Mystic argues FERC-approved cost-of-service agreement fails at full cost recovery

By Jasmin Melvin
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An agreement intended to keep the Mystic **natural gas** -fired plant in Massachusetts afloat through May 2024 for fuel-security needs falls short of providing full cost recovery, the generator said in a filing asking the **Federal Energy Regulatory Commission** to rethink the cost-of-service terms it approved last month.

The filing comes as others are seeking rehearing in an effort to have the order granting the out-of-market remedy overturned.

ISO **New England** last year warned that **Exelon** 's planned retirement of its Mystic Generating Station at the end of May 2022 would cause "unacceptable fuel security risks" with the potential for rolling blackouts during subsequent winters. The grid operator committed to developing a permanent market mechanism to address fuel security, and secured **FERC** sign-off on a number of short-term fixes, including a plan to treat Mystic as an interim fuel-security resource for up to two years.

The commission in December approved key details of a cost-of-service agreement to keep Mystic Units 8 and 9 operating between June 2022 and May 2024. The agreement also allows Mystic to recover most of the costs of the adjacent **Everett LNG** import terminal — also owned by **Exelon** — that provides fuel for the **gas** -fired plant.

As-filed rate modified

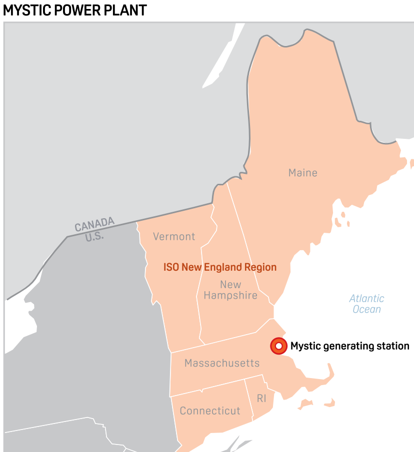
Mystic argued Tuesday that **FERC** 's order (ER18-1639) approving the cost-of-service agreement "arbitrarily and incorrectly modifies the as-filed rate, resulting in an under-recovery by Mystic that is unjust and unreasonable."

The generator, in its rehearing request, added that "several of the changes materially depart from precedent in unreasoned fashion, and are otherwise arbitrary and capricious and unsupported by substantial evidence."

Mystic contends that **FERC** used an inapplicable accounting method that reduced its "rate base to reflect putative losses in value from prior purchase prices paid by prior merchant owners of Mystic 8 & 9 who operated the units at market-based rates, while refusing to recognize offsetting gains in value reflected in other, more recent purchase prices."

The filing asserted that the order would prevent **Exelon** Generation from recovering a return on its actual investment in the Mystic units, including the cost of acquiring the units and capital expenditures less accumulated depreciation. It also makes a case for the recovery of **Exelon** Generation's investment in the **Everett LNG** terminal, arguing that "without the purchase by **ExGen** of **Everett** , reliable **LNG** fuel supply to Mystic 8 & 9 does not exist … and there is no reason why such beneficiaries should not pay an amortized share of the costs of the [**LNG**] facility."

MYSTIC POWER PLANT



Source: S&P Global Platts

The order allows Mystic to recover 91% of the costs of the **Everett LNG** facility as fuel costs, with the remaining costs falling to the third-party customers who also benefit from the **LNG** terminal. Mystic argued that because **Everett** is the least-cost option to supply fuel to the plant, it should be entitled to recover the entirety of those fuel supply costs.

And the order's rejection of **Exelon** Generation's proposed capital structure, equity ratio and cost of debt, according to Mystic, failed to recognize that **Exelon** Generation, as a merchant generator, "faces inherently more risk than traditional cost of service regulated **electric** utilities, even when the cost of service recovery under the agreement" for the Mystic units is taken into account.

Mystic also challenged the clawback provision requiring it to pay back certain operating costs if it decides not to retire at the end of the cost-of-service agreement term and **FERC** 's mandate of what it considered to be an "overly broad" true-up mechanism, given that the agreement calls for all revenue earned in the markets and through other sales to be credited to ratepayers.

Market harms

Meanwhile, **Repsol** Energy **North America** and the Environmental Defense Fund filed rehearing requests Tuesday urging **FERC** to reverse its decision to accept the cost-of-service agreement, contending that the deal would harm the **natural gas** and power markets.

Both filings took issue with **FERC** 's conclusion that "issues raised about anticompetitive behavior and the general functioning of **natural gas** and **electric** markets are beyond the scope of this proceeding."

Repsol said "market-distorting provisions of the agreement" would suppress **gas** and power prices. For instance, provisions of the fuel supply charge to cover the costs of the **Everett LNG** terminal "would incentivize **Exelon** to dump regasified **LNG** " to the detriment of the **New England gas** market, it said.

Repsol added that the agreement would also "harm consumers by reducing the available supply of both commodities during periods of peak demand."

EDF contended that **FERC** 's "failure to consider the anticompetitive effects of the transaction renders the commission's decision arbitrary and capricious such that rehearing should be granted."

The **New England** States Committee on **Electricity** filed a narrowly focused request seeking clarification or, in the alternative, rehearing to ensure that the clawback provision would also apply to the **Everett** facility.