

119 FERC ¶ 61,340
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Sudeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

E.ON U.S. LLC

Docket No. ER07-771-000

Bluegrass Generation Company, L.L.C.

Docket No. ER06-1382-001

ORDER CONDITIONALLY ACCEPTING PROPOSED TARIFF REVISIONS

(Issued June 29, 2007)

1. On April 16, 2007, E.ON U.S. LLC, on behalf of its public utility subsidiaries Louisville Gas and Electric Company and Kentucky Utilities Company,¹ filed proposed revisions to Schedule 2 (Reactive Supply and Voltage Control from Generation Sources Service) of its Open Access Transmission Tariff (OATT), under section 205 of the Federal Power Act (FPA),² in response to the Commission's March 16, 2007 Order on rehearing in Docket No. ER06-1382-001.³ As discussed below, the Commission conditionally accepts for filing LG&E's proposed tariff revisions as a means to comparably compensate all generators for Reactive Supply and Voltage Control from Generation Sources Service (reactive power) under Schedule 2 of its OATT, to become effective July 1, 2007, and directs a compliance filing. In light of this determination, the Commission also finds Bluegrass Generation Company, L.L.C.'s (Bluegrass) rate schedule for the provision of

¹ For ease of reference, in this order we refer to Louisville Gas and Electric Company and Kentucky Utilities Company jointly as LG&E.

² 16 U.S.C. § 824d (2000).

³ *Bluegrass Generation Company, L.L.C.*, 118 FERC ¶ 61,215 (2007) (March 16 Order).

reactive power⁴ to be unjust, unreasonable and unduly discriminatory or preferential under section 206 of the FPA,⁵ and vacates that Bluegrass rate schedule.

I. Background

2. On January 31, 2005, in Docket No. ER05-522, Bluegrass⁶ submitted for filing with the Commission a rate schedule that specified Bluegrass' cost-based revenue requirement for the provision of reactive power service. That original Bluegrass rate schedule provided that Bluegrass' compensation for reactive power service would be consistent with Schedule 2 of the Midwest Independent Transmission System Operator, Inc.'s (Midwest ISO) Open Access Transmission and Energy Markets Tariff (TEMT). On March 25, 2005, the Commission conditionally accepted that original Bluegrass rate schedule for filing and suspended it for a nominal period, to become effective on March 1, 2005, subject to refund, and ordered hearing and settlement judge procedures. A hearing was held pursuant to the March 25, 2005 Order, and the presiding administrative law judge subsequently issued an initial decision finding that Bluegrass' rate schedule, as modified, was properly filed, consistent with Schedule 2 of the Midwest ISO's TEMT and was just and reasonable. On March 16, 2007, the Commission issued an order affirming the initial decision.⁷

3. On August 18, 2006, in Docket No. ER06-1382, Bluegrass submitted for filing revisions to its rate schedule. These revisions included: (1) replacement of the reference to Schedule 2 of the Midwest ISO's TEMT with Schedule 2 of LG&E's OATT (because the Midwest ISO was no longer responsible for making payments as a result of LG&E's withdrawal from the Midwest ISO); and (2) revisions to Bluegrass' stated revenue requirement based on the then-ongoing proceeding in Docket No. ER05-522. In the October 17 Order, the Commission found that the issues raised by the revised Bluegrass rate schedule were identical to those pending in Docket No. ER05-522 and, accordingly, the Commission accepted the revised Bluegrass rate schedule for filing and suspended it for a

⁴ Bluegrass Generation Company, L.L.C., Rate Schedule FERC No. 2 at Rev. Sheet No. 1 (as accepted in *Bluegrass Generation Company, L.L.C.*, 117 FERC ¶ 61,052 (2006) (October 17 Order), *order on reh'g*, 118 FERC ¶ 61,215 (2007)).

⁵ 16 U.S.C. § 824e(a) (2000).

⁶ Bluegrass, a wholly-owned subsidiary of Dynegy Inc., leases a natural gas-fired peaking generating facility that is interconnected with the LG&E transmission system.

⁷ *Bluegrass Generation Company, L.L.C.*, 110 FERC ¶ 61,349 (2005), *order on initial decision*, 118 FERC ¶ 61,214 (2007) (Order on Initial Decision in Docket No. ER05-522).

nominal period, to become effective September 1, 2006, subject to refund and subject to the outcome of the ongoing proceeding in Docket No. ER05-522.⁸

4. On rehearing, in the March 16 Order, the Commission affirmed its decision to accept the revised Bluegrass rate schedule, noting that it had determined in the Docket No. ER05-522 proceeding that the existing Generator Interconnection and Operating Agreement (Interconnection Agreement) between Bluegrass and LG&E did not preclude Bluegrass from making a section 205 filing with the Commission for reactive power compensation.⁹ In addition, the Commission determined that Schedule 2 of LG&E's OATT was unjust, unreasonable and unduly discriminatory because it did not provide compensation to all generators on a comparable basis. Accordingly, pursuant to FPA section 206, the Commission directed LG&E to revise its Schedule 2 in order to compensate all generators on a comparable basis. Specifically, the Commission directed LG&E to replace its existing Schedule 2 with a revised Schedule 2 that provides compensation to all generators, including unaffiliated generators, and to include language in the revised Schedule 2 that provides that all generators must file cost-based revenue requirements for acceptance by the Commission in order to qualify for compensation. The Commission also noted that LG&E may seek to revise its OATT to reflect criteria, including an operations test and an availability or necessity test, to be applied comparably and prospectively, that would determine which generators would receive reactive power compensation and how that compensation would be paid.¹⁰

II. Description of Filing

5. On April 16, 2007, LG&E filed proposed revisions to Schedule 2 of its OATT (April 16 Filing). LG&E states that it is making the filing to fulfill the requirement in the March 16 Order that it compensate all generators under Schedule 2 on a comparable basis. LG&E proposes not to compensate affiliated or unaffiliated generators for reactive power production within the so-called deadband or bandwidth (.95 leading to .95 lagging). For reactive power compensation outside the deadband or bandwidth, LG&E proposes to compensate all generators at a rate of \$5.00 per MVARh produced.¹¹ LG&E also proposes

⁸ October 17 Order, 117 FERC ¶ 61,052 at P 21.

⁹ March 16 Order, 118 FERC ¶ 61,215 at P 16 (*citing* Order on Initial Decision in Docket No. ER05-522, 118 FERC ¶ 61,214 at P 44).

¹⁰ *Id.* P 18-22.

¹¹ LG&E states that the \$5.00 rate is a proxy rate developed based upon the costs of reactive power from its generators. Specifically, this rate is based upon the costs of providing reactive power from LG&E's most recently constructed baseload generator in order to reflect the upper range of the costs of providing reactive power in LG&E's control area. April 16 Filing Transmittal Letter at 3.

to make an annual true-up filing showing the actual compensation paid to generators for reactive power outside the deadband or bandwidth and providing a refund of any revenues collected in excess of the actual compensation to transmission customers.

6. LG&E states that its proposal will allow all generators to be compensated for reactive power on a non-discriminatory and comparable basis, consistent with Order No. 2003 and its progeny.¹² LG&E also maintains that its proposal to not compensate any generator (affiliated or unaffiliated) for reactive power within the deadband or bandwidth is consistent with Commission precedent.¹³ In addition, LG&E states that it “will seek to file a revised Schedule 2 to incorporate additional tests and criteria the Commission indicated would be acceptable in its [March 16 Order].”¹⁴

III. Notice and Responsive Filings

7. Notice of LG&E’s proposed tariff revision was published in the *Federal Register*, 72 Fed. Reg. 23,812 (2007), with interventions and protests due on or before May 7, 2007. A timely motion to intervene was filed by East Kentucky Power Cooperative, Inc. A timely motion to intervene and protest was filed by Bluegrass. On May 22, 2007, LG&E filed an answer to the protest.

IV. Discussion

A. Procedural Matters

8. Pursuant to Rule 214 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2006), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

9. Rule 213(a)(2) of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2006), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept LG&E’s answer because it has provided information that assisted us in our decision-making process.

¹² *Id.* at 2-3 (citing *Standardization of Generator Interconnection Agreements and Procedures*, Order No. 2003, FERC Stats. & Regs. ¶ 31,146 (2003), *order on reh’g*, Order No. 2003-A, FERC Stats. & Regs. ¶ 31,160 (2004), *order on reh’g*, Order No. 2003-B, FERC Stats. & Regs. ¶ 31,171, *order on reh’g*, Order No. 2003-C, FERC Stats. & Regs. ¶ 31,190 (2005), *aff’d sub nom. Nat’l Ass’n of Regulatory Util. Comm’rs v. FERC*, 475 F.3d 1277 (D.C. Cir. 2007)).

¹³ *Id.* at 3 (citing *Entergy Services, Inc.*, 113 FERC ¶ 61,040, at P 22, 38-39 (*Entergy I*), *order on reh’g*, 114 FERC ¶ 61,303 (2006) (*Entergy II*)).

¹⁴ *Id.*

B. Commission Determination**1. No Compensation for Generators Within the Deadband****a. Protest**

10. Bluegrass states that LG&E's proposal to not compensate generators for reactive power within the deadband is flawed, arguing that LG&E misinterprets the comparability standard articulated by the Commission in Order No. 2003-A. Bluegrass argues that although Order No. 2003-A states that "if the transmission provider pays its own or its affiliated generators for reactive power within the established range, it must also pay the Interconnection Customer," it does not state the converse, "if the transmission provider does not pay its own or its affiliated generators for reactive power within the established range it need not pay the Interconnection Customer."¹⁵

b. Answer

11. In response, LG&E asserts that the Commission has found that, where a transmission provider does not compensate its own or affiliated generators for reactive power service within the deadband, it need not compensate non-affiliated generators for reactive power service within the deadband, consistent with Order No. 2003.¹⁶

c. Analysis

12. The Commission's policy is that where a transmission provider does not separately compensate its own or affiliated generators for reactive power service within the deadband, it need not separately compensate non-affiliated generators for reactive power service within the deadband. In Order No. 2003, the Commission emphasized that an interconnecting generator "should *not* be compensated for reactive power when operating its Generating Facility *within* the established power factor range, since it is *only* meeting its obligation."¹⁷ Providing reactive power within the deadband is an obligation of a generator, comparable to its obligation, for example, to operate in accordance with Good Utility Practice.¹⁸

¹⁵ Bluegrass Protest at 7 (*citing* Order No. 2003-A, FERC Stats. & Regs. ¶ 31,160 at P 416).

¹⁶ LG&E Answer at 4 (*citing* Order No. 2003, FERC Stats. & Regs. ¶ 31,146 at P 546 and *Entergy I*, 113 FERC ¶ 61,040 at P 22, 38-39).

¹⁷ Order No. 2003, FERC Stats. & Regs. ¶ 31,146 at P 546 (emphasis added).

¹⁸ Compare *id.* P 546 with *id.* P 537; accord *Entergy II*, 114 FERC ¶ 61,303 at P 17. Indeed, section 9.6.2 of the Commission's Order No. 2003 *pro forma* Large Generator Interconnection Agreement expressly provided that generators are required to operate "to produce or absorb reactive power within the design limitations" of the facility.

Generators interconnected to a transmission provider's system thus need only be compensated where the transmission provider directs the generator to operate *outside* the deadband.¹⁹ In Order No. 2003-A, however, the Commission addressed comparability of compensation practices and added that “*if* the Transmission Provider pays its own or its affiliated generators for reactive power *within* the established range, it *must* also pay the Interconnection Customer.”²⁰

13. In the March 16 Order, the Commission found that Schedule 2 of the LG&E OATT provides for compensation to LG&E for reactive power production within the deadband from its own generation resources and therefore directed LG&E to revise Schedule 2 to provide compensation to all reactive power suppliers insofar as they provide such service. The Commission also directed LG&E to include language in its Schedule 2 that provides that all generators must file their cost-based revenue requirements for acceptance by the Commission in order to qualify for compensation.²¹ The Commission also noted that “LG&E may seek to revise its tariff to reflect criteria, including an operations test and an availability or necessity test, to be applied comparably and prospectively, that would determine which generators would receive reactive power compensation and how that compensation would be paid.”²²

¹⁹ *Michigan Electric Transmission Company*, 96 FERC ¶ 61,214, at 61,906, *order on reh'g*, 97 FERC ¶ 61,187, at 61,852 (2001) (“[T]o the extent that reactive power is provided . . . outside reactive design limitations, Generators would be entitled to compensation.”). Section 9.6.3 of the Commission's Order No. 2003 *pro forma* Large Generator Interconnection Agreement expressly provided that payment for reactive power is only for reactive power outside the specified deadband.

²⁰ Order No. 2003-A, FERC Stats. & Regs. ¶ 31,160 at P 416 (emphasis added); *accord* Order No. 2003-B, FERC Stats. & Regs. ¶ 31,171 at P 113, 119; Order No. 2003-C, FERC Stats. & Regs. ¶ 31,190 at P 34, 42-43; *Entergy I*, 113 FERC ¶ 61,040 at P 22-24, 38-39. Section 9.6.3 of the Commission's Order No. 2003-A *pro forma* Large Generator Interconnection Agreement (which was reaffirmed in relevant respects in Order Nos. 2003-B and 2003-C) reflects this change, stating that the transmission provider is required to compensate the generator for reactive power production outside the specified deadband, provided that if the transmission provider pays its own or affiliated generators for reactive power service within the specified deadband, it must also pay the unaffiliated generator for such service.

²¹ March 16 Order, 118 FERC ¶ 61,215 at P 22.

²² *Id.* (citing *Calpine Oneta Power, L.P.*, 116 FERC ¶ 61,282, at P 50 (2006); *Midwest Independent Transmission System Operator, Inc.*, 116 FERC ¶ 61,283, at P 23 (2006)).

14. Here, LG&E takes neither of the two approaches set forth in the March 16 Order, choosing instead to revise Schedule 2 so that, prospectively, no generator will be compensated for providing reactive power within the deadband and all generators providing reactive power within the deadband thus will be treated comparably.²³ LG&E's proposed Schedule 2 will, however, provide compensation for the provision of reactive power by all generators (affiliate and non-affiliate alike) outside the deadband. In addition, instead of including provisions to allow generators to file their individual revenue requirements, LG&E proposes to compensate all generators for providing reactive power outside the deadband by using a single rate applicable to all generators.

15. LG&E's proposal to compensate no generators for reactive power within the deadband and to compensate all generators for reactive power outside the deadband using a single rate satisfies the comparability concerns addressed in Order No. 2003-A and raised in the March 16 Order; all generators, whether affiliate or non-affiliate, are treated comparably. Accordingly, we find that, with the changes ordered below, LG&E's proposal is consistent with the standards set forth in Order Nos. 2003 and 2003-A and their progeny and, we will conditionally accept LG&E's proposed tariff revisions, effective July 1, 2007, subject to the compliance filing ordered below.

2. Independent Contractual Right to File for Reactive Power Compensation

a. Protest

16. Bluegrass also argues that LG&E's proposed revision to Schedule 2 constitutes a collateral attack on Commission precedent that, according to Bluegrass, recognizes an independent contractual right to compensation for reactive power separate and apart from the Commission's comparability standard under Order No. 2003-A. Bluegrass notes that the March 16 Order explicitly recognized Bluegrass' right to file with the Commission for reactive power compensation under the existing Interconnection Agreement between the parties.²⁴ Bluegrass states that LG&E's proposal "would unilaterally amend obligations

²³ Although LG&E characterizes the April 16 Filing as compliant with the March 16 Order, the proposed tariff revisions are not the alternatives offered by the Commission. That said, in light of its filing in Docket No. ER07-771-000 and the determinations made in this order, LG&E's compliance obligation in Docket No. ER06-1382 is moot.

²⁴ Bluegrass Protest at 5-6 (*citing* March 16 Order, 118 FERC ¶ 61,215 at P 16, 18 (*citing* Order on Initial Decision in Docket No. ER05-522, 118 FERC ¶ 61,214)). The Interconnection Agreement provides for the provision of reactive power from the Bluegrass Facility under certain circumstances. Section 8.4.4 of the Interconnection Agreement provides compensation for reactive power as follows:

- (i) In the event that FERC, or any other applicable

(continued)

under the Interconnection Agreement, obligations that include Bluegrass' independent contractual right to compensation for Reactive Service within the deadband."²⁵ Bluegrass also argues that in *Entergy I* and *Entergy II*, the Commission recognized that "independent

Governmental Authority, issues an order or approves a tariff establishing specific compensation to be paid to Applicant for reactive power support service, [LG&E] shall pay Applicant pursuant to such order or tariff; or

(ii) In the absence of such an order or tariff, and subject to any applicable rules and regulations of FERC, [LG&E] shall pay Applicant for the reactive power absorbed by the Applicant Facilities and the reactive power produced by the Applicant Facilities on a per MVARh basis for the total MVARh for the hours operated under 8.4.2(ii) and 8.4.3 above at a rate of \$0.50 per MVARh; provided, however, if [LG&E], its successors or assigns pay, under any agreement with any other similarly situated generator, for reactive power and voltage control at a rate that is higher than \$0.50 per MVARh, Applicant shall be compensated for providing such reactive support at a rate that is equal to the highest rate [LG&E], its successors or assigns pay for reactive power and voltage control to any other similarly situated generator. The total MVARh for a given month shall be equal to the sum of the absolute value of the reactive power absorbed or the reactive power produced, as the case may be, by the Applicant Facilities in each hour of the month during which reactive power was absorbed or produced by Applicant under 8.4.2(ii) or 8.4.3.

(iii) If Applicant is required, either pursuant to Paragraph 8.4.2 or at the request of [LG&E] pursuant to Paragraph 8.4.3 to provide or absorb reactive to the extent of limiting the real power output of the Applicant's generator(s), [LG&E] shall pay additional compensation for the curtailment of Applicant's real power output pursuant to [section] 8.10.2, Emergency Redispatch.

Interconnection Agreement at § 8.4.4.

²⁵ Bluegrass Protest at 6.

of the comparability requirement, a generator can have an independent contractual right to compensation.”²⁶

b. Answer

17. LG&E challenges Bluegrass’ assertion that Bluegrass has an independent contractual right to compensation for reactive power within the deadband pursuant to the Interconnection Agreement. LG&E argues that the Order on Initial Decision in Docket No. ER05-522 did not find that the Interconnection Agreement provides an independent contractual right to receive compensation for reactive power within the bandwidth, but only that the Interconnection Agreement provides an independent contractual right to *file* for compensation for reactive power. Further, LG&E states that the Interconnection Agreement does not provide an independent contractual right to receive compensation because the Interconnection Agreement only contemplates recovery for “extraordinary” or “emergency” reactive power, not “ordinary” reactive power within the deadband.

c. Analysis

18. In *Entergy I* and *Entergy II*, the Commission recognized that generators may have an independent contractual right to compensation for reactive power within the deadband, regardless of compensation provided to the transmission provider’s own generation, but directed the generators to pursue such claims in pending proceedings involving their reactive power rates.²⁷ Here, we find that Bluegrass does not have an independent right to compensation for reactive power within the deadband pursuant to the Interconnection Agreement. The Order on Initial Decision in Docket No. ER05-522 stands for the proposition that the Interconnection Agreement does not preclude Bluegrass from *filing* to seek compensation for reactive power, that is, Bluegrass has the *right to file* to seek compensation for reactive power. Bluegrass exercised that right by filing the original Bluegrass rate schedule in Docket No. ER05-522 and the revised Bluegrass rate schedule in Docket No. ER06-1382. The Order on Initial Decision in Docket No. ER05-522 found that the language in the Interconnection Agreement “has been drafted [such that] . . . upon the Commission’s issuance of an order or approval of a tariff establishing specific compensation to be paid to Bluegrass, LG&E shall pay Bluegrass pursuant to such order or tariff. Thus, the question must be, how can the issue be brought before the Commission so that the Commission can issue an order or approve a tariff.”²⁸ The Commission agreed with LG&E that, pursuant to section 8.4.4(i) of the Interconnection Agreement, LG&E could make a

²⁶ *Id.* at 7 (citing *Entergy I*, 113 FERC ¶ 61,040 at P 23 n.17, and *Entergy II*, 114 FERC ¶ 61,303 at P 18).

²⁷ A partial initial decision on this issue in those proceedings is currently pending before the Commission. See *KGen Hinds LLC*, 117 FERC ¶ 63,004 (2006).

²⁸ Order on Initial Decision in Docket No. ER05-522, 118 FERC ¶ 61,214 at P 44.

filing pursuant to FPA section 205 or the Commission could act *sua sponte* pursuant to FPA section 206.²⁹ In the March 16 Order, the Commission similarly and explicitly stated that “the Interconnection Agreement recognizes Bluegrass’ *right to file* with the Commission for reactive power compensation.”³⁰

19. However, the Interconnection Agreement does not provide for a particular level of compensation for reactive power within the deadband. Section 8.4.4(i) simply provides that “[i]n the event that FERC . . . issues an order or approves a tariff establishing specific compensation to be paid to Applicant for reactive power support service,” LG&E must pay Bluegrass according to such a standard.³¹ Accordingly, the Commission may apply applicable Commission policy for reactive power compensation when it reviews the Bluegrass rate schedule, as it did in Docket Nos. ER05-522 and ER06-1382. And that policy is not that Bluegrass is necessarily entitled to compensation for reactive power within the deadband. Rather, that policy provides for comparable treatment of affiliated and non-affiliated generation. In other words, the Commission’s policy provides that non-affiliated generators need not be compensated for reactive power within the deadband unless a transmission provider’s own generators are being compensated for such service.

20. Because LG&E has revised its Schedule 2 to ensure that its affiliated generators will not be separately compensated for reactive power within the deadband, then Bluegrass should not be separately compensated either. However, the filed Bluegrass rate schedule at present includes a revenue requirement providing compensation for reactive power, including reactive power within the deadband. This is unduly discriminatory as to LG&E’s own generators and unduly preferential as to Bluegrass. Once LG&E’s proposed OATT

²⁹ The Commission, however, did *not* agree with LG&E that section 8.4.4(i) prevents Bluegrass from filing the original Bluegrass rate schedule, stating “under the facts of this case, we interpret section 8.4.4(i) as allowing all eligible entities, including Bluegrass, to initiate a proceeding that would lead to the Commission issuing an order or approving a tariff.” *Id.*

³⁰ March 16 Order, 118 FERC ¶ 61,215 at P 16 (*citing* Order on Initial Decision in Docket No. ER05-522, 118 FERC ¶ 61,214 at P 44) (emphasis added).

As noted by Bluegrass (Bluegrass Protest at 6), paragraph 18 of the March 16 Order states that “Bluegrass has a contractual *right to compensation* for reactive power service it provides even though Schedule 2 of the LG&E OATT does not specifically provide for that compensation.” March 16 Order, 118 FERC ¶ 61,215 at P 18 (emphasis added). This language, however, must be read in context, i.e., in combination with the language in the Order on Initial Decision in Docket No. ER05-522 and paragraph 16 of the March 16 Order. Accordingly, paragraph 18 stands for the proposition that Bluegrass only has a contractual *right to file* for compensation with the Commission for reactive power.

³¹ Interconnection Agreement at § 8.4.4(i), *supra* note 24.

revisions go into effect, LG&E will no longer separately provide compensation to affiliated generators for reactive power within the deadband. At that time, consistent with Commission policy, Bluegrass will no longer be eligible to receive separate compensation for reactive power within the deadband. Accordingly, we find the Bluegrass rate schedule to be unjust, unreasonable and unduly discriminatory or preferential under FPA section 206 and vacate the Bluegrass rate schedule, effective coincident with the effective date of LG&E's proposed OATT revisions, July 1, 2007.

3. Qualifying for Compensation and Calling Upon a Generator

a. Protest

21. Bluegrass argues that LG&E's filing does not provide sufficient detail to determine whether Schedule 2 can be implemented in a non-discriminatory manner. Bluegrass asks that the Commission reject the April 16 Filing as deficient for failing to provide a detailed description of the criteria that will be used when determining which generators to call upon to provide reactive power outside of the deadband.³²

22. Bluegrass also argues that LG&E's proposal to "provide a voltage schedule to all generators (affiliated and non-affiliated)" and to require that "all generators maintaining the voltage schedule will be compensated for reactive power outside the bandwidth" is flawed.³³ Bluegrass argues that "[i]t is not clear whether [LG&E] is proposing *a single voltage schedule* to all generators, or [a] separate voltage schedule for each generator."³⁴ Bluegrass argues that "[g]iven the localized nature of reactive support, it is not clear how a single voltage schedule for all generators will be sufficient to address voltage issues on [LG&E]'s transmission system."³⁵ Bluegrass argues, moreover, that "if [LG&E] is proposing a separate localized voltage schedule for each generator, it sets out no criteria, or procedures for applying the criteria, from which to evaluate whether its proposed Schedule 2 could be implemented in an unduly discriminatory manner."³⁶

³² Bluegrass Protest at 9 (*citing Southwest Power Pool, Inc.*, Docket No. ER07-371-000, at 2 (Feb. 27, 2007) (unpublished deficiency letter)).

³³ *Id.* at 8 (*citing* April 16 Filing Transmittal Letter at 3).

³⁴ *Id.* at 10 (emphasis in original).

³⁵ *Id.*

³⁶ *Id.*

b. Answer

23. LG&E responds that all generators in LG&E's control area will be required to meet the same voltage schedule and, accordingly, there is no potential for undue discrimination. LG&E explains that "if voltage levels are low in a particular location, then generators at that location will need to produce more MVARs to meet that voltage schedule. To the extent those generators produce MVARs outside the generator's power factor range to meet the voltage schedule at the interconnection point, those generators providing MVARs outside the established bandwidth will be compensated at the same rate provided in [LG&E's] revised Schedule 2."³⁷

c. Analysis

24. LG&E proposes amending its Schedule 2 to provide that:

All generators, affiliated or unaffiliated with the Transmission Owner, are to be compensated on a comparable basis. Specifically, all generators, affiliated or unaffiliated, will be compensated \$5.00 per MVARh for reactive power produced outside the power factors (.95 leading to .95 lagging). There will be no compensation to all generators, affiliated or unaffiliated, for reactive power produced within the power factor deadband (.95 leading to .95 lagging).³⁸

25. We agree with Bluegrass that these revisions lack sufficient detail to ensure that compensation for reactive power outside the deadband is provided on a non-discriminatory basis. Therefore, we will require LG&E to file, within 30 days of the date of this order, revisions to its Schedule 2 that: (1) explain in detail the process a generator must follow, and the criteria it must meet, to qualify to receive compensation for producing reactive power outside the deadband; and (2) provide the criteria and technical requirements that LG&E, and/or Southwest Power Pool, Inc., as LG&E's Independent Transmission Organization, will use to establish which generators will be called upon to provide reactive power outside of the deadband. Both the criteria to qualify for reactive power compensation and the criteria used to call upon generators to provide reactive power outside the deadband must be transparent and must not be unduly discriminatory or preferential.³⁹

³⁷ LG&E Answer at 2.

³⁸ April 16 Filing Exh. 1 at Proposed First Revised Sheet No. 102.

³⁹ See, e.g., *Southwest Power Pool, Inc.*, 119 FERC ¶ 61,199, at P 64-69 (2007).

The Commission orders:

(A) LG&E's proposed tariff revisions to Schedule 2 of its OATT are hereby accepted for filing, subject to the conditions discussed in the body of this order, effective July 1, 2007.

(B) LG&E is hereby directed to make a compliance filing in Docket No. ER07-771, as discussed in the body of this order, within 30 days of the date of this order.

(C) LG&E's compliance obligation in Docket No. ER06-1382 is hereby dismissed as moot, as discussed in the body of this order.

(D) The Bluegrass rate schedule is hereby vacated, effective July 1, 2007, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.