it is unjust and unreasonable to bind Dominion Virginia Power to the PJM lost opportunity cost methodology before it joins PJM.

### **Comments of Coral Power**

17. Coral Power filed comments in support of Tenaska's filing. Coral Power states that Tenaska has used the methodology adopted by PJM in Docket No. ER00-3327-000<sup>2</sup> to develop the rates set forth in Tenaska's proposed Rate Schedule 2, and states that this approach makes sense for the service at issue because Coral Power anticipates that most of the output from the Facility will be sold into PJM pursuant to PJM's recently adopted business rules for dynamically scheduling energy from generating units in external control areas. Coral Power asserts that even though reactive service will be provided to

---

<sup>2</sup> See PJM Interconnection, LLC, Docket No. ER00-3327-000 (Letter Order issued September 25, 2000).

the Dominion transmission system initially, the Tenaska Facility's operation and revenue stream will be governed predominately by price and dispatch signals it receives from PJM. Therefore, it is appropriate to use the PJM methodology for setting reactive service rates before Dominion joins PJM.

18. Coral Power also states that consistency with the PJM approach is crucial given the manner in which the heating losses and lost opportunity components of the rate and revenue requirements are derived. The heating losses component reflects the Tenaska Facility's projected operating hours, which, for the most part will be driven by the market conditions observed in price signals that it receives from PJM. With respect to the lost opportunity cost component of the proposed rate schedule, any lost opportunities that may arise will most likely occur when Coral Power is attempting to sell output from the Facility into PJM.

### **Tenaska's Response**

19. In its answer, Tenaska responds to claims by VEPCO that the Tenaska Facility will not be operational by May 1, and that there are no assurances that the plant will meet NERC requirements and VEPCO's operating guidelines. Tenaska states that on April 23, 2004, it notified Coral Power that the Facility was available for commercial operation, and that on April 28, 2004, VEPCO acknowledged that Tenaska can energize the Facility in parallel operation with VEPCO's transmission system as of April 28, 2004. In response to VEPCO's claim that Tenaska has not shown that the Facility meets NERC requirements for reactive capability, Tenaska states that the necessary commercial provisions are already in place in the IA, with which Tenaska is in compliance.

20. Tenaska disagrees with VEPCO on the need for suspension of the proposed rate schedule or the need for establishment of settlement proceedings. Tenaska argues that the terms of the IA between Tenaska and VEPCO, and the compensation requirements for the provision of reactive service set forth in Order No. 2003-A, clearly support Tenaska's proposed rate schedule. Furthermore, Tenaska argues that VEPCO's request to suspend the filing to allow VEPCO time to change its OATT to recover Tenaska's and VEPCO's revenue requirements is unacceptable. Tenaska contends that it should not be penalized for VEPCO's failure to amend its OATT to recover the additional cost responsibility that VEPCO will incur in meeting its obligation under the proposed rate schedule.

### **Discussion**

#### **Procedural Matters**

21. 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 Coral Power and VEPCO serve to make them parties to this proceeding. Although 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 Tenaska's answer because it has provided information that has assisted us in our decision making process.

### **Commission Determination**

22. Upon review of the pleadings and IA, we find that both the terms of the VEPCO/Tenaska IA and the compensation requirements for the provision of reactive service set forth in Order No. 2003-A<sup>3</sup> support Tenaska's proposed rate schedule. In addition, the IA directly addresses three of the four matters for which VEPCO seeks assurances. First, VEPCO is concerned that Tenaska must offer commercial assurance that it will meet NERC requirements for reactive capability. Section 5.1 of the IA indicates that Tenaska agrees that its performance under the IA "shall comply with the written policies, standards, and criteria of the RTO, NERC, SERC, or any other NERC sub-region in which Dominion Virginia Power's control area is located."

