

113 FERC ¶ 61,046  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

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

Midwest Independent Transmission  
System Operator, Inc.

Docket Nos. ER04-961-002  
ER04-961-003

ORDER CONDITIONALLY ACCEPTING COMPLIANCE FILING

(Issued October 17, 2005)

1. On November 1, 2004, as amended December 20, 2004, the Midwest Independent Transmission System Operator, Inc. (Midwest ISO) filed a revised Schedule 2 of its open access transmission tariff (OATT) in compliance with the Commission's order issued October 1, 2004.<sup>1</sup> In the October 1 Order, the Commission directed the Midwest ISO to compensate all generators for Reactive Supply and Voltage Control from Generation Sources Service (reactive power or reactive power service) under Schedule 2 of its OATT. In this order, we will conditionally accept the Midwest ISO's compliance filing, effective January 1, 2005.

**I. Background**

2. On June 25, 2004, the Midwest ISO filed proposed Schedule 21 to supplement existing Schedule 2, which relates to the provision of reactive power from generation sources. Schedule 2 had compensated the transmission owners' generators for reactive power but had no mechanism to compensate independent power producers (IPP) for this service. The Midwest ISO's proposed Schedule 21 sought to compensate those generation resources not covered under Schedule 2, namely, IPPs.

3. In the October 1 Order, the Commission rejected the Midwest ISO's proposed Schedule 21 as unduly discriminatory. The Commission also found Schedule 2 to be unjust, unreasonable, and unduly discriminatory under section 206 of the Federal Power Act (FPA), because Schedule 2 had no mechanism to compensate non-transmission owners or IPPs. Accordingly, the October 1 Order directed the Midwest ISO to revise Schedule 2 to provide compensation for reactive power service to

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<sup>1</sup> *Midwest Indep. Transmission Sys. Operator, Inc.*, 109 FERC ¶ 61,005 (2004) (October 1 Order), *order on reh'g*, 110 FERC ¶ 61,267 (2005).

transmission owners and independent transmission companies (ITC), as well as non-transmission owners or IPPs, *i.e.*, all generators. Further, the October 1 Order directed the Midwest ISO to include language in its Schedule 2 that provides for IPPs to file cost-based revenue requirements with the Commission prior to their being compensated.

4. On November 1, 2004, the Midwest ISO filed a revised Schedule 2 of its OATT. The Midwest ISO states that its revised Schedule 2 complies with the Commission's directives in the October 1 Order.
5. The Midwest ISO states that section I of revised Schedule 2 provides for the general requirements applicable to reactive power service and has been modified to apply to all generators.
6. The Midwest ISO states that section II of revised Schedule 2 outlines the general and technical requirements for qualifying generators and contains certain compliance and revenue requirement notification rules.
7. The Midwest ISO states that section III of revised Schedule 2 provides that the Midwest ISO shall calculate rates for reactive power service for each pricing zone in its transmission system. The Midwest ISO explains that, under section III, the charges collected represent a pass-through of costs, based on the annual cost-based revenue requirements of those qualified generators providing service pursuant to Schedule 2. For those pricing zones where more than one entity is deemed to be a qualified generator providing the service described under Schedule 2, the Midwest ISO states that it will pass through the revenue it receives directly to each individual qualified generator based on a *pro rata* allocation of their respective revenue requirements.
8. Finally, the Midwest ISO states that section IV of revised Schedule 2 provides that if a qualified generator fails to comply with the control area operator's reactive power requirements three or more times in a calendar month for reasons other than planned or unscheduled outages, the Midwest ISO will determine whether the generation resource should continue to be a qualified generator based on the criteria established in Schedule 2. The Midwest ISO states that, in making such a determination, it will evaluate, among other factors, whether the generation resource was operated consistently with its design characteristics, and whether system conditions prevented it from responding as required by the control area operator.
9. In addition to revising Schedule 2, the Midwest ISO proposes a number of conforming changes. Specifically, the Midwest ISO proposes two new sections to the "Definitions" section of its OATT, which define the terms "Generation Resource"

(section 1.17a) and “Qualified Generator” (section 1.46b). The Midwest ISO also proposes to revise section 37.3(a) of its OATT to ensure that bundled load customers pay the revised Schedule 2 charges.

10. On December 20, 2004, the Midwest ISO filed an amendment proposing revisions to address the mechanical deficiencies of the rate formula in Schedule 2 that the Midwest ISO indicates it belatedly discovered. The Midwest ISO states that the November 1, 2004 filing did not contemplate, for the purpose of calculating Schedule 2 rates and distributing revenue, the existence of any generator that does not have a stated annual revenue requirement. The Midwest ISO contends that if the revised Schedule 2 remains unmodified there will be no rate mechanism available to compensate those qualified generators for the provision of reactive power service, whose rates, while previously having been found just and reasonable by the Commission, do not contain stated revenue requirements.

