

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.

Southwest Power Pool, Inc.

Docket Nos. ER07-371-000  
ER07-371-001

ORDER CONDITIONALLY ACCEPTING PROPOSED TARIFF REVISIONS

(Issued May 25, 2007)

1. On December 26, 2006, the Southwest Power Pool, Inc. (SPP) filed a revised Schedule 2 of its open access transmission tariff (OATT or tariff) under section 205 of the Federal Power Act (FPA),<sup>1</sup> in response to the Commission's Order on Initial Decision, issued September 26, 2006.<sup>2</sup> As discussed below, the Commission conditionally accepts for filing SPP's tariff revisions establishing a means to compensate all generators for Reactive Support and Voltage Control from Generation Sources Service (reactive power or reactive power service) under Schedule 2 of its tariff, to become effective March 1, 2007, and directs a compliance filing.

**I. Background**

2. Schedule 2 of SPP's tariff, which is similar to the Commission's *pro forma* OATT, provides that reactive power service will be provided by the control area operator within SPP where the load is located. Under Schedule 2, SPP receives the revenues for reactive power and then passes through these revenues to the control area operator. SPP's Schedule 2 does not allow SPP to directly compensate non-transmission owners or independent power producers (IPPs) for providing reactive power; rather, all payments for Schedule 2 service are distributed to the control area operator.

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<sup>1</sup> 16 U.S.C. § 824d (2000).

<sup>2</sup> *Calpine Oneta Power, L.P.*, 116 FERC ¶ 61,282 (2006) (*Calpine Oneta*), order on reh'g, 119 FERC ¶ 61,177 (2007).

3. In *Calpine Oneta*, the Commission determined that Calpine Oneta Power, L.P. (Oneta), as an IPP within the control area of American Electric Power Service Corporation (AEP), a transmission owner in SPP, should receive compensation under its proposed rate schedule for providing reactive power on a comparable basis as AEP. The Commission determined that Schedule 2 of SPP's OATT, which allows only generation sources from transmission owners to receive compensation for providing reactive power, to be unjust, unreasonable and unduly discriminatory under section 206 of the FPA. The Commission directed SPP to revise its Schedule 2 in order to compensate all generators under Schedule 2, including IPPs, on a comparable basis.<sup>3</sup>

4. The Commission also stated that SPP (and other parties) may develop criteria, applied comparably and prospectively, that would determine which generators would receive reactive power compensation. The Commission stated that it would expect SPP to factor reliability into any such proposal, and that any such proposal should be advanced in a separate FPA section 205 proceeding.<sup>4</sup>

## II. Description of Filing

5. On December 26, 2006, SPP filed revisions to its OATT, Schedule 2, pursuant to section 205 of the FPA. SPP states that the proposed revisions to Schedule 2 of its tariff responds to the Commission's invitation to "propose a rate for all generators that compensates them comparably for the level of reactive power actually needed and used, so as to avoid remuneration in excess of those levels" in that reactive power within the power factor deadband of .95 leading to .95 lagging is considered a requirement for all generators for which there is no specific compensation under Schedule 2, while compensation is provided for reactive power specifically provided and needed outside of the deadband. In addition, SPP states the proposal also complies with the Commission's directive in *Calpine Oneta* to "replace existing Schedule 2 with a revised Schedule 2 ...[to] provide compensation for all generators, including IPPs."<sup>5</sup>

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<sup>3</sup> *Calpine Oneta*, 116 FERC ¶ 61,282 at P 75.

<sup>4</sup> *Id.* P 2.

<sup>5</sup> SPP transmittal at 4 *citing Calpine Oneta*, 116 FERC ¶ 61,282 at P 75.

6. SPP states that section I.1 provides the general definitions to be used in this Schedule 2 only.<sup>6</sup> Section I.2 provides that generators operating within a range (dead band) of 0.95 leading to 0.95 lagging power factor will not receive compensation for supplying reactive power. However, compensation will be provided to a generator that provides reactive power outside of the deadband under the direction of the Transmission Provider or local Balancing Authority.
7. SPP states that section II provides the general and technical requirements for becoming a Qualifying Generator (QG).
8. SPP states that section III provides the rates and charges for reactive power, and sets the revenue distribution provisions. SPP explains that under section III, each January, SPP will calculate a reactive power rate for each zone to be paid by all load within the zone, with such rate to be based upon the operating data collected by SPP based on the previous calendar year as well as data related to any new QGs recognized during such year. The initial calculation of the rates and QG compensation is to occur no later than 60 days following the Commission's approval of the revised Schedule 2, with the results of the calculation to become effective the first day of the first month following completion of the rate calculations. The revenue collected under Schedule 2 is to be a pass through of the zonal reactive charges (ZRC) collected under the tariff.
9. SPP states that section III.A provides for a reactive compensation rate (RCR) of \$2.26 per MvarH that will be based on the cost of reactive power production from recently constructed generators so as to reflect the upper end of such costs.
10. SPP states that section III.B provides a formula for determining the level of reactive power compensation to be paid to each QG each year. The calculation is done on an annual basis.
11. SPP states that section III.C provides the formula for the calculation of the ZRC to be applicable to each zone. The annual rate for each zone is determined by taking the total ZRC and dividing this by the zonal average demand.
12. SPP states that section III.D provides that all transmission load shall pay SPP for reactive power based on applicable RCR multiplied by that customer's reserve capacity for point-to-point customers, or by network customers' and non-rate terms and conditions

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<sup>6</sup> Section I.1 also provides that "to the extent of a conflict between these definitions and other definitions in the Tariff, these definitions control in the interpretation of this Schedule 2."

customers' average coincident peak load for the prior calendar year. This section also provides that a QG is to receive each month 1/12 of the reactive compensation it is due for the applicable calendar year.<sup>7</sup>

13. Section IV.A contains provisions for the re-evaluation of QG status.
14. Finally, SPP states that section IV.B contains provisions allowing a generator to regain QG status.
15. SPP requests that the Commission accept its proposal effective March 1, 2007.

### **III. Notice and Interventions**

16. Notice of SPP's proposed tariff revisions was issued in the *Federal Register*, 72 Fed. Reg. 775 (2007), with interventions and protests due on or before January 16, 2007. Timely motions to intervene were filed by Western Farmers Electric Cooperative (Western Farmers), American Electric Power Service Corporation (AEPSC)<sup>8</sup>, Exelon Corporation, and the Electric Power Supply Association (EPSA). Timely motions to intervene and protests were filed by East Texas Cooperatives,<sup>9</sup> Dynegy Power Marketing, Inc. (Dynegy), Reliant Energy Inc. (Reliant), Calpine Oneta Power, L.P. (Oneta), Redbud Energy, L.P. (Redbud), and TDU Intervenors.<sup>10</sup> SPP and AEP filed answers to the protests. Redbud filed an answer to the answers. Notice of SPP's amendment to filing was published in the *Federal Register*, 72 Fed. Reg. 16,777 (2007), with motions to intervene and protests due on or before April 19, 2007.