23. With respect to VEPCO's concern for how Tenaska will operate with its voltage regulators in automatic mode, section 5.5 of the IA specifically addresses that issue. Section 5.5 provides, in relevant part, that:

Generator Owner shall operate the Facility with the appropriate safeguards and stabilization systems and other protective equipment reasonably necessary to protect and prevent the Facility from causing damage to Facility generator unit with its speed governors and voltage regulators in service at all times. Should automatic functions not be available or should they fail to operate, including any voltage regulator, Generator Owner shall immediately notify Dominion Virginia Power. Generator Owner shall repair these same systems as quickly as it is reasonably possible to do so, dependent upon the availability of replacement systems or parts and the stability of the Transmission System. Generator Owner shall accept any operating restrictions as determined consistent with Good Utility Practice and on a non-discriminatory basis that may be necessary during the outage of automatic function of such equipment.

24. Next, VEPCO seeks assurance that the Facility will be under VEPCO's control pursuant to VEPCO's voltage schedules. We agree with Tenaska that section 5.6.1 of the IA, which addresses the requirements with respect to voltage schedules, provides the assurance VEPCO seeks:

---

<sup>3</sup> Standardization of Generator Interconnection Agreements and Procedures, Order No. 2003, 68 Fed. Reg. 49,845 (Aug. 19, 2003), FERC Stats. & Regs., Regulations Preambles ¶ 31,146 (2003) (Order No. 2003), order on reh'g, Order No. 2003-A, 69 Fed. Reg. 15,932 (March 26, 2004), FERC Stats. & Regs., Regulations Preambles ¶ 31,160 (2004) (Order No. 2003-A), reh'g pending.

As set forth in section 5.5, a generator voltage regulator is required to be in service and in automatic mode whenever the Facility is synchronized to the Transmission System. Unless otherwise directed by Dominion Virginia Power, the automatic voltage regulator shall, within the reactive capabilities of the Facility, control the voltage output pursuant to the voltage schedule prescribed by Dominion Virginia Power. Dominion Virginia Power shall have the right to alter the voltage schedule as the system operating conditions may require from time to time. With respect to any schedules prescribed by Dominion Virginia Power pursuant to this paragraph, Dominion Virginia Power shall treat Generator Owner comparably to other generating units and other reactive power supply sources connected to the Transmission System.

25. Based on the representation in Tenaska's answer that the Facility will achieve commercial operation on May 1, 2004, we find that Tenaska has addressed VEPCO's concerns about the operational capability of the Facility. Given that the necessary commercial arrangements are already in place, it is unnecessary to grant VEPCO's request for suspension of the rate schedule and to order settlement proceedings.

26. Moreover, we find that VEPCO's current lack of procedures or compatible rate design provisions under its OATT to recover from its customers the compensation paid to generators for providing reactive service is not an adequate basis on which to reject or suspend Tenaska's proposed rate schedule.

27. With regard to VEPCO's concerns about lost opportunity costs, the proposed rate schedule provides for recovery of lost opportunity costs pursuant to the terms of the PJM formula method. Until VEPCO integrates into PJM, we cannot be certain that opportunity costs for the Tenaska Facility will be based exclusively on lost PJM market sales. For example, under the proposed rate schedule, lost market sales outside of the PJM market would be priced at PJM's locational marginal prices. Accordingly, prior to VEPCO's integration into PJM, Tenaska's recovery of lost opportunity costs based on the PJM formula has not been supported. Any proposed recovery prior to VEPCO's integration into PJM must be addressed in a filing pursuant to section 205 of the Federal Power Act.<sup>4</sup> We direct Tenaska to submit a compliance filing, within 30 days of the date of this order, removing the lost opportunity cost component from the rate schedule.

28. Accordingly, the Commission will accept Tenaska's proposed rate schedule, as modified, to become effective May 1, 2004.

The Commission orders:

---

<sup>4</sup> 16 U.S.C. § 824d (2000).

A) Tenaska's proposed rate schedule is hereby accepted for filing, as modified, to become effective May 1, 2004, as discussed in the body of this order.

B) Tenaska is hereby directed to revise the proposed rate schedule to remove the lost opportunity cost component, and to submit a compliance filing within 30 days of the date of this order.

By the Commission.

( S E A L )

Linda Mitry,  
Acting Secretary.