## **II. Notice of Filing**

11. Notice of the Midwest ISO’s November 1, 2004 compliance filing was published in the *Federal Register*, 69 Fed. Reg. 67,388 (2004), with motions to intervene and protests due on or before November 22, 2004. The Midwest ISO Transmission Owners and Alliant Energy Corporate Services, Inc. filed timely motions to intervene. FirstEnergy Service Company (FirstEnergy), Michigan Public Power Agency and Michigan South Central Power Agency (collectively, Michigan Agencies), and Coalition of Midwest Transmission Customers (CMTC) filed timely motions to intervene and protests. Electric Power Supply Association (EPSA); Wisconsin Electric Power Company (WEPCO); Madison Gas & Electric Company and Wisconsin Public Power Inc. (collectively, Madison/Wisconsin); Dominion Resources, Inc. and Troy Energy, LLC (collectively, Dominion/Troy); Consumers Energy Company (Consumers); Midwest Stand-Alone Transmission Companies (MSATs);<sup>2</sup> WPS Resources Corporation (WPS); Detroit Edison Company (Detroit Edison); Exelon Corporation (Exelon); Mirant Zeeland, LLC and Mirant Sugar Creek, LLC (collectively, Mirant); American Municipal Power-Ohio, Inc. (AMP-Ohio); and Calpine Corporation (Calpine) filed protests. Dynergy Power Marketing, Inc. and Dynergy Midwest Generation, Inc. (collectively, Dynergy) filed comments.

12. The Midwest ISO filed an answer to the protests. International Transmission Company (International Transmission) filed an answer to Detroit Edison’s protest. International Transmission filed an answer to the Midwest ISO’s answer.

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<sup>2</sup> MSATs state that for purpose of this filing the MSATs include: American Transmission Company LLC; International Transmission Company; and Michigan Electric Transmission Company, LLC.

13. Notice of the Midwest ISO's December 20, 2004 amendment was published in the *Federal Register*, 70 Fed. Reg. 805 (2005), with motions to intervene and protests due on or before January 10, 2005. Alcoa Power Generating Inc. filed a timely motion to intervene. Michigan Agencies, Consumers, WPS, and FirstEnergy filed protests.

### **III. Discussion**

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

14. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2005), the timely, unopposed motions to intervene serve to make entities that filed them parties to this proceeding.

15. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2005), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the Midwest ISO's and International Transmission's answers because they have provided information that assisted us in our decision-making process.

#### **B. Compliance Filing**

16. Our review of the Midwest ISO's revised Schedule 2, as amended, shows that the Midwest ISO has generally complied with the October 1 Order. We will discuss the Midwest ISO's compliance filing in more detail below, including those aspects of the filing that require modification.

##### **1. Qualified Generator**

17. Section II.A of revised Schedule 2 provides the general qualifications for qualifying generators under Schedule 2. Section II.A states:

All existing Generation Resources collecting charges for Reactive Supply and Voltage Control from Generation Sources Service under a Commission approved cost-based rate schedule as of May 1, 2004, are deemed to be Qualified Generators. Any new Generation Resource may collect charges associated with providing Reactive Supply and Voltage Control from Generation Sources Service under this Schedule 2, where the Transmission Provider determines that the Generation Resource is a Qualified Generator based on the requirements of paragraphs 1-4 in section II.B. The Transmission Provider shall have the right to review the Qualified Generator status of any Generation Resource at a subsequent time and revoke the Qualified Generator status of

Generation Resources that do not meet the requirements of paragraphs 1-4 of section II.B below. For the purposes of this Schedule 2, the revenue distribution provisions in section III shall apply for all Qualified Generators standing by to provide service under this Schedule 2, regardless of whether the Qualified Generator actually provided the service.

**a. Comments**

18. Commenters raise issues with regard to the general qualifications to establish qualified generator status in section II.A of revised Schedule 2. FirstEnergy states that the May 1, 2004 cut-off date, which exempts all existing generating resources collecting charges for reactive power service under a Commission-approved cost-based rate schedule from the technical requirements in section II.B, has no logical basis and therefore is arbitrary and unduly discriminatory.

19. Mirant states that the Midwest ISO's review process with regard to qualified generator status should apply equally to all generation resources whether grandfathered by virtue of having previously collected charges for reactive power or whether having recently attained qualified generator status.

20. Exelon states that the discriminatory qualification requirements of section II create an opportunity for applying Control Area requirements discriminatorily against new generation. Exelon contends that, until the Midwest ISO can develop a tariff that places the same requirements on all generators, the requirements should not apply to some but not to others.

21. Michigan Agencies state that, as written, the language of section II.A could be construed as creating a gap for generation resources that meet the technical requirements of section II.B, but are neither currently receiving compensation nor newly built. Michigan Agencies suggest replacing "new" with "other."

22. Calpine argues that either (1) such language should be stricken until the Midwest ISO develops a business practice that can be applied to all generators in a non-discriminatory fashion, or (2) the Midwest ISO be required to amend Schedule 2 to provide that all generation resources within the Midwest ISO with a Commission-approved cost-based rate schedule are not subject to a separate determination by the Midwest ISO.

23. Madison/Wisconsin assert that the capability provision in revised Schedule 2 (*i.e.*, to make transmission customers pay for reactive power capability whether or not the transmission provider actually uses it) should be rejected because it is beyond the scope of the compliance, for the Midwest ISO's original filing did not formally

propose it and the October 1 Order did not direct it. Madison/Wisconsin contend that the Commission should generically reconsider whether reactive power capability is a sufficient basis upon which to charge transmission customers. CMTc adopts Madison/Wisconsin's position. Mirant and Calpine argue that the term "standing by" should be removed from section II.A. Calpine requests clarification that a unit need not be on-line and available—as the language might be read to require—to be compensated.