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<sup>7</sup> Sections III.E and III.F include provisions relating to compensation for jointly owned units and for the certification and treatment of generators when there are multiple generators located behind a common meter.

<sup>8</sup> AEPSC filed on behalf of itself and its operating company affiliates Public Service Company of Oklahoma and Southwestern Electric Power Company (collectively, AEP).

<sup>9</sup> East Texas Cooperatives consist of East Texas Electric Cooperative, Inc., Northeast Texas Electric Cooperative, Inc. and Tex-La Electric Cooperative of Texas, Inc.

<sup>10</sup> TDU Intervenors consist of the Missouri Joint Municipal Electric Utility Commission, the Oklahoma Municipal Power Authority, and the West Texas Municipal Power Agency.

#### **IV. Discussion**

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

17. 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.

18. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2006), prohibits answers to protests unless otherwise ordered by the decisional authority. We will accept SPP's, AEP's and Redbud's answers because they have provided information that assisted us in our decision-making process.

19. Further, on February 27, 2007, the Commission issued a deficiency letter seeking additional information regarding SPP's proposed revisions to Schedule 2 of SPP's OATT (February 27 Deficiency Letter). On March 29, 2007, SPP filed a response to the deficiency letter. On April 19, 2007, Oneta filed a protest to SPP's response.

##### **B. Instant Filing**

20. We will conditionally accept SPP's proposed revisions to Schedule 2 of SPP's OATT, subject to SPP's modifying certain provisions of the revised Schedule 2 in compliance to this order, as discussed below.

##### **1. No Compensation for Generators Within the Deadband**

21. Section I.2 (Purpose) of the revised Schedule 2 states the following:

In order to maintain Transmission System voltages within acceptable limits, generation facilities connected to the Transmission System are operated to produce (or absorb) reactive power. Reactive Supply and Voltage Control from Generation Sources Service (Reactive Supply) must be provided to support each transaction on the Transmission System. The amount of Reactive Supply required in real time to maintain Transmission System voltages within limits that are generally accepted in the region and consistently adhered to by the Transmission Provider will vary with conditions on the Transmission System. Generators operating within a range of 0.95 leading and to 0.95 lagging PF [power factor] will not receive compensation for supplying such reactive power. Generators meeting the requirements of this Schedule 2 will be compensated for producing reactive power outside the DB [deadband] when such operation is at the direction of the Transmission Provider or local Balancing Authority. This Schedule 2

provides the criteria specifying which generators qualify to receive compensation for reactive power and sets out the rates and charges necessary to comparably compensate all QGs [qualified generators] for such operations.

**a. Comments**

22. Dynegy, Reliant and EPSA raise similar opposition to SPP's proposed revised Schedule 2 compensation provisions stating that this approach, unlike the approach used by other regional transmission organizations (RTOs) and independent transmission system operators (ISOs) in the Eastern Interconnection, gives no recognition to the clear value all reactive power supplies to the transmission grid, whether inside or outside the bandwidth. Reliant states that this approach ignores the vital role reactive power plays in maintaining the reliability of the transmission system as well as the investment generation owners must make in order to provide this essential service.<sup>11</sup> EPSA and Redbud contend that SPP should continue to provide non-discriminatory compensation within the deadband. Further, although EPSA recognizes that the Commission approved a compensation structure for Entergy that is similar to SPP's proposal, EPSA argues that SPP, unlike Entergy, is an RTO and all of the four RTOs in the Eastern Interconnection compensate for reactive power within the deadband. Finally, EPSA contends that eliminating compensation for reactive power inside the bandwidth would reverse the Commission's efforts to create greater transparency and would exacerbate seams issues between SPP and other RTOs.<sup>12</sup>

23. EPSA and Reliant also raise concerns regarding lost opportunity costs. Reliant argues that SPP's proposal fails to provide any avenue for generators to seek reimbursement for lost opportunity costs that may be incurred in complying with a voltage schedule provided by SPP or a Balancing Authority. EPSA asserts that, while most generation can meet the power factor requirement for operating within the deadband without a need to reduce real power output, demand for reactive support outside the deadband could require certain generation to reduce its real power generation to respond to voltage schedules or dispatch instructions. Because of this, the reduction in real power generation can lead to costs that are not addressed in SPP's Schedule 2 proposal. Thus, EPSA states that SPP's Schedule 2 must provide generators the right and a process to collect lost opportunity costs.

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<sup>11</sup> Dynegy motion to intervene and comment at 3-4, Reliant protest at 3.

<sup>12</sup> EPSA motion to intervene and protest at 7-8, Redbud motion to intervene and protest at 2.

24. In its answer, SPP contends that its proposal is consistent with the Commission's orders in *Calpine Oneta*<sup>13</sup> and *Entergy Services, Inc.*<sup>14</sup> and with Order No. 2003.<sup>15</sup> SPP argues that its proposal does exactly what the Commission determined would be permissible and consistent with its comparability standards. More specifically, SPP argues that the proposed revisions implement a Reactive Power compensation mechanism that pays generators on a non-discriminatory basis when they produce Reactive Power outside of a defined deadband, but does not compensate any generators when they produce reactive power within that deadband.<sup>16</sup>

25. Further, SPP asserts its proposal is consistent with *Entergy* where the Commission allowed the Entergy Operating Companies to set to zero the charge for the provision of Reactive Power within an established deadband that would apply comparably to the Entergy Operating Companies and unaffiliated generators.<sup>17</sup> SPP argues that the Commission held in *Entergy* that because Entergy Operating Companies chose to forego compensation for their own generation when Reactive Power is produced within a defined deadband, there existed "no concerns of undue discrimination due to non-compensation of non-affiliated generators for the same service arise."<sup>18</sup> SPP adds that

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<sup>13</sup> 116 FERC ¶ 61,282 (2006).

<sup>14</sup> 113 FERC ¶ 61,040 (2005), *reh'g denied*, 114 FERC ¶ 61,303 (2006) (*Entergy*).

<sup>15</sup> *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 (2005), *order on reh'g*, Order No. 2003-C, FERC Stats. & Regs. ¶ 31,190 (2005).

<sup>16</sup> SPP answer at 5-6, *citing Calpine Oneta*, 116 FERC ¶ 61,282 at P 35 n. 42. ("in line with the Commission's comparability standard, the Commission has accepted a proposal to eliminate compensation for reactive power within the established range for all generators, regardless of whether the generator is independent or owned by or otherwise affiliated with a transmission owner. *See Entergy*, 113 FERC ¶ 61,040 at P 22-24, 38-39.")

<sup>17</sup> SPP answer at 6, *citing Entergy*, 113 FERC ¶ 61,040 at P 22, 38-39.

<sup>18</sup> SPP answer at 6, *citing Entergy* 113 FERC ¶ 61,040 at P 24.

since it has adopted a compensation mechanism similar to that approved in *Entergy*, its proposed revisions to Schedule 2 are just, reasonable, and in line with the Commission's comparability standards.

26. Additionally, SPP argues its proposal is consistent with the Commission's determination in Order No. 2003 "that a 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."<sup>19</sup> SPP adds the Commission provided an exception to this prohibition "if the transmission owner pays its own or affiliated generators for producing Reactive Power within that deadband, it must pay the unaffiliated generators on the same basis."<sup>20</sup> SPP comments that because it will compensate all generators only when they produce power outside of the deadband, its proposal is consistent with Order No. 2003.

27. In response to intervenors' concerns regarding recovery of lost opportunity costs, SPP argues that under section 205 of the FPA, its only obligation is to show that the proposal is just and reasonable. Further, SPP asserts it is not obligated to adopt tariff provisions that other parties may find to be a better alternative, nor are they required to show that all other proposals are not reasonable or less reasonable.<sup>21</sup>

**b. Commission Determination**

28. At the outset, it is important to bear in mind that reactive power is essential to the operation of interconnected electric generation and transmission systems; without sufficient reactive power, real power (the portion of the power that does real work – and

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<sup>19</sup> SPP answer at 6-7, *citing* Order No. 2003, FERC Stats. & Regs. ¶ 31,146 at P 546.

<sup>20</sup> SPP Answer at 7, *citing* Order No. 2003-A at P 416.

<sup>21</sup> SPP Answer at 7-8, *citing* *Cities of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984) (a utility is not required to demonstrate that a proposed methodology is more reasonable than an alternative methodology; it need only show that the proposed methodology is just and reasonable) and *Louisville Gas & Electric Co.*, 114 FERC ¶ 61,282 at P 29 (2006) ("the just and reasonable standard under the FPA is not so rigid as to limit rates to a 'best rate' or 'most efficient rate' standard. Rather, a range of alternative approaches often may be just and reasonable.").

thus the power that sellers are looking to sell and that buyers are looking to buy) cannot be transmitted from a generator to a customer. In this regard, the Commission has previously explained:

Electric power consists of two components. The first component, "real" power (expressed in terms of watts), is the active force that causes electrical equipment to perform work. The second component, "reactive" power, (expressed in terms of volt-amperes reactive (VARs)) is necessary to maintain adequate voltages so that "real" power can be transmitted.

Failure to provide the correct amount of reactive power at various points on the transmission system can cause deviations from desired voltage levels and disruption in the flow of power on the system. In order to maintain desired voltage levels, reactive power must be supplied or absorbed by generators (or transmission equipment) at various points on the transmission system.<sup>22</sup>

In short, if a generator is to sell (and be able to deliver) its power to a customer, reactive power is essential to the transaction. Thus, it is hardly surprising that the Commission has concluded, as explained below, that the provision of sufficient reactive power is an obligation of a generator interconnected to the system, and that, as a general matter, a generator is not entitled to separate compensation for providing reactive power within its deadband.<sup>23</sup>

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<sup>22</sup> *Southern Company Services, Inc.*, 80 FERC ¶ 61,318 at 62,080-81 (1997)(aff'd in relevant part 61 FERC ¶ 63,009 at 65,025-26), *reh'g denied*, 82 FERC ¶ 61,168 (1998), *aff'd in relevant part and remanded on other grounds sub nom. Alabama Power Co. v. FERC*, 220 F.3d 595, 596-97 (D.C. Cir. 2000); *accord, e.g., Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888, FERC Stats. & Regs. ¶ 31,036, 31,716 (1996), *order on reh'g*, Order No. 888-A, FERC Stats. & Regs. ¶ 31,048, 30,228, *order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248 (1997), *order on reh'g*, Order No. 888-C, 82 FERC ¶ 61,046 (1998), *aff'd in relevant part sub nom. Transmission Access Policy Study Group v. FERC*, 225 F.3d 667 (D.C. Cir. 2000), *aff'd sub nom. New York v. FERC*, 535 U.S. 1 (2002).

<sup>23</sup> Below we explain an exception to this general rule – that, in the circumstance where a transmission provider compensates its own or affiliated generators for reactive power within the deadband, then the transmission provider should also compensate unaffiliated generators for reactive power within the deadband.

29. 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.”<sup>24</sup> Providing reactive power within the deadband is an obligation of a generator, and is as much an obligation of a generator as, for example, operating in accordance with Good Utility Practice.<sup>25</sup> 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.<sup>26</sup> In Order No. 2003-A, however, the Commission addressed comparability 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.”<sup>27</sup>

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<sup>24</sup> See Order No. 2003, FERC Stats. & Regs. ¶ 31,146 at P 546 (emphasis added). The Commission recognized certain limited exceptions that are not applicable here.

<sup>25</sup> Compare *Id.* at P 546 with *Id.* at P 537; accord *Entergy*, 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.

<sup>26</sup> *Michigan Electric Transmission Co.*, 96 FERC ¶ 61,214 at 61,906 (2001) (*METC*), 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 agreed upon deadband.”

<sup>27</sup> 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*, 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, continuing to provide that as a general rule payment for reactive power is only for reactive power “outside the agreed upon deadband,” but also allowing for payment for reactive power within the deadband *if, and only if*, the Transmission Provider pays its own or affiliated generators for reactive power within the deadband.

30. We will accept SPP's Schedule 2 proposal that compensates all generators (including both non-affiliated, merchant generators and generators owned by vertically integrated utilities) for providing reactive power, but only outside the deadband. We find that this proposal is consistent with Order Nos. 2003, 2003-A, 2003-B, and 2003-C. 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 (IPP) generators for reactive power service within the deadband.

31. Intervenors' arguments fail to acknowledge the Commission's determination in Order Nos. 2003, 2003-A, 2003-B and 2003-C,<sup>28</sup> where 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."<sup>29</sup> Generators interconnected to a transmission provider's system need only be separately compensated for reactive power where the transmission provider directed the generator to operate outside the deadband.<sup>30</sup> Intervenors' challenges in this proceeding with regard to compensation for reactive power within the deadband are collateral attacks on these earlier determinations.<sup>31</sup>

32. In addition, SPP contends that its proposal is consistent with the invitation that the Commission extended in *Calpine Oneta*. We recognized in *Calpine Oneta* that the Administrative Law Judge had found that there is between three and ten times the

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<sup>28</sup> To the extent that protestors raise concerns about bundled retail rates, those concerns are unsubstantiated allegations, and those rates are beyond the scope of this proceeding.

<sup>29</sup> See Order No. 2003, FERC Stats. & Regs. ¶ 31,146 at P 546. The Commission recognized certain limited exceptions, not relevant here.

<sup>30</sup> *METC*, 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.").

<sup>31</sup> In fact, Calpine, Reliant, and EPSA – among the parties protesting here – challenged the Commission's reactive power pricing policies on rehearing of Order Nos. 2003 or 2003-A or both, and the Commission rejected claims that generators should be separately compensated for reactive power within the deadband. See Order No. 2003-A, FERC Stats. & Regs. ¶ 31,160 at P 410-13; Order No. 2003-B, FERC Stats. & Regs. ¶ 31,171 at P 116-17.

reactive power capability as is needed in the Tulsa area where the Oneta facility is located, not taking into account Oneta's reactive power capability. We found that this evidence suggested that the Commission's compensation approach for generators providing reactive power within their established power factor range based on capability may not be appropriate in all circumstances. We stated that, going forward, parties may propose a rate for all generators that compensates them comparably for the level of reactive power actually needed and used, so as to avoid remuneration in excess of those levels. Specifically, we stated that SPP (and other parties) may develop criteria, including a needs test, to be applied comparably and prospectively, that would determine which generators would receive reactive power compensation. We also stated that we would expect that SPP factor reliability into any proposal that it might make, and that any such proposal should be advanced in a separate section 205 proceeding.<sup>32</sup> For the reasons discussed herein, we agree that SPP's proposal is consistent with our statements in *Calpine Oneta*.

33. With regard to lost opportunity costs, section III.A of Schedule 2 provides that the Reactive Compensation Rate (RCR) of \$2.26 per MVARh shall be based on the cost of reactive power production from recently constructed generators --- so as to reflect the upper end of the range of such costs. SPP maintains that this rate should help ensure that all generators receive a reasonable level of compensation when they provide reactive power outside the deadband in accordance with Schedule 2. Moreover, section III.A of Schedule 2 provides that SPP may periodically review the rate to determine whether it remains at or near the upper end of the range of such costs. We find that SPP's setting the rate using the upper end of the range of such costs, with periodic review, is reasonable. We also find that intervenors have not shown that the rate would not adequately compensate generators for the cost of providing reactive power outside the deadband.

## **2. Recovery of Reactive Power Costs Through Retail Rates**

34. The proposed revisions to Schedule 2 provide compensation to QGs who supply reactive power to the grid based on dispatch orders from SPP or the Balancing Authority to establish and maintain a voltage schedule which is outside of the .95 leading to .95 lagging deadband. The amount of compensation provided, set by section III of Schedule 2, is determined by the length of time in hours a QG maintains the voltage and the reactive load generated or absorbed outside the deadband required by the grid to ensure grid stability at all times. This compensation is payable to all QGs based on wholesale

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<sup>32</sup> *Calpine Oneta*, 116 FERC ¶ 61,282 at P 50.

reactive supply outside the deadband, which is within the Commission's jurisdiction to set rates, and not based on retail bundled load supplied by a generator, which falls within the jurisdiction of the state commissions.

**a. Comments**

35. Redbud and EPSA claim that SPP's proposed Schedule 2 compensation mechanism is unduly discriminatory to IPPs and merchant generators since vertically-integrated transmission owners routinely include their generation plant investment in retail rates, including the investment associated with the production of reactive power and SPP has presented no facts which indicate otherwise. Redbud asserts that while the transmission owners are not charging wholesale customers the fixed costs associated with providing reactive power within the deadband, they are charging their retail customers for such costs.<sup>33</sup> Redbud claims that in order for SPP to meet the Commission's comparability standard, SPP and the transmission owners have an affirmative obligation to demonstrate that they have removed the generation plant investment associated with the production of reactive power from retail rates and that they are not charging retail customers for reactive power unless their plants must operate outside the deadband. Moreover, Redbud asserts that the Commission has an obligation to take into consideration undue discrimination created by a utility's disparate treatment of its wholesale and retail customers.<sup>34</sup> EPSA argues that this proposal does not promote the Commission's declared policy of supporting competitive markets.<sup>35</sup>

36. In its answer, SPP argues that utilities serving bundled retail customers are provided the opportunity to recover the costs of serving their retail load through their bundled retail rates which defines the difference between merchant and non-merchant generators. They add that merchant generators take the risks and receive the rewards of participating in a competitive market environment. In contrast, traditional utilities are provided the opportunity to recover their cost of providing retail service under state regulatory commission-approved cost-of-service rates, but are limited in their ability to recover revenue in excess of those costs. For these reasons, SPP asserts one should not compare traditional utilities' cost recovery under cost-of-service rates with a merchant generator's cost recovery under its market rates.

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<sup>33</sup> Redbud protest at 5-9, EPSA protest at 7-8.

<sup>34</sup> Redbud protest at 6.

<sup>35</sup> EPSA protest at 7-8, n 18.

**b. Commission Determination**

37. The notion that SPP and the transmission owners have an affirmative obligation to demonstrate that they have removed generation plant investment associated with production of reactive power from retail rates, and that they are not charging retail customers for reactive power unless their plants must operate outside the deadband, is outside the scope of this filing, and not within the Commission's jurisdiction. Redbud's requested actions involve adjustments to retail rates, which, first, are not before us here, and, second, are within the relevant state commissions' jurisdiction and not within this Commission's jurisdiction.

38. SPP's proposed revisions to Schedule 2 establish a rate for reactive power support (MVARs) whereby QGs receive compensation when dispatched by the SPP or the Balancing Authority. This rate for compensation of reactive power outside the deadband is paid to generators for reactive power outside the deadband injected into the transmission system to assist real power transferred from its point of injection to its destination. The Commission's action here maintains a level playing field for all generators subject to Commission jurisdiction, such that compensation for reactive power support is separately paid when reactive power outside the deadband is dispatched to the point on the transmission system where it is needed, and in the magnitude required to ensure a stable grid.<sup>36</sup> All QGs so dispatched are compensated at the same rate throughout SPP's transmission system; this eliminates undue discrimination and preferential treatment amongst generators within the SPP footprint.

39. In addition, we note that merchant generators are free to negotiate rates that they charge their customers for real power that are sufficient to compensate them for any costs that they may incur in producing reactive power within their deadbands, just as affiliated generators may seek to negotiate rates that they charge their customers that are sufficient to compensate them for the costs of any reactive power that they provide within their deadbands. The two are treated comparably under the policy established in Order Nos. 2003, 2003-A, 2003-B, and 2003-C. In this regard, all that the protestors have done is to note that an incumbent utility's generators may be able to make up the revenue that

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<sup>36</sup> *Commonwealth Edison Co.*, 8 FERC ¶ 61,277 at 61,848 (1979). We note, by the way, that there are limits on the Commission's ability to change rates subject to its jurisdiction to address comparisons with retail rates. The Commission cannot set a jurisdictional rate at a level beyond the zone of reasonableness notwithstanding a claim of undue discrimination vis-à-vis retail rates. See *Southern Co. Services, Inc.*, 119 FERC ¶ 61,023 at P 20 n.64 (2007).

they previously might have earned through a separate charge for reactive power within the deadband in other ways – such as through higher power sales rates. But merchant generators are no differently situated and no worse off. They, equally, may be able to make up the revenue that they previously may have been receiving for reactive power within the deadband in other ways – such as through higher power sales rates of their own. Moreover, to accede to the complaints of protestors and to allow payment to merchant generators for reactive power within the deadband simply because state commissions may have allowed incumbent utilities to include such costs in their retail rates would have state commissions effectively setting rates,<sup>37</sup> and that would be inconsistent with the FPA – which vests that authority in this Commission.<sup>38</sup>

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<sup>37</sup> The fact that state commissions may allow an incumbent utility to recover within-the-deadband reactive power-related costs from retail customers in retail rates does not dictate that the Commission must allow recovery of within-the-deadband reactive power-related costs through a stand-alone within-the-deadband reactive power charge. *See infra* note 38. In this regard, we also emphasize that we do not concede that this, in fact, is the case; *i.e.*, we do not concede that such costs are being recovered in retail rates. The relevant retail rates are not before us (and in any event are not subject to our jurisdiction), as we have noted above. Rather, for purposes of the above discussion and thus solely for the sake of argument, we will assume this to be the case in order to make the point that the protestors’ arguments result in upending a longstanding and Congressionally-determined, judicially-sanctioned jurisdictional balance.

<sup>38</sup> 16 U.S.C. §§ 824, 824d, 824e (2000); *e.g.*, *Western Massachusetts Electric Co.*, 23 FERC ¶ 61,025 at 61,063-64 (state commission cannot control timing and content of Commission-jurisdictional rate filings), *reh’g denied*, 23 FERC ¶ 61,345 (1983)(state commission cannot establish Commission-jurisdictional rates); *Houlton Water Co. v. Maine Public Service Co.*, 60 FERC ¶ 61,141 at 61,514 (1992)(federal and state ratemaking bodies are not bound to use same ratemaking principles); *Potomac Edison Co.*, 70 FERC ¶ 61,037 at 61,121 (1995)(Commission will not set rates based on state commission actions); *Central Power and Light Co.*, 98 FERC ¶ 61,069 at 61,184 n.24 (2002)(Commission is not bound by actions of state commission); *Florida Power & Light Co.*, 98 FERC ¶ 61,325 at P 16 (2002)(Commission-jurisdictional rates are not driven by state commission actions); *Barton Village Inc.*, 100 FERC ¶ 61,244 at P 12 (2002) (“Under the Federal Power Act . . . the Commission has exclusive jurisdiction over [Commission-jurisdictional] rates . . . . Thus, we have no legal obligation to review, much less rely on, the findings by the [state commission].”), *aff’d sub nom. on other grounds, Barton Village Inc. v. FERC*, No 02-4693 (2d Cir. June 17, 2004) (unpublished).

Furthermore, again assuming we were to accede to the protestors' concerns, how the Commission would deal with rates for a multi-state system, such as SPP, where one state might allow such cost recovery, and another not, is not explained.

### **3. Balancing Authority and Market Monitor Responsibilities**

40. SPP's proposed revisions to Schedule 2 contain no guidance within that section of the tariff which address market monitor responsibilities; however, these responsibilities with respect to actual commitment and dispatch of generating units, including but not limited to generator MW capability and output, MVAR capability and output, status and outages are addressed elsewhere in the SPP tariff. These responsibilities are detailed specifically in Attachment AG, Market Monitoring Plan, with emphasis on sections 4.2 (Market Monitoring Scope), 4.2.1 (Additional Market Monitor Duties, 4.3 (Market Behavior Rules) and 4.4 (Market Manipulation).

#### **a. Comments**

41. Reliant, TDU Intervenors, and EPSA argue that because the proposed tariff provisions remove all compensation for reactive power within the deadband, these provisions create opportunities for Balancing Authorities to unduly favor their own generation (non-merchant) and secure compensation for their affiliates at the expense of other generators, including merchant generators.<sup>39</sup> Reliant argues that SPP's proposed Schedule 2 creates real opportunities for Balancing Authorities to unduly favor their own generation since generators will receive compensation only when Reactive Power is provided outside the deadband and only at the direction of SPP or a local Balancing Authority.

42. TDU Intervenors explain that in response to an Oklahoma Municipal Power Authority concern regarding directives to operate generation beyond the deadband that favored a Balancing Authority's own generation, SPP committed during a December 1, 2006 teleconference of the SPP Board of Directors and Members Committee, to take steps to assure market monitor functions include review of any potential manipulation of voltage schedules assignments to generating units. EPSA expressed similar concerns identifying the potential for discriminatory treatment by Balancing Authorities, including a concern that a generator responding in an emergency for some part of an hour with reactive power supply outside the deadband would not be compensated if the integrated value for the hour falls within the deadband.<sup>40</sup> However, TDU Intervenors now assert

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<sup>39</sup> Reliant protest at 3, TDU Intervenors protest at 7 and EPSA protest at 5-6.

<sup>40</sup> EPSA protest at 9-11.

that SPP has not yet proposed any changes to either its internal or external market monitor responsibilities. TDU Intervenors state that section 4.2(b) of the SPP OATT, Attachment AG, Market Monitoring Plan currently provides the following direction:

The Market Monitor will monitor SPP's Markets and Services by reviewing and analyzing market data and information including, but not limited to ... [a]ctual commitment and dispatch of generating units or a portfolio of generating units, including but not limited to generator MW capability and output, MVAR capability and output, status, and outages.

43. TDU Intervenors claim that while this section could be construed to subsume monitoring for discriminatory voltage schedule directives, the provision is very general and provides no guidance about when such monitoring should occur, nor offers standards for assessing conduct or requirements for reporting questionable conduct.<sup>41</sup>

44. In response to intervenors' concerns regarding the Balancing Authorities receiving preferential treatment or engaging in discriminatory behavior, SPP states that the arguments show a misunderstanding of the authority of SPP's Market Monitors, and of the workings of the QG provisions set forth in Schedule 2. SPP states that its Market Monitor is an independent entity with the authority to monitor and report on market power abuses under the SPP Tariff.<sup>42</sup> SPP further states that the Market Monitor has authority to review any information regarding collusive, anti-competitive or inefficient behavior in or affecting SPP's Market or Services, and to report such activities to SPP or this Commission. SPP states that because it is an independent RTO, it has no reason to favor any market participant, including any Balancing Authority. SPP maintains that it will administer all provisions of its tariff in a neutral and unbiased manner, including the provisions of Schedule 2. Moreover, SPP asserts that if a party believes that SPP or a Balancing Authority has been acting in a discriminatory manner, it can bring this to the attention of the Market Monitor, or seek relief through the tariff's dispute resolution provisions. In addition, such parties can also contact the Commission's hotline and dispute resolution services, or file a complaint at the Commission.

**b. Commission Determination**

45. We understand the concerns intervenors raise regarding the Balancing Authorities favoring their own generation; however, we find that the safeguards in place (*e.g.*, Market

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<sup>41</sup> TDU Intervenors protest at 7-8.

<sup>42</sup> See Attachment AG (Market Monitoring Plan), section 1.3.

Monitor) will mitigate such concerns. Therefore, we find that the answer provided by SPP addresses intervenors' concerns. Accordingly, we will not require any further revisions to the SPP tariff.

#### **4. Qualified Generator Requirements**

46. Section II.A of Schedule 2 provides:

General: All existing generation owners eligible to collect charges for Reactive Supply for generators connected to the Transmission System under a cost-based rate schedule on file with the Commission as of October 1, 2006, are deemed to have met the technical requirements of section II.B and therefore are QGs. In order to receive compensation under this Schedule 2 during the first calendar year of its applicability, all other owners of generation must apply to the Transmission Provider for QG status and provide the necessary operating data to the Transmission Provider by no later than 30 days following the approval of this Schedule 2 by the Commission. Thereafter, the Transmission Provider shall recognize a new QG throughout the year if the new generator meets the requirements set out in section II.B; and the new QG will start receiving payments in the following calendar year, consistent with section III. The Transmission Provider shall have the right to remove the QG status of any generation resource that fails to meet any requirements of section II.B.

Section II.B of Schedule 2 provides:

Technical: (1) Each QG shall designate the entity that is to receive dispatch instructions and the entity to receive compensation. (2) The generation resource must be able to produce reactive power outside the Dead Band at its Point of Interconnection with the Transmission System. (3) Each QG shall maintain the capability to provide MWh, MvArh and voltage data, by such means of transmittal, at such intervals and at such accuracy level as SPP shall require. (4) The generation resource must be able to follow a voltage schedule and respond to dispatch instructions from the Transmission Provider and/or the local Balancing Authority.

##### **a. Comments**

47. East Texas Cooperatives, EPSA and Reliant express similar concerns related to different treatment of existing generators that have rate schedules on file with the Commission versus those new generators that may not have existing rate schedules on

file with the Commission as of October 1, 2006, but are nonetheless included as a generation facility under a Transmission Owners Reactive Power Rate Schedule on file with the Commission. These entities include non-jurisdictional utilities or jointly owned facilities, such as those owned partly by a cooperative or municipal utility.<sup>43</sup>

48. To address this problem, the East Texas Cooperatives request that the Commission direct SPP to modify section II.A. to clarify that all generation owners are eligible to apply for Qualified Generator (QG) status, regardless of whether they have cost-based rate schedules on file at the Commission. East Texas Cooperatives and EPSA argue that the SPP tariff should be revised to provide that generators owned by non-jurisdictional utilities that are currently used to provide reactive power automatically qualify as QGs, regardless of whether those utilities have cost-based reactive power rate schedules on file at the Commission.

49. East Texas Cooperatives argue that key terms in section II.A require clarification, specifically, the term “necessary operating data” located in paragraph II.A. of proposed Schedule 2. Also, they request that the Commission direct SPP to clarify that as long as a generator makes a good faith effort to comply with the requirements of section II.A within 30 days following Commission approval of the revised Schedule 2, the generator will be eligible to receive compensation under Schedule 2 during the first year of its applicability if the generator is ultimately granted QG status. East Texas Cooperatives further state that this clarification is important to ensure that generators that follow the rules spelled out in section II.A of the revised Schedule 2 are treated fairly. EPSA also requests a grace period for generators seeking to comply with these requirements.

50. In reply to intervenors’ protests regarding QG Requirements, SPP states that while Schedule 2, section II.A, allows for an automatic qualification for generators that had cost-based rate schedules on file with the Commission as of October 1, 2006, generators that did not have cost-based rate schedules as of this date, including non-jurisdictional entities, can qualify if they can show that they satisfy the technical requirements set forth in section II.B. SPP further states that these generators can also become eligible during the first year that Schedule 2 is in effect if they submit an application to SPP no later than 30 days after the Commission acts on this Schedule 2 filing, demonstrating that they can meet the technical requirements of section II.B. Moreover, SPP asserts the technical requirements are straightforward and must be met by all generators, regardless of whether they had a cost-based rate schedule on file with the Commission as of October 1, 2006.

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<sup>43</sup> EPSA protest at 14, Reliant protest at 3-4, and Cooperatives at 8-9.

As such, even if a generator had a cost-based rate on file prior to October 1, 2006, it can still be declared ineligible for compensation if it does not meet the technical requirements contained in section II.B of Schedule 2.

**b. Commission Determination**

51. In *Calpine Oneta*, the Commission invited parties to propose a rate for all generators that compensates them comparably for the level of reactive power actually needed and used, so as to avoid remuneration in excess of those levels. The Commission also invited SPP and other parties to develop criteria, including a needs test, to be applied prospectively, that would determine which generators would receive reactive power compensation.<sup>44</sup> We find that the technical requirements in section II.B for becoming a QG under proposed revised Schedule 2 enable non-jurisdictional utilities to include municipals, cooperatives and IPPs to qualify for QG status by providing the necessary operating data to SPP following approval of Schedule 2 by the Commission. In its March 29, 2007 filing in reply to a deficiency letter issued February 27, 2007, SPP stated that the “required operating data” can be found in section II.B of Schedule 2 and that the generator will have to provide reasonable proof that satisfies the requirements of section II.B (QG Technical Requirements). Because this provision provides the criteria necessary for the Transmission Provider to determine if the generation resource has both the ability of the generator to meet the voltage schedules and the capability to maintain those parameters at the levels required of the Transmission Provider or Balancing Authority, we find these criteria to be essential in providing the provision of Reactive Supply service. Furthermore, these criteria are not discriminatory or unduly preferential, because as SPP states in their answer, “even if a generator had a cost-based rate on file prior to October 1, 2006, it can still be declared ineligible for compensation if it does not meet Schedule 2’s technical requirements.”<sup>45</sup> The Commission reached a similar conclusion regarding this issue in a Commission Order<sup>46</sup> in which the Commission conditionally accepted on compliance a Schedule 2 proposal from the Transmission Provider.

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<sup>44</sup> *Calpine Oneta*, 116 FERC ¶ 61,282 at P 50.

<sup>45</sup> SPP Answer at 14

<sup>46</sup> *Midwest Independent Transmission System Operator, Inc.*, 113 FERC ¶ 61,046, at P 26 (2005).

52. Because the term “necessary operating data” in section II.A of Schedule 2 is not specific, we will require SPP to revise this section to state exactly what data should be forwarded in the application a generator must submit to SPP in order to apply for QG status. Additionally, because the Commission is requiring SPP to revise proposed Schedule 2 to define the term “necessary operating data” more explicitly, we will also require that the word “final” be inserted before “approval” in the second sentence of section II.A, to allow adequate time for the generators to respond once the Commission acts on SPP’s compliance filing to this Order. Accordingly, we direct SPP to submit the Schedule 2 revisions in a further compliance filing, as directed below.

## 5. Compensation for Qualified Generators and Other Tariff Issues

### a. Comments

53. EPSA observes that while new QGs will be recognized by<sup>47</sup> SPP throughout a year and would be subject to the obligations to provide reactive support, the new QG can only start receiving payments in the following calendar year. As a result, a generator that meets the QG requirements on January 1 of year one must provide service, but is not eligible for compensation for up to an entire year. EPSA further notes that such treatment is discriminatory in relation to the treatment received by existing QGs that are immediately eligible to receive compensation. EPSA requests the Commission to order SPP to revise section II and section III of the proposed Schedule 2 to eliminate the unnecessary lag in compensation for service new QGs are required to provide.<sup>48</sup>

54. Reliant contends that the proposed revisions offer preferential treatment to generators with existing rate schedules on file, while qualified generators without a rate schedule on file are still obligated to comply with SPP’s voltage schedule and Reactive Supply Service Requirements and to provide Reactive Supply Service but without compensation.<sup>49</sup>

55. EPSA also expresses a concern that because a generator’s operational status does not appear to have been taken into account in SPP’s proposed revised section IV.A of Schedule 2, the possibility exists that a Balancing Authority can request immediate reactive support of a facility that is not operating and, in failing to respond, the generator

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<sup>47</sup> EPSA protest at 15, *citing* section II.A of Schedule 2.

<sup>48</sup> *Id.* at 15.

<sup>49</sup> Reliant protest at 3-4.

risks losing its QG status.<sup>50</sup> In addition, in section IV.B of Schedule 2, EPSA argues in the event a generator loses QG status, this section provides the generator may be reinstated six billing months following disqualification to receive reactive compensation; however, what is not clear is when the compensation will actually be resumed.<sup>51</sup> Lastly, EPSA protests the lack of audit rights provided to QGs who desire to audit the Balancing Authority and or Transmission Provider with respect to the reactive service requirements and compensation calculations of proposed revised Schedule 2.<sup>52</sup> QGs equipped with audit rights will be empowered to: (1) identify discriminatory practices; (2) serve as a disincentive to prevent abuses in the administration of Schedule 2 by the Transmission Provider and Balancing Authority; and (3) provide QGs and transmission customers with an understanding of the rates as they are revised.

56. In its answer, SPP responds to EPSA's concern regarding a perception that operational factors were not being taken into account by referring to the statement in section IV.A.2 that "In making a determination of whether a Generation Resource should continue to be a QG, the Transmission Provider will evaluate, among other factors, whether the Generation Resource was operated consistently with its design characteristics, if the QG responded in accordance with other agreements and whether system conditions prevented it from responding as required by the Balancing Authority or Transmission Provider."<sup>53</sup> In addition, SPP notes that the provision above is similar to provisions<sup>54</sup> adopted by the Midwest ISO.

57. SPP also responds to EPSA's concern regarding when reactive power compensation will be restored in the event it is interrupted as a result of QG disqualification. SPP states that such generators will not be treated as new generators, and thus will be eligible to receive compensation under Schedule 2 in that year.

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<sup>50</sup> EPSA protest at 11-12.

<sup>51</sup> *Id.* at 16.

<sup>52</sup> *Id.* at 17-18.

<sup>53</sup> Section IV.A.2, Schedule 2, SPP OATT.

<sup>54</sup> Section IV.A.2, Schedule 2, Midwest ISO TEMT.

Furthermore, SPP provides that these provisions apply with equal force to all generators regardless of whether they are owned by or affiliated with a transmission owner or Balancing Authority, as such they cannot be said to be unduly discriminatory.<sup>55</sup>

58. SPP replies to EPSA's protest requesting the Commission to instruct SPP to give QGs the right to audit SPP and the Balancing Authority records with respect to reactive service requirements and compensation calculations, by stating that such a step is unnecessary. SPP provides that if a generator feels that it has been treated unfairly, it can seek recourse pursuant to one of the following mechanisms: (1) within the SPP Tariff under Dispute Resolution Services – section 12, (2) by seeking redress from the Market Monitors (through section 5 of Attachment AG, Review of Market Activity), or (3) through submission of a formal Complaint or Enforcement Hotline at the Commission. Furthermore, SPP points out there are substantial confidentiality issues that would be compromised if a generator were permitted to see information and data provided by other generators.

**b. Commission Determination**

59. In reviewing section II and section III, it appears that while existing generators receive payment immediately based on the total zonal reactive compensation for reactive power outside the deadband achieved during the previous year (calculated each January), new QGs would not receive compensation for reactive power supplied in their respective zone for what could be almost a year later (after January of the following calendar year), while still being available for dispatch by the Transmission Provider or Balancing Authority. We agree with intervenors that SPP's proposed Schedule 2 revisions compensate existing QGs immediately based on a ZRC already calculated from the previous year and operating history, while the new QG will not receive payment for reactive supply for up to a year. In the March 29, 2007 deficiency letter response, SPP states that the reason for the difference in treatment between existing QGs and new generators seeking QG status is that the reactive compensation revenue requirement is based on the previous year's output. They add that since the new unit lacks historic data, the revenue requirement will not be calculated until the next year. Finally, SPP adds that the once per year calculation provides two main benefits to SPP and its members: (1) stable rates; and (2) incentives for generators to stay in compliance with the requirements of Schedule 2. We find that this difference in treatment in compensating existing QGs versus new QGs is unduly discriminatory and shows preference. Further, it is unjust and unreasonable to require a QG to provide service without compensation. Accordingly, we direct SPP to revise section II and section III of Schedule 2 to eliminate

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<sup>55</sup> SPP answer at 15-16.

the lag in compensation for reactive power supplied by new QGs, such that they receive payment in a timely manner (prorated basis) for reactive power supplied outside the deadband at the direction of the Transmission Provider or Balancing Authority.

60. We are satisfied with SPP's reply regarding the operational factors of generation resources taken into account in that the determination made by SPP in section IV.A.2 of Schedule 2 will not result in a generator losing QG status erroneously. However, if a generator were to lose QG status erroneously, section IV.B, Regaining Qualified Generator Status, provides the mechanism whereby SPP may waive the six month period and immediately reinstate the QG status if it determines that such status was erroneously removed. Regarding the issue of when a generator will receive compensation for reactive supply after being disqualified, we are persuaded with SPP's reply that upon receipt of the application for a generator to be reinstated as a QG, compensation under Schedule 2 will be restored in that year. On the issue of audits, we will not require revisions to Schedule 2 to permit QGs access to what may be confidential information specific to a particular generator. We are satisfied that the tariff provisions currently in place allow QGs to resolve disputes pertaining to Schedule 2 and reactive power compensation in an equitable manner.

## **6. Oneta Protest**

### **a. Comments**

61. Oneta seeks the following relief in this proceeding: (a) rejection of SPP's filing submitted December 26, 2006, which seeks to eliminate compensation for the provision of Reactive Supply and Voltage Control from Generation Sources Service within the band; and (b) an order directing SPP to file within 14 days a revised compliance filing that also (1) sets forth an explanation of the details of how SPP is going to fulfill its obligations to Oneta for within the band compensation, including the date by which payment in full will be made for past due amounts with interest, the process for collecting the past due revenue requirement as set forth in Oneta's Rate Schedule FERC No. 2, the process by which Oneta can audit the amounts that have been paid and remain to be paid, and the approach by which SPP requires American Electric Power Service Company (AEP) to make payments to Oneta or (2) a report indicating that all amounts due under the Oneta Rate Schedule No. 2 for the period beginning June 21, 2003, together with interest for all past due amounts, that have been paid to Oneta.

62. In reply to Oneta's protest, SPP asserts that Oneta protest is outside the scope of this proceeding as it regards an amount of approximately \$9.5 million, which Oneta claims SPP and AEP owe Oneta for the past provision of reactive power services under its rate schedule approved in *Calpine Oneta*. SPP notes that this Schedule 2 proceeding involves changes to Schedule 2 that will apply prospectively, and does not involve any

past payments to Oneta. SPP further provides that these payments relate to a locked-in period that will end once the revised Schedule 2 takes effect, and Oneta does not contest the provisions of revised Schedule 2 itself in any way. Moreover, SPP states that Oneta's protest is an improper attempt to raise issues not before the Commission in this proceeding, and should be rejected.

**b. Commission Determination**

63. We agree with SPP that the issues raised by Oneta in its protest essentially involve their claim for past due payments for reactive power service during the locked-in period June 21, 2003 through February 28, 2007. Accordingly, this protest is outside the scope of this proceeding, and we will reject it.<sup>56</sup>

**7. Criteria Used To Call Upon a Qualified Generator**

64. Section I.2 of Schedule 2 provides that Generators meeting the requirements of this Schedule 2 will be compensated for producing reactive power outside the deadband when such operation is at the direction of SPP or local Balancing Authority. In the February 27 Deficiency Letter, staff required, among other things, that SPP provide a detailed description of the criteria that will be used by SPP or local Balancing Authority when determining which QGs to call upon to provide reactive power outside of its deadband.

65. In response to staff's concern, SPP stated the following:

In the event of a system contingency or emergency situation that requires specific attention to reactive production, SPP will determine the most effective solution to maintain transmission system reliability based on real-time data and engineering studies of current and prospective conditions. SPP obtains a continuous telemetry feed of transmission system data that is used as an input to SPP's Energy Management System. Programs within this system perform a number of system assessment functions and alert SPP of any current or prospective operating conditions outside of normal parameters. For a circumstance that requires specific attention to reactive production, an engineering study is performed to determine the most effective operational plan. The results are compared for the current and

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<sup>56</sup> *Cabrillo Power I LLC.*, 114 FERC ¶ 61,160, at P 17 (2006) (rejecting protest that raised unrelated issues having no bearing on the current section 205 proceeding).

prospective operating conditions and the plan is implemented in a non-discriminatory manner. The process will be continued until the transmission system returns to a normal operating condition and each generator can resume reactive production to meet their normal voltage schedule.

**a. Comments**

66. In its protest of SPP's response to the February 27 Deficiency Letter, Oneta argues that SPP failed to adequately provide a detailed description of how it will determine which qualified generators to call upon to provide reactive power outside of the deadband. Oneta states that a detailed description of criteria, and the procedures for applying the criteria, need to identify the specific roles Balancing Authorities, Transmission Providers, and SPP will perform in evaluating the need for the provision of reactive power outside the deadband.

67. In response, SPP states that it has provided a detailed description of how it will determine which QGs to call upon to provide reactive power outside of the deadband. SPP states that it will base its determination on real-time data and engineering studies of current and near-term future conditions of its transmission system. SPP maintains that it has relied on those analytical tools for years to ensure reliable transmission system operations. SPP further states that if Oneta is concerned about SPP favoring utility generators, SPP commits to determine which generators to call upon on a nondiscriminatory basis based upon generator availability, location and reactive capability.

**b. Commission Determination**

68. We will accept SPP's clarification of its criteria used in determining which generator to call upon for providing reactive power outside the deadband. However, we will require that SPP revise its Schedule 2 to include its criteria and procedure.

69. In our February 27 Deficiency Letter, we required that SPP provide a detailed description of the criteria that will be used by the Transmission Provider (SPP) or local Balancing Authority. Although SPP provided clarification of its criteria, it did not provide the criteria and procedures that will be used by the local Balancing Authority. Therefore, we will require that SPP further revise its Schedule 2 to include in detail the criteria and procedure that will be used by the local Balancing Authority when determining which QGs to call upon to provide reactive power outside of the deadband.

The Commission orders:

SPP's proposed revised tariff revisions to Schedule 2 are approved conditionally, effective March 1, 2007, subject to SPP filing the revisions directed in this order, within 30 days of the date of this order.

By the Commission.

( S E A L )

Kimberly D. Bose,  
Secretary.