

124 FERC ¶ 61,131  
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. ER07-771-001

ORDER CONDITIONALLY ACCEPTING COMPLIANCE FILING  
AND DIRECTING FURTHER COMPLIANCE FILING

(Issued July 31, 2008)

1. On July 30, 2007, E.ON. U.S. LLC, on behalf of its public utility subsidiaries Louisville Gas and Electric Company and Kentucky Utilities Company,<sup>1</sup> submitted a compliance filing pursuant to the Commission's June 29, 2007 order in this proceeding.<sup>2</sup> LG&E proposed revisions to Schedule 2 (Reactive Supply and Voltage Control from Generation Sources) (reactive power) of its Open Access Transmission Tariff (OATT).<sup>3</sup> As discussed below, we conditionally accept LG&E's compliance filing, effective July 13, 2007, as requested, and direct a further compliance filing.

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<sup>1</sup> For ease of reference, in this order we refer to the applicants collectively as LG&E.

<sup>2</sup> *E.ON U.S. LLC*, 119 FERC ¶ 61,340 (2007) (June 29 Order).

<sup>3</sup> The Commission in Order No. 890 required that transmission providers revise Schedule 2 to clarify that Reactive Supply and Voltage Control can be provided by generation or other sources (*Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, FERC Stats. & Regs. ¶ 31,241 (2008), *order on reh'g*, Order No. 890-A, 73 Fed. Reg. 2984 (Jan. 16, 2008), FERC Stats. & Regs. ¶ 31,261 (2007), *order on reh'g*, Order No. 890-B, 73 Fed. Reg. 39,092 (July 8, 2008), 123 FERC ¶ 61,299 (2008)). LG&E submitted the required changes to Schedule 2, which is now titled "Reactive Supply and Voltage Control from Generation and Other Sources," and the Commission conditionally accepted the compliance filing in *E.ON U.S. LLC*, 123 FERC ¶ 61,301 (2008), *reh'g pending*.

## **Background**

2. As a result of several proceedings related to the compensation provided to generators for reactive power on LG&E's system, the Commission ultimately determined that Schedule 2 of LG&E's OATT, which did not explicitly compensate all generators for reactive power on a comparable basis, was unjust, unreasonable and unduly discriminatory.<sup>4</sup> The Commission therefore directed LG&E to modify Schedule 2 to compensate all generators on a comparable basis.

3. On April 16, 2007, in Docket No. ER07-771-000, LG&E filed proposed revisions to Schedule 2 of its OATT. LG&E made 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 proposed to not compensate affiliated or unaffiliated generators for reactive power production within the so-called deadband or bandwidth (.95 leading to .95 lagging). For reactive power outside the deadband or bandwidth, LG&E proposed to compensate all generators at a rate of \$5.00 per MVARh produced.<sup>5</sup> LG&E also proposed 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 to transmission customers of any revenues collected in excess of the actual compensation.

4. LG&E stated that its proposal would allow all generators to be compensated for reactive power on a non-discriminatory and comparable basis, consistent with Order No. 2003 and its progeny.<sup>6</sup> LG&E also maintained that its proposal to not compensate any generator (affiliated or unaffiliated) for reactive power within the deadband or

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<sup>4</sup> See *Bluegrass Generation Co., L.L.C.*, 118 FERC ¶ 61,215 (2007) (March 16 Order).

<sup>5</sup> LG&E stated 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 base load 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.

<sup>6</sup> *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).

bandwidth was consistent with Commission precedent.<sup>7</sup> In addition, LG&E stated that it would “seek to file a revised Schedule 2 to incorporate additional tests and criteria the Commission indicated would be acceptable in its [March 16 Order].”<sup>8</sup>

5. On June 29, 2007, the Commission conditionally accepted LG&E’s proposed tariff revisions as a means to comparably compensate all generators for reactive power, but found that LG&E’s proposed Schedule 2 lacked sufficient detail to ensure that compensation for reactive power outside the deadband is provided on a non-discriminatory basis. Therefore, the Commission required LG&E to file 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. (SPP) 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. The Commission added that 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.<sup>9</sup>

### **Compliance Filing**

6. In the compliance filing, LG&E provides revised tariff sheets amending its Schedule 2 to provide additional details regarding the manner in which it proposes to compensate generators (affiliated and unaffiliated) for reactive power outside the deadband.

7. LG&E proposes several steps a generator must follow and the criteria it must meet to qualify to receive compensation for producing reactive power outside the deadband. First, LG&E proposes several technical requirements that each generator must meet to be deemed a Qualified Generator.

8. In its transmittal letter, LG&E states that each generator must, among other things: (1) be interconnected to the LG&E transmission system; and (2) be found in compliance by the North American Electric Reliability Corporation (NERC), or have self-certified as

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<sup>7</sup> *Id.* at 3, citing *Entergy Services, Inc.*, 113 FERC ¶ 61,040, at P 22, 38-39 (2005) (*Entergy I*), order on reh’g, 114 FERC ¶ 61,303 (2006) (*Entergy II*).

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

<sup>9</sup> June 29 Order, 119 FERC ¶ 61,340 at P 25 (internal citation omitted).

compliant, with NERC Standard VAR-002.<sup>10</sup> Accordingly, under the proposal, existing interconnected generators will be deemed to have met such technical requirements once notification of compliance with VAR-002 through NERC audit or self-certification has been received by LG&E.<sup>11</sup>

9. LG&E also seeks to incorporate provisions for the re-evaluation of Qualified Generator status, pursuant to which a generator can lose its Qualified Generator status if, more than three times in a calendar month, the generator fails to notify LG&E that its automatic voltage regulator is out of service. These provisions will apply to the affiliated and unaffiliated generators on a comparable and non-discriminatory basis. LG&E seeks to incorporate provisions that, if a generator loses its Qualified Generator status, after two months the generator can regain its Qualified Generator status by demonstrating that the causes for the disqualification have been remedied. LG&E also seeks to impose a *de minimis* provision such that any generator that produces less than 1 MVARh of reactive power over the integrated hour will not receive compensation.

10. LG&E proposes that all generators, affiliated or unaffiliated, will be required to meet the same system voltage schedule based on a fixed percentage of the nominal interconnection line voltage, which will be equally applicable to all generators. These percentages will apply except in two limited circumstances: (1) where NERC permits the generator to vary from the voltage schedule in accordance with NERC Standard VAR-002; or (2) where it is necessary to coordinate with neighboring control area operators on voltage schedule levels to maintain reliability.

11. LG&E also requests waiver of the Commission's Prior Notice requirements to allow an effective date of July 13, 2007 for the revised Schedule 2 provisions. LG&E asserts that a July 13, 2007 effective date will allow LG&E's entire OATT, as submitted in its Order No. 890 compliance filing on July 13, 2007, and the revisions proposed in the

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<sup>10</sup> The Commission approved VAR-002 on March 16, 2007 as part of Order No. 693, which established reliability standards and guidance for generation operation for maintaining network voltage schedules. *Mandatory Reliability Standards for the Bulk-Power System*, Order No. 693, FERC Stats. & Regs. ¶ 31,242, at P 1881-84, *order on reh'g*, Order No. 693-A, 120 FERC ¶ 61,053 (2007). VAR-002 was put in place to ensure that generators provide reactive and voltage control necessary to maintain voltage levels, reactive flows, and reactive resources within applicable facility ratings to protect equipment and the reliable operation of an interconnection. VAR-002 establishes the operating requirements for voltage networks, milestones, and compliance measures for reactive and voltage control.

<sup>11</sup> Compliance Filing Transmittal Letter at 2.

instant filing, to be effective on the same date. LG&E also respectfully requests waiver of any of the Commission's requirements that have not been fulfilled by this filing.

### **Notice of Filing and Pleadings**

12. Notice of LG&E's compliance filing was published in the *Federal Register*, 72 Fed. Reg. 45,032-33 (2007), with a comment date of August 20, 2007. A timely motion to intervene, raising no substantive issues, was filed by the City Utilities Commission of the City of Owensboro, Kentucky, Paducah Power System and the Princeton Electric Plant Board (collectively, KMPA). Bluegrass Generation Company, L.L.C. (Bluegrass) filed a protest. On September 4, 2007, LG&E filed a motion for leave to answer and answer to the protest. On September 19, 2007, Bluegrass filed a motion for leave to respond and response to LG&E/KU's answer.

### **Discussion**

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

13. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2008), KMPA's timely, unopposed motion to intervene serves to make it a party to this proceeding.

14. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2008), prohibits an answer to a protest or an answer to an answer unless otherwise ordered by the decisional authority. We will accept LG&E's and Bluegrass' answers because they have provided information that assisted us in our decision-making process.

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

##### **1. Eligibility Requirements**

##### **a. Compliance Filing**

15. LG&E provides that an existing generator in its control area will be deemed eligible to receive reactive power compensation (i.e., a Qualified Generator) once LG&E receives the NERC audit findings or self-certification of compliance with NERC Standard VAR-002.<sup>12</sup> LG&E states that to receive reactive power compensation, a new generator in its control area must meet certain technical requirements, including that it be found in compliance by NERC or that it be self-certified as (1) fully compliant; (2) level 1 non-compliant; and (3) level 2 non-compliant with NERC Standard VAR-002.

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<sup>12</sup> Schedule 2, section A.2, LG&E OATT at Original Sheet No. 114A.

16. LG&E also provides that if a Qualified Generator fails to notify LG&E that the generator's automatic voltage regulator is out of service more than three times in a calendar month, LG&E may re-evaluate whether the generator should continue to be a Qualified Generator. LG&E states that these provisions are similar to those previously approved by the Commission.<sup>13</sup>

17. In addition, LG&E provides that if a generator loses its Qualified Generator status, the generator may regain its Qualified Generator status after two months if it can demonstrate that the causes for the disqualification have been remedied. LG&E states that this provision is applicable to all generators on a comparable and non-discriminatory basis, and a similar provision has recently been approved by the Commission in another proceeding.<sup>14</sup>

18. Finally, LG&E sets forth a *de minimis* provision that any generator that produces less than 1 MVARh over the integrated hour will not receive compensation under LG&E's Schedule 2 for that hour.

**b. Bluegrass Protest**

19. Bluegrass protests the proposed standard for new generators and argues that no generator can be (a) fully compliant, (b) level 1 non-compliant, *and* (c) level 2 non-compliant with Standard VAR-002 at the same time because the three criteria are mutually exclusive. In addition, Bluegrass states that Southeastern Reliability Corporation (SERC), as the Regional Reliability Organization, and not NERC, determines whether a generator is in compliance with Standard VAR-002.

20. Bluegrass also argues that the requirement for a generator to self-certify or be found by SERC to be in compliance with Standard VAR-002 could lead to a situation where a generator must provide reactive power outside the deadband but not yet be eligible to receive compensation. Specifically, Bluegrass states that the NERC process allows generators to self-certify compliance with Standard VAR-002 only during certain years. Similarly, Bluegrass states that a generator can expect to be audited by SERC to determine the generator's compliance with Standard VAR-002 only once every three to six years. Bluegrass argues that, as a result, a new generator may for a period of time have to provide reactive power outside the deadband without compensation because the

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<sup>13</sup> Compliance Filing Transmittal Letter at 2, *citing Southwest Power Pool, Inc.*, 119 FERC ¶ 61,199, at P 50 (2007) (*SPP*); *Midwest Indep. Transmission Sys. Operator, Inc.*, 113 FERC ¶ 61,046, at P 67 (2005).

<sup>14</sup> *Id.*, *citing SPP*, 119 FERC ¶ 61,199 at P 50.

generator will not qualify for compensation under the proposal until a year in which it is allowed to self-certify or a year in which SERC performs an audit.

21. Bluegrass argues that, in any event, limiting the criteria to full compliance, level 1 non-compliance, or level 2 non-compliance is overly stringent for reactive power compensation. Bluegrass states that even under the lowest proposed standard, level 2 non-compliance, a generator will not be eligible for reactive compensation if the generator on five or more occasions during a calendar year fails to (1) notify LG&E of certain specified events; or (2) maintain a voltage or reactive power schedule.<sup>15</sup> Bluegrass argues that requiring generators to meet such a stringent requirement to be eligible for compensation for providing reactive power outside the deadband, which the generators remain obligated to supply regardless of whether they meet this requirement, is a departure from the requirement in Order No. 2003 that generators be compensated for providing such service. Thus, Bluegrass argues that the proposal constitutes a departure from Order No. 2003 that has not been demonstrated to be consistent with or superior to the Commission's reactive power policy.

22. As a solution, Bluegrass recommends that LG&E adopt the eligibility requirements in Schedule 2 of Midwest Independent Transmissions System Operator Inc.'s (Midwest ISO's) Open Access Transmission and Energy Markets Tariff. According to Bluegrass, Midwest ISO's Schedule 2 requires that to be eligible for reactive power compensation, the generation resource must: (1) operate with its voltage regulators in automatic mode and respond to voltage schedules of the transmission provider or control area operator; (2) be able to maintain voltage support within its design limits; and (3) be capable of a reactive power range of 95 percent leading to 95 percent lagging at the point of interconnection unless otherwise stated in its interconnection and operating agreement.<sup>16</sup>

**c. LG&E's Answer to Protest**

23. LG&E agrees with Bluegrass that a generator would not be able to meet all three criteria in section A.2 because those criteria are mutually exclusive. However, LG&E states that this issue is the result of a typo, and it proposes to fix the problem by changing the "and" in the list of the three criteria to an "or" so that a generator need meet only one of the three criteria, not all of them.

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<sup>15</sup> Bluegrass Protest at 17-18, *citing* Standard VAR-002, Section D.2.2.

<sup>16</sup> Bluegrass Protest at 19-20, *citing* Schedule 2 of Midwest ISO TEMT at Second Revised Sheet Nos. 857-857A.

24. LG&E also agrees with Bluegrass that SERC, and not NERC, may be the compliance monitor, but LG&E notes that generators must comply with the NERC standards. However, LG&E states that it is willing to insert the word “SERC” in section A.2 of the proposed Schedule 2 if this change will alleviate any concern.

25. LG&E responds to Bluegrass’ timing concerns and states that it intends to compensate all generators, affiliated or unaffiliated, for reactive power produced outside the deadband in accordance with Schedule 2. To alleviate further concern, it proposes the following clarifying changes to language in its proposal for existing generators:

An existing generator in Transmission Owner’s control area will be deemed a Qualified Generator ~~once the~~ and will continue to be so qualified provided that a copy of the NERC audit or a self-certification, of compliance with NERC Standard VAR-002 is has been received by Transmission Owner, in any year that such audit or such self-certification is required.<sup>17]</sup>

LG&E states that the existing generator will be expected to meet the NERC Standard VAR-002 even if not audited, but self-certification would only be applicable when NERC requires such self-certification.

26. LG&E proposes to add what it states is a similar provision to apply to new generators:

Each Qualified Generator must be found in compliance by NERC/SERC or have self-certified as (a) fully compliant; (b) level 1 non-compliant; ~~and~~ or (c) level 2 noncompliant with NERC Standard VAR-002, when such self-certification is required in that year.<sup>18]</sup>

LG&E argues that these proposed changes should alleviate concerns raised by Bluegrass about the timing for compliance determinations.

27. LG&E also argues that the Commission must dismiss the concerns that Bluegrass raises about NERC requirements being too stringent to be used as a basis to determine eligibility for reactive power compensation. If Bluegrass has issues with such NERC requirements, LG&E argues that this proceeding is an inappropriate forum in which to address those concerns.

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<sup>17</sup> Schedule 2, at Original Sheet No. 114A.

<sup>18</sup> *Id.* section A.2.

**d. Bluegrass Response**

28. Bluegrass argues that LG&E's proposed changes do not address the core of Bluegrass' protest, which is that relying on NERC Standard VAR-002 as an eligibility criterion for compensation for providing reactive power is unduly discriminatory and preferential and inconsistent with Order No. 2003. In addition, Bluegrass argues that LG&E's proposal to "grandfather" existing generators is unduly discriminatory and preferential because new generators will have to be in compliance with a NERC/SERC audit or be in a year where they can self-certify compliance in order to receive reactive power compensation, while existing generation is automatically deemed to qualify for the same compensation. Bluegrass also states that it is not in this proceeding asking the Commission to change NERC Standard VAR-002 nor dictating how that standard should be implemented. Instead, Bluegrass argues that using that standard to eliminate eligibility for reactive power compensation results in unduly discriminatory and preferential treatment.

**e. Commission Determination**

29. We will conditionally accept LG&E's proposed eligibility criteria and direct LG&E to submit, in a compliance filing within 30 days of the date of this order, revised tariff sheets containing the changes discussed below.

30. We find that it is appropriate for LG&E to use NERC Standard VAR-002 to determine whether a generator is eligible to receive reactive power compensation. This standard is designed to ensure that generators provide reactive and voltage control necessary to maintain voltage levels, reactive flows, and reactive resources within applicable facility ratings to protect equipment and the reliable operation of an interconnection.<sup>19</sup> As Bluegrass notes in its protest, a generator can comply with the proposed standard so long as it does not on five or more occasions during a calendar year fail to notify LG&E of certain specified events or to maintain a voltage or reactive power schedule. This standard does not appear to be overly stringent or result in unduly discriminatory or preferential treatment. Finally, although Bluegrass prefers Midwest ISO's eligibility requirements, Bluegrass has not convinced us that LG&E's proposed eligibility requirements limit eligibility for reactive power compensation in an unreasonable manner or that relying on NERC Standard VAR-002 instead of Midwest ISO's eligibility requirements makes LG&E's proposal inconsistent with Order No. 2003.

31. We also accept the following commitments made by LG&E and direct LG&E to reflect them in revised tariff provisions in a compliance filing within 30 days of the date

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<sup>19</sup> Generator Operation for Maintaining Network Voltage Schedules, VAR-002-1, <http://www.ferc.gov/industries/electric/indus-act/reliability/standards.asp>.

of this order: (1) for the three criteria for receiving reactive power compensation in Schedule 2, change “and” to “or” so that a generator need meet only one of the three criteria;<sup>20</sup> (2) insert the word “SERC” in section A.2 of Schedule 2, including “NERC/SERC” standards and both NERC and SERC compliance monitoring as part of the certification process;<sup>21</sup> and (3) revise Schedule 2 to address Bluegrass’ timing concerns regarding eligibility for compensation of new and existing generators.<sup>22</sup>

32. We agree with Bluegrass, however, that under LG&E’s revised language, it appears that existing generators will be eligible to receive compensation for providing reactive power outside of the deadband immediately upon the revised Schedule 2 becoming effective, while new generators may face a potentially significant delay before being eligible to receive the same compensation. Specifically, LG&E will deem an existing generator to be a Qualified Generator until a year in which NERC performs an audit or a year in which a generator can self-certify compliance with Standard VAR-002. However, a new generator must wait until a year that NERC performs an audit or a year in which NERC allows the new generator to self-certify compliance before being eligible to receive reactive power compensation. Thus, LG&E’s revised language would give an existing generator the immediate, presumptive eligibility for compensation pending the next audit or self-certification whereas a new generator would have to wait until the next audit or self-certification to be considered for eligibility for compensation. Consistent with the Commission’s finding in *SPP* that treating existing Qualified Generators different from new Qualified Generators is unduly discriminatory and preferential,<sup>23</sup> we direct LG&E to make a further compliance filing to eliminate the unduly discriminatory or preferential treatment between new and existing generators.

## **2. Criteria used to call on generators outside the deadband**

### **a. Compliance Filing**

33. LG&E states that the criteria it will use to determine which generators it will call upon to provide reactive power outside the deadband are based on whether a generation resource is able to meet a voltage schedule to be posted on OASIS. That voltage schedule will be based on a percentage of the nominal interconnection line voltage, with differentiation based on on-peak, off-peak, and shoulder-peak conditions. The uniform

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<sup>20</sup> See *supra* note 12 and P 23.

<sup>21</sup> See *supra* P 24.

<sup>22</sup> See *supra* P 25-26.

<sup>23</sup> *SPP*, 119 FERC ¶ 61,199 at P 59.

voltage schedule will be subject to exception where: (1) required by NERC in accordance with NERC Standard VAR-002; or (2) necessary to coordinate with neighboring control area operators in order to maintain reliability. All exceptions will be granted on a non-discriminatory basis and posted on OASIS.<sup>24</sup>

**b. Bluegrass Protest**

34. Bluegrass states that NERC standard VAR-001 defines a voltage schedule as a target voltage with a tolerance band. Bluegrass argues that by not specifying a tolerance band or otherwise indicating that the voltage schedules would be established consistent with the requirements of NERC Standard VAR-001, LG&E has proposed a requirement more stringent than NERC standards.

35. Bluegrass also argues that the non-specific language requiring a generation resource to meet a voltage schedule fails to provide specific criteria that will avoid discrimination. For instance, it argues, some generators may have to produce more MVARs than others to meet the same voltage schedule, depending on their electrical location on the system, and this could lead to unduly discriminatory treatment. In addition, Bluegrass argues that this could cause some generators to approach or hit operational limits while other generators do not approach such limits. Bluegrass argues that the criteria should therefore recognize any operational limits of a generator in providing reactive power not only to protect the generator, but also to recognize that a generator will not be disqualified as a result of operational limits.

36. In addition, Bluegrass maintains that LG&E's proposal to allow a generation resource to deviate from the uniform voltage schedule when required by NERC in accordance with Standard VAR-002 is misleading. Bluegrass states that Standard VAR-002 allows for deviations from a voltage schedule only as the transmission operator may permit. Thus, Bluegrass argues, LG&E, not NERC, will decide whether exceptions will be granted, and LG&E has not provided any criteria for providing such exceptions.

**c. LG&E Answer**

37. In response to Bluegrass' concern about the lack of a tolerance band, LG&E agrees that the voltage schedules are targets and clarifies that it will pay for MVARs outside of the deadband regardless of the actual voltage maintained. LG&E believes that NERC/SERC standards and potential penalties will be sufficient to keep generators following voltage schedules. In response to Bluegrass' concern about generator operating limits, LG&E states that it is willing to add an additional exception to allow for a unit's operating limits but thinks this is unnecessary since this flexibility is already

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<sup>24</sup> Schedule 2 at section A.5, LG&E OATT Original Sheet Nos. 114A-B.

addressed in NERC standards. Moreover, LG&E also argues that posting voltage schedules and exceptions on OASIS addresses any transparency concerns.

**d. Response to Answer to Protest**

38. Bluegrass believes that NERC standards and the proposed compliance filing still fail to include any specific criteria under which generators will be called upon to provide reactive power outside the bandwidth.

**e. Commission Determination**

39. We will conditionally accept LG&E's proposed criteria that it will use to call on and compensate generators to produce reactive power outside the deadband and direct it to make a further compliance filing within 30 days of the date of this order, as discussed below.

40. Regarding Bluegrass' concern about the absence of a tolerance band, we will accept LG&E's proposal that it pay for all reactive power produced outside of the deadband regardless of the actual voltage maintained. We understand this proposal to mean that a generator will still have to meet the other eligibility and technical requirements outlined in Schedule 2. As discussed above, one of those eligibility requirements is that the generator comply with NERC Standard VAR-002, and such compliance means that a generator can deviate from the specified voltage schedule only a certain number of times during a calendar year. Thus, a Qualified Generator may be able to deviate from the uniform voltage schedule that LG&E posts on OASIS and still receive compensation for all the reactive power the generator produces outside the deadband, but it may lose its status as a Qualified Generator eligible for reactive power compensation if it fails to meet that specified voltage schedule a certain number of times. It is important, therefore, for generators to know the tolerance band that applies to a voltage schedule so that it can remain eligible to receive reactive power compensation under Schedule 2. Accordingly, LG&E must also post on the OASIS the applicable tolerance band associated with the uniform voltage schedule that it already proposes to post on the OASIS.

41. Regarding Bluegrass' concern about operational limits, we will accept LG&E's offer to include language in Schedule 2 to make explicit the exception for following a voltage schedule based on the operating limits of a generator and direct LG&E to include this in the compliance filing to be submitted within 30 days of the date of this order.

42. Although Bluegrass is concerned that generators in certain areas of the system may have to produce more reactive power to maintain the voltage schedule target than generators in other areas, LG&E's proposal is to pay Qualified Generators for *all* of the reactive power they produce outside the deadband, so generators that produce more reactive power to meet their requirements will be compensated appropriately. In

addition, LG&E's proposal to apply a uniform voltage schedule to all generators provides less opportunity for the potential discriminatory treatment that Bluegrass is concerned about. If, for example, LG&E proposed to apply different voltage schedules to different generators based on the generator's location on the system, LG&E would have more discretion to apply favorable voltage schedules to some generators but not others.

43. Nonetheless, as explained above, we will order LG&E to submit in the compliance filing to be submitted within 30 days of the date of this order revised tariff sheets to clarify that it will allow exceptions to the uniform voltage schedule to reflect operational limitations. Specifically, if in order to meet the uniform voltage schedule, a generator would have to produce reactive power that exceeds the operational limitations of the generator, it must be excepted from the uniform voltage schedule to the extent that the generator's operational limitations require. Allowing a generator to deviate from the posted voltage schedule based on the operating limits of the generator and still receive compensation for providing reactive power will prevent LG&E from using the uniform voltage schedule as a basis to eliminate reactive power compensation for a particular generator. This reduces the potential opportunities for discrimination that uniform voltage schedules could produce.

44. We also find that LG&E's proposal to post on the OASIS all instances where it allows a generator to deviate from the uniform voltage schedules provides some of the transparency needed to ensure that it applies such exceptions on a non-discriminatory basis. However, we direct LG&E to also post on OASIS an explanation outlining the reason that it granted each deviation from the uniform voltage schedule when making the exception postings.

**f. Effective Date**

45. Although the Commission in the June 29 Order conditionally accepted LG&E's proposal effective July 1, 2007, as LG&E requested, LG&E asks in its compliance filing for an effective date of July 13, 2007 for the revised Schedule 2. LG&E states that this will allow its entire OATT, as submitted in its Order No. 890<sup>25</sup> compliance filing on July 13, 2007, and the proposed revisions submitted in the instant filing, to be effective on the same date. Given that LG&E's request to make the changes effective 12 days later than the Commission originally allowed is unopposed, and because it will allow the

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<sup>25</sup> *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, FERC Stats. & Regs. ¶ 31,241 (2007), *order on reh'g*, Order No. 890-A, 73 Fed. Reg. 2984 (Jan. 16, 2008), FERC Stats. & Regs. ¶ 31,261 (2007). By order issued on June 27, 2008, the Commission accepted LG&E's Order No. 890 compliance filing in Docket No. OA07-37-000, as modified by that order. *E.ON U.S. LLC*, 123 FERC ¶ 61,301 (2008).

revised Schedule 2, as modified herein, to take effect at the same time as other changes filed by LG&E in compliance with Order No. 890, we will conditionally accept the compliance filing, effective July 13, 2007, as requested.

The Commission orders:

(A) LG&E's proposed tariff revisions to Schedule 2 of its OATT are hereby conditionally accepted for filing, subject to the conditions discussed in the body of this order, effective July 13, 2007.

(B) LG&E is hereby directed to make a compliance filing within 30 days of the date of this order, as discussed in the body of this order.

By the Commission.

( S E A L )

Kimberly D. Bose,  
Secretary.