24. In its answer, the Midwest ISO states that it disagrees with FirstEnergy's claim that existing generator resources are exempt from technical requirements. The Midwest ISO contends that the existing generation resources already have been subject to intensive regulatory and operational scrutiny, and already have been providing services under Schedule 2. Moreover, the Midwest ISO states that the ability and the capability of these units, which are owned primarily by vertically-integrated utilities, were reviewed by the Commission in the context of their rate proceedings and by the Midwest ISO in the process of administering the Midwest ISO's transmission system. The Midwest ISO notes that the grandfathered generation resources as well as new entrants will be subject to the same disqualification requirements. Furthermore, the Midwest ISO states that the May 1, 2004 cut-off date was not arbitrary because the date was originally chosen to coincide with the expected effective date for Schedule 2 revisions, and it was discussed with stakeholders earlier in 2004 in the context of revisions to Schedule 2.

25. With respect to the "standing by" language in section II.A, the Midwest ISO agrees with Calpine and Mirant that a qualified generator need not be on-line and available in order to be compensated; the Midwest ISO will make the necessary clarifications, if so directed by the Commission.

#### **b. Commission Determination**

26. In the October 1 Order the Commission directed the Midwest ISO to revise Schedule 2 to provide compensation for reactive power service to both transmission owners and non-transmission owners or IPPs. We find that the May 1, 2004 cut-off date is reasonable for the reasons explained by the Midwest ISO. Further, the technical requirements for "new" generation resources are not unduly discriminatory, because the "existing" generation resources, notwithstanding the fact that they are not formally bound to satisfy the technical requirements of section II.B, practically had to meet such technical criteria. Moreover, we note that the disqualification provisions (of section IV) will be applied equally to existing and new qualified generators. Accordingly, we find that the Midwest ISO's proposed section II.A of revised Schedule 2 complies with the directives of the October 1 Order. Finally, we agree that "new" should be replaced with "other" in section II.A for the sake of clarity.

27. In addition, we disagree with Madison/Wisconsin's argument that the capability provision is beyond the scope of the Midwest ISO's compliance. The Midwest ISO had proposed its compensation of IPPs on a capability basis, and, in the October 1 Order, the Commission did not indicate that the Midwest ISO could not propose in its revised Schedule 2 to collect on a capability basis. Madison/Wisconsin's argument that the Commission should generically reconsider the basis upon which transmission customers are charged for reactive power is beyond the scope of this compliance filing.

28. Furthermore, we agree with Calpine and Mirant that the term "standing by" should be removed because it may be read to require that a unit be on-line and available to be compensated for reactive power. Any such requirement is contrary to the Commission's allowance for a generator to receive compensation for reactive power based on its capability to provide it. A generator will still be capable of providing reactive power even though it is not on-line or available, *e.g.*, a generator may be called upon by the transmission provider to be on-line and available in the event reactive power is needed. Accordingly, we will direct the Midwest ISO to modify section II.A to remove the "standing by" language and to ensure compensation for those capable of supplying the service.

## **2. Technical Requirements and Performance Criteria**

29. Section II.B of revised Schedule 2 states that if a generation resource meets the following four technical qualifications, it shall be recognized as a qualified generator:

1. The Generation Resource (i) operates with its voltage regulators in automatic mode and responds to voltage schedules of the Transmission Provider or Control Area Operator for the pricing zone in which the Generation Resource is located; (ii) is able to maintain voltage support within its design limits; and (iii) is capable of a reactive power range of 95% leading to 95% lagging at the Point of Interconnection unless otherwise stated in the Generation Resource's Generator Interconnection and Operating Agreement;
2. The Generation Resource (i) can respond to changes in voltage on the system and to changes in voltage schedules if the facility is operating; or (ii) will provide voltage control specified by the Transmission Provider or Control Area Operator within a reasonable time period, taking into consideration the unit's operating characteristics and whether the Generation Resource is not operating at the time of the request as a result of an unscheduled or planned outage;

3. The Generation Resource has met the testing requirements for voltage control capability required by the Regional Reliability Council where the Generation Resource is located within the past five years; and
4. The Generation Resource has submitted a request to the Transmission Provider for Qualified Generator status as outlined in Section II.C.

30. The last sentence of section II.C states: “If required by the Transmission Provider, the Generation Resource may support its certification relying on the results of either (i) a test performed under the direction of a Regional Reliability Council or (ii) other operating or test data from the Generation Resource.”

**a. Comments**

31. Commenters raise issues with regard to the technical requirements and performance criteria in revised Schedule 2. WEPCO states that the Midwest ISO should specify precisely what it considers “a reasonable time period” for a generation resource to act in accordance with the technical requirements of section II.B.2. Dominion/Troy state that the Midwest ISO’s discretion in section II.C to require generators to conduct additional tests of their reactive capability should be limited or eliminated. WPS contends that the Midwest ISO’s compliance filing lacks objective performance criteria to evaluate whether a generator has complied with directions to supply or absorb reactive power.

**b. Commission Determination**

32. To avoid any confusion regarding what “a reasonable time period” constitutes, we direct the Midwest ISO to define a reasonable time period and to file it in the further compliance filing ordered below. Furthermore, to safeguard reliability of the transmission grid, we note that it is the responsibility of the generation resource to conduct testing to ensure that its facilities can adequately provide reactive power. Any deficiencies should be reported to the Midwest ISO within 60 days. We disagree with WPS that the technical qualifications lack objective performance criteria. Section II.B.1.iii clearly states that, for a generation resource to be considered a qualified generator, it must be “capable of a reactive power range of 95 percent leading and 95 percent lagging at the point of interconnection unless otherwise stated in the Generation Resource’s Generator Interconnection and Operating Agreement.” We find that section II.B provides sufficient criteria to evaluate whether a generator has complied with directions to supply or absorb reactive power. With respect to the provision in section II.C, quoted above, we find that the Midwest ISO has not



demonstrated the need for such additional tests or data during the certification process. Therefore, we direct Midwest ISO to remove the quoted language from section III.C.2 in the further compliance filing ordered below.

### **3. Notification Provisions**

33. Section II.C sets forth the provisions for notification to transmission providers of qualified generator status and notification of filing of revenue requirements for generation resources who seek compensation under Schedule 2. Section II.C reads: “[A]ny Generation Resource seeking compensation under this Schedule 2 shall be responsible for making all appropriate filings to the Commission to justify its cost-based revenue requirements and the need for the provision of the reactive supply and voltage control service.” Section II.C also reads: “If the Transmission Provider does not notify the Generation Resource of a deficiency within 60 days, Qualified Generator status is effective on the first day of the month immediately following the 60-day review period, or if acceptance of the revenue requirement is pending at the Commission, on the first day of the month following Commission acceptance of such revenue requirement.”

#### **a. Comments**

34. Commenters raise issues with regard to the notification provisions of section II.C of the Midwest ISO’s revised Schedule 2; specifically, commenters raise issues with respect to the “needs test,” the 60-day review, and the acceptance of the revenue requirement. EPSA, FirstEnergy, Dominion/Troy, Mirant, and Calpine contend that any “needs test” requiring the generation resource to show a need for the reactive power service should be eliminated. Dynergy comments that the Midwest ISO’s language may not be clear, but the intent to avoid a needs test is clear. AMP-Ohio asks the Commission to direct the Midwest ISO to establish procedures for determining the need for reactive power.

35. EPSA requests that the 60-day review period that follows the submission of self-certification letters to satisfy the administrative preconditions for reactive compensation under section II.C be shortened to 15 days on the grounds that (1) IPPs have equal or superior evidence of their qualifications in the context of their interconnection agreements, which in some cases require tighter specifications than those contained in the Midwest ISO’s OATT, and (2) all generators currently providing reactive power—both utility and IPP plants—are operating under some formal arrangement which includes specifications and requirements that all are obligated to satisfy.

36. Dominion/Troy state that there is no reason for this additional administrative procedure, which will result in unnecessary expense and delay in the certification of

generators. Issues to be considered during the 60-day review can and should be examined in the proceedings in which a generator files its rate schedule and cost of service support with the Commission, according to Dominion/Troy.

37. Mirant requests that the Commission require modification to permit generation resources to collect their Commission-approved revenue requirements, subject to refund, during the certification process. Mirant contends that there is no compelling reason that a generation resource that already has a revenue requirement accepted by the Commission should have to wait a minimum of 60 days for compensation when a pre-May 1, 2004 generation resource has no certification process whatsoever.

38. Exelon argues that the Commission should direct the Midwest ISO to delete the requirement that a generator state that its revenue requirement is filed and accepted by the Commission before the Midwest ISO will evaluate the generator's qualification, and that the Commission should require the Midwest ISO to perform such evaluation at any time requested by the generator. Exelon states that the Midwest ISO has made no attempt to justify why it requires 60 days to perform such an evaluation, and that the review period should be reduced from 60 days to 15 days.

39. Exelon also requests that the term "acceptance of the revenue requirement" be clarified, contending that a generation resource should be able to collect revenues subject to refund, pending final acceptance of its revenue requirement.

40. In its answer, the Midwest ISO clarifies that the language "and the need" does not require that any needs test be performed. The Midwest ISO explicitly reserves to the Commission all determinations concerning generators' cost-based revenue requirements under the ratemaking principles the Commission deems applicable. The Midwest ISO proposes to remove the words "and the need" from section II.C, if the Commission deems it appropriate.

41. The Midwest ISO also answers that the notification procedures have nothing to do with the rate approval process, and that the Commission's approval of a public utility's rates does not create an immediate and absolute entitlement to a revenue stream flowing from such rates. The Midwest ISO states that the notification procedures do not violate the FPA. Further, the Midwest ISO objects to a reduction in the review period from 60 to 15 days, stating that this time frame is simply too short.

#### **b. Commission Determination**

42. We agree with commenters' concern that the reference to "and the need" in section II.C may lead to confusion. The Commission has found a needs test to be

contrary to Order No. 2003.<sup>3</sup> Moreover, the Midwest ISO has agreed to remove this language from Schedule 2. Accordingly, we will direct the Midwest ISO to remove “and the need” from section II.C of revised Schedule 2 and to reflect that in the further compliance filing ordered below.

43. We agree with commenters that the Midwest ISO has not justified a 60-day review period. As Mirant contends, there is no rational basis for requiring a generation resource that already has a revenue requirement accepted by the Commission to provide uncompensated service for 60 days. The Midwest ISO has not explained why this procedure cannot take place earlier, *e.g.*, during the interconnection process or why this procedure could not be shorter. Accordingly, we direct the Midwest ISO to remove the 60-day review period, and to reflect that in the further compliance filing ordered below. As used in section II.C and in accord with their plain and common meaning, we interpret the terms “acceptance of the revenue requirement” and “Commission acceptance of such revenue requirement” to mean initial—not final—acceptance of the revenue requirement by the Commission.

#### **4. Rate Calculation**

44. Section III of revised Schedule 2 provides the method to calculate rates for reactive power service for each pricing zone in the Midwest ISO transmission system. Under section III, the charges collected represent a pass-through of costs, based on annual cost-based revenue requirements of those qualified generators providing service pursuant to Schedule 2. On December 20, 2004, the Midwest ISO amended section III of its November 1, 2004 filing. The Midwest ISO states that it realized that certain Qualified Generators with stated cost-based rates do not have stated revenue requirements for inclusion in the Schedule 2 rate formula. The Midwest ISO proposes to revise section III.C to use two methods to collect and distribute the revenues. For generators with stated cost-based rates, the Midwest ISO proposes to charge for and distribute revenues based upon each qualified generator’s respective share of the relative rates within the pricing zone. For generators with a revenue requirement, the Midwest ISO will charge for and distribute revenue based upon each generator’s annual revenue requirement.

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

45. WEPCO requests that the Commission direct the Midwest ISO to use the Balancing Authority Area in which the generation is actually metered instead of the

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<sup>3</sup> See *Rolling Hills Generating, L.L.C.*, 109 FERC ¶ 61,069, at P 11, 13 (2004).

pricing zone in which the generation is located to derive the rate for reactive power. WEPCO argues that the use of pricing zones “may or may not actually correlate the costs incurred with the recipient of the benefit.”<sup>4</sup>

46. Dominion/Troy request that the Commission require the Midwest ISO to modify section III.D.2 to clarify that it relates to compensation for the supply of reactive power, as distinguished from section III.D.1, which provides for compensation for the capability to provide reactive power. Dominion/Troy argue that section II.A, discussed above, likewise should be revised to eliminate confusion between reactive output and reactive capability.

47. WPS contends that the same rate methodology should apply to all generation, that the proposed amendment perpetuates disparate rate treatment, and that the Commission should not permit transmission owners to continue with those rates without reexamining their basis to determine the annual revenue requirement underlying the black-box rate, or at least converting those rates to an annual reactive compensation revenue requirement. WPS also contends that the Midwest ISO’s amendment may also result in the over- or under-collection of revenue because the Midwest ISO’s amendment would grandfather existing settled rates without requiring adjustments to those rates to ensure that Commission-approved revenue requirements are satisfied. Moreover, WPS notes that, absent a Commission-approved revenue requirement, there is no way for customers to assess whether a specific generator is in fact over-recovering short of filing a section 206 complaint. WPS proposes that the Commission accept the Midwest ISO’s proposal as an interim measure, and establish a reasonable period during which those generation owners with reactive compensation rate-only black-box settlements would be required to file with the Commission a proposal to convert their black-box rates to annual revenue requirements using a standard methodology that the Commission finds to be just and reasonable.

48. FirstEnergy also states that the Midwest ISO’s proposal is unduly discriminatory. The amount of compensation that a qualified generator receives for reactive supply service should not be dependent on the manner in which it has designed its charges for such service, according to FirstEnergy. The Midwest ISO should not be permitted to remedy the deficiency in its original November 1, 2004 filing with a defective proposal, but instead, FirstEnergy contends, it is incumbent on the Midwest ISO to resolve this concern in a manner that will assure that all qualified generators will be compensated for reactive supply service in a comparable manner.

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<sup>4</sup> WEPCO protest at 6.

### **b. Commission Determination**

49. In the October 1 Order, pursuant to our finding that Schedule 2 was unjust, unreasonable, and unduly discriminatory based on its exclusion of IPPs and generation owners who were not transmission owners, we directed the Midwest ISO to revise Schedule 2 to provide compensation for all generators providing reactive power service. In making that finding, the Commission did not also find that individual generator's stated rates for reactive power were unjust and unreasonable and required modification. Accordingly, we find that the Midwest ISO's section III of revised Schedule 2 complies with the Commission's directive in the October 1 Order.

50. We will not require that the Midwest ISO use Balancing Authority Areas rather than pricing zones in calculating the charges for reactive power service. The use of transmission pricing zones is consistent with the method that the Midwest ISO uses to charge for other transmission services, and WEPCO has not demonstrated that the use of pricing zones is unreasonable or otherwise does not comply with the Commission's directive in the October 1 Order.

51. We agree with Dominion/Troy that sections III.D.1 and II.A may be confusing, as it is not clear whether these sections relate to reactive output or reactive capability. Thus, we will direct Midwest ISO to clarify these sections within 30 days in the further compliance filing ordered below.

### **5. Self-Supply**

52. Section III.C.2 of revised Schedule 2 provides for a reduction in payment to generators that are affiliated with transmission customers who are not paying charges under Schedule 2. The Midwest ISO also proposes to revise section 37.3 to provide that those taking network service on behalf of bundled loads will be responsible for Schedule 2 charges with the exception of Ameren Services Company (Ameren).

#### **a. Comments**

53. Dominion/Troy note that section III.C.2 of revised Schedule 2 appears to contain an implicit "self-supply" alternative for transmission customers who own generation, or who are affiliated with entities that have generation.. Dominion/Troy contend that, if this proposal is intended to reduce payments to independent generators not affiliated with transmission customers, the Commission should reject this provision and require the Midwest ISO to eliminate the self-supply of reactive service. Further, Dominion/Troy state that if the self-supply proposal implied by

Schedule 2 instead reduces payment to generators with affiliated transmission customers in an amount equal to the reduced payment from transmission customers, then the proposal is acceptable.

54. In a contrary view, Consumers contends that the Midwest ISO's proposal would improperly limit transmission customers' right to self-provide reactive power. Consumers states that the filing clearly attempts to foreclose the possibility of self-supply, even to those customers that currently self-supply all or part of their Schedule 2 reactive power needs, with an exception for Ameren. The Commission has clearly made self-supply an option for reactive power supply and voltage control, according to Consumers. Consumers states that the Midwest ISO improperly proposes to eliminate self-supply as an additional change, though compliance with the Commission's October 1 Order does not require this.

55. Detroit Edison argues that allowing self-supply will not cause the Midwest ISO to under-recover the revenue requirements of eligible generation suppliers under Schedule 2. Detroit Edison proposes that its supply obligation be based on its load ratio share of the total zonal reactive supply capacity and that it be permitted to self-supply all or part of its supply obligation. Detroit Edison states that then "a rate can be developed from the remaining reactive supply resources and charged to other transmission customers within the Midwest ISO footprint."<sup>5</sup> Detroit Edison concludes that this approach would result in full compensation of all generators.

56. In its answer, The Midwest ISO maintains that no self-supply option exists under the current OATT for Schedule 2 services and there is no established practice of permitting such arrangements by the Midwest ISO. Further, the Midwest ISO disagrees that Schedule 2 must permit self-supply of reactive power. The end result of introducing this self-supply option, according to the Midwest ISO, would be to allow incumbents to claim a capacity to self-supply as a means for reducing funds available to IPPs. Thus, IPP capability would be called only to the extent not provided by a transmission customer from its own resources, which amounts to a "needs test." The Midwest ISO states that the Commission's decision to permit partial self-supply in Order Nos. 888 and 888-A was made under different

circumstances,<sup>6</sup> when it was reasonable, indeed efficient, to provide for self-supply credits to transmission customers controlling generation facilities. The Midwest ISO

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<sup>5</sup> Detroit Edison at 4.

<sup>6</sup> *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 (1996), *order on reh'g*, Order No. 888-A, FERC Stats. & Regs. ¶ 31,048

explains that this rationale is no longer valid today, in a world where a competitive pool of independent generators exists and where all generating resources will be compensated through the non-discriminatory arrangements proposed in revised Schedule 2. The Midwest ISO notes that nowhere does the Commission's October 1 Order direct the Midwest ISO to adopt the self-supply option or even suggest the need for such an option.

**b. Commission Determination**

57. We agree with the Midwest ISO that a self-supply option is inconsistent with the reactive power compensation procedure under Schedule 2 that we directed in the October 1 Order.<sup>7</sup> Under cost-causation principles, all load in a pricing zone that is benefited by the reactive power capability in that pricing zone should pay its load ratio share of the average costs of the capability.

58. Moreover, we note that, while the proposed Schedule 2 neither explicitly nor implicitly allows for self-supply, this is consistent with pre-existing Schedule 2 provisions of the OATT. We disagree with Consumers that Midwest ISO's proposed changes to section 37.3 of the OATT which eliminates self-supply for bundled load are beyond the scope of the Commission's compliance directives. Rather, had the Midwest ISO included a self-supply option in the instant compliance filing, this would have been inconsistent with our direction in the October 1 Order. Since the Midwest ISO eliminated self-supply in its proposal to implement Schedule 21 when it proposed that all Transmission Customers pay Schedule 21 on a total load basis,<sup>8</sup> and the Commission did not reject this change to section 37.3 of the OATT when it rejected Schedule 21, the issue of self-supply was decided in our October 1 Order.<sup>9</sup> There, we directed Midwest ISO to revise Schedule 2 to provide compensation under non-discriminatory terms for IPPs that provide reactive power services; we did not direct that Midwest ISO modify its tariff to allow exemptions from the payment of IPPs' reactive power costs. Under these circumstances, we find that the change to a reference to Schedule 2 rather than a reference to Schedule 21 in section 37.3 is a conforming change in compliance with the October 1 Order.

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(1997); *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 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>7</sup> We recognize that the Midwest ISO has exempted Ameren and may provide an exemption for certain grandfathered agreements from reactive power charges under Schedule 2.

<sup>8</sup> October 1 Order, 109 FERC ¶ 61,005 at P 11, 13.

<sup>9</sup> We note that no party sought rehearing on this issue.

59. Further, we reject Detroit Edison's proposal concerning the self-supply issue because it is too late. Detroit Edison's opportunity to seek rehearing of the Commission's determination on the self-supply issue has long passed.<sup>10</sup> Additionally, we find that the language in section III.C.2 that Dominion/Troy finds objectionable is appropriately included to allow Midwest ISO to implement the self-provision exception for Ameren. The Ameren exception is further addressed below.

## **6. Right to Establish or Revise Rates**

60. Section III.D provides that "[t]he Qualified Generator possesses the unilateral right under section 205 of the FPA to file with the Commission to establish or revise its annual cost-based revenue requirement for this Schedule 2 - Reactive Supply and Voltage Control from Generation Sources Service."

### **a. Comments**

61. FirstEnergy contends that Midwest ISO has not proffered a basis for the language in section III.D, which gives the qualified generator a unilateral right to file to establish or revise rates. FirstEnergy explains that a supplier of reactive power may voluntarily enter into an agreement to which the Midwest ISO is not a party that would restrict this right. Accordingly, FirstEnergy recommends that this language be replaced by the language provided in section 35.1(d)(2) of the Commission's regulations, 18 C.F.R. § 35.1(d)(2), which reads:

Nothing contained herein shall be construed as affecting in any way the right of the party furnishing service under this rate schedule to unilaterally make application to the Federal Energy Regulatory Commission for a change in rates under section 205 of the Federal Power Act and pursuant to the Commission's Rules and regulations promulgated thereunder.

First Energy states that such modification will appropriately protect the right of qualified generators to exercise their statutory right to revise their annual cost-based revenue requirement for reactive power service, without prejudicing their ability to agree to fixed rates over a longer period of time whenever it is in their interest to do so.

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<sup>10</sup> 18 C.F.R. § 385.713 (2005).



### **b. Commission Determination**

62. We will reject FirstEnergy's proposed modification. We do not interpret the language proposed by the Midwest ISO as preventing a Qualified Generator from voluntarily agreeing to limit its right to seek a unilateral rate change under section 205.

### **7. Non-Performance Provision**

63. Section IV.A of the Midwest ISO's revised Schedule 2 sets forth the consequences of a qualified generator's failure to comply with the control area operator's voltage control requirements. Section IV.A reads:

If a Qualified Generator fails to comply with the Control Area Operator's voltage control requirements three or more times in a calendar month for reasons other than planned or unscheduled outages, the Transmission Provider shall determine whether the Generation Resource should continue to be a Qualified Generator based on the criteria established in section II.B of this Schedule 2.

In making a determination of whether a Generation Resource should continue to be a Qualified Generator, the Transmission Provider will evaluate, among other factors, whether the Generation Resource was operated consistently with its design characteristics, and whether system conditions prevented it from responding as required by the Control Area Operator.

### **a. Comments**

64. Commenters raise issues with regard to the disqualification provisions in section IV of the Midwest ISO's revised Schedule 2. WEPCO, FirstEnergy, and AMP-Ohio contend that the provision in section IV.A of revised Schedule 2 is too lenient. WEPCO states that the provision should be modified so that one instance of failing to comply warrants a re-evaluation of qualified generator status. FirstEnergy states that to avoid uncertainty section IV.A should be modified to require compliance not only with the control area operator's voltage control requirements, but also with the transmission provider's voltage control requirements. FirstEnergy notes that the circumstances under which a qualified generator may be deemed to have failed to comply is not entirely clear, and that it would be preferable to provide for disqualification of a generator only if there was a failure to comply with specific operating instructions that had been given by the transmission provider or control area operator relating to the production of reactive power under either normal or emergency conditions. AMP-Ohio states that barring a valid reason for not

complying with a directive, the generator should immediately lose a portion of its reactive revenue, and its status should be reviewed. AMP-Ohio also argues that the provision is too lenient, and that the Midwest ISO should at least be required to provide greater detail on the disqualification process.

65. MSATs state that the Midwest ISO has not adequately explained or supported the provision, especially considering the natural incentive generators have to forego reactive power production when it is more advantageous to the generator to produce or continue to produce real power. Even one instance of noncompliance could potentially jeopardize reliability, according to MSATs. WPS agrees and requests that the transmission owners' penalty provision originally proposed in Schedule 21 be included in this compliance filing.

66. In its answer, the Midwest ISO notes that the disqualification provisions in section IV.A were discussed as part of the stakeholder process prior to the October 1 Order. The majority of stakeholders believed that these provisions were a reasonable compromise. Furthermore, the discretion to disqualify a non-performing qualified generator is not unlimited because the factors that the Midwest ISO is required to take into account are clearly prescribed in section IV.A.2. The Midwest ISO states that such concerns about non-performance are clearly premature. If non-performance proves to be a significant problem, then the Midwest ISO proposes to make the provisions more stringent.

#### **b. Commission Determination**

67. The Midwest ISO is responsible for the reliability of its transmission grid. The provisions in section IV.A of revised Schedule 2 reflect a flexible mechanism to ensure that the voltage requirements are met and that consequently the transmission grid remains reliable. Moreover, the provisions clearly state the generators' requirements. If, as the Midwest ISO states, non-performance becomes a significant problem, more stringent provisions can be considered at that time. Accordingly, we find the Midwest ISO's approach to be reasonable.

## **8. Inclusion of Synchronous Condensers**

68. The Midwest ISO does not include synchronous condensers in its definition of generation resource in section 1.17a of its OATT, which defines a generation resource as “[a]n electric facility with the appropriate metering equipment having the capability to produce energy and capability.”

### **a. Comments**

69. FirstEnergy states that this limitation on sources of reactive power that may qualify to be compensated for reactive power service is unnecessarily constrained. FirstEnergy explains that the use of synchronous condensers to supply reactive power, when needed, would enhance system reliability while reducing the need for the Midwest ISO to require changes in the operation of generation resources to respond to emergency conditions.

70. In its answer, the Midwest ISO states that it has no objection to the inclusion of synchronous condensers, provided that qualified generators are not otherwise compensated for the reactive power capability provided by their synchronous condensers.

### **b. Commission Determination**

71. We agree with FirstEnergy that the use of synchronous condensers to supply reactive power would enhance system reliability. However, we also agree with the Midwest ISO that if synchronous condensers are included in the definition of generation resource, they otherwise should not be compensated. Therefore, we will direct the Midwest ISO to include synchronous condensers in the definition of “Generation Resource,” provided that qualified generators are not otherwise compensated for the reactive power capability provided by their synchronous condensers. The Midwest ISO should make this change in the further compliance filing ordered below.

## **9. Registration as a Transmission Customer**

72. The Midwest ISO proposes to add section 1.46b to its OATT, which defines a qualified generator as “[t]he Generation Resource(s), registered as a Transmission Customer, having the technical capability of providing reactive supply and voltage control as determined by the Transmission Provider in accordance with the provisions specified in Schedule 2 of this Tariff.”

### **a. Comments**

73. Commenters raise issues with regard to the requirement in section 1.46b of the Midwest ISO's OATT that a generation resource be registered as a transmission customer. EPSA, FirstEnergy, Dominion, Mirant, and Calpine contend that the definition of qualified generator in section 1.46b of the OATT should not include the requirement that the generation resource be registered as a transmission customer, because this is unreasonable for IPPs who are not take-and-pay transmission customers.

74. In its answer, the Midwest ISO clarifies that registration as a transmission customer under its OATT does not entail any obligation to take or pay for transmission service. The Midwest ISO states that the registration requirement is simply a matter of administrative convenience. The Midwest ISO explains that the essential purpose of the registration requirement is to expedite the Midwest ISO's ability to settle the new Schedule 2 charges and remit payment to the IPPs providing the service in a timely manner, because the current settlement system does not consider non-transmission customer entities to be settling parties. The Midwest ISO argues that creating a new category of entities that would be the recipients of Schedule 2 compensation (*i.e.*, non-transmission customer IPP generators) would require substantial settlement system changes. Such changes would be costly and cause undue delay in implementing revised Schedule 2, according to the Midwest ISO. Furthermore, the Midwest ISO notes that most IPPs are already transmission customers or are affiliated with a legal entity within their corporate structure that is an existing transmission customer; therefore, the proposed registration requirement would not impose any undue hardship.

### **b. Commission Determination**

75. We agree with commenters that the definition of a qualified generator should not require generation resources to be registered as transmission customers. If it is simply a matter of administrative convenience, the Midwest ISO can find another means to solve its problem without burdening IPPs that are only obligated to provide reactive power. Accordingly, the Midwest ISO must amend its proposed section 1.46b of its OATT to exclude the requirement that the generation resource be registered as a transmission customer, and should reflect this in the further compliance filing ordered below.

## **10. Reactive Power Obligations**

76. Section 37.3 of the OATT provides that transmission owners and ITC participants taking network service for their bundled loads do not pay charges pursuant to Schedule 2. Additionally, section 37.3 provides that "a Transmission

Owner located in a pricing zone or Control Area with one or more other Transmission Owners shall remain obligated to pay for transmission and ancillary services it receives within that pricing zone or Control Area that it does not provide itself unless the transmission and/or ancillary services are provided pursuant to a Grandfathered Agreement.” The Midwest ISO proposes to revise section 37.3 to provide that those taking network service on behalf of bundled loads will be responsible for Schedule 2 charges with an exception for Ameren. The Midwest ISO states that the exception for bundled load served by Ameren was pursuant to a Commission-accepted Service Agreement.<sup>11</sup>

#### **a. Comments**

77. Detroit Edison requests clarification that the reactive power obligation attaches to ITCs that have procured reactive power by contract. International Transmission, however, contends that transmission providers—not ITCs—have the obligation to provide reactive power, and that ITCs are incapable of supplying reactive power because they do not own generation.

78. Detroit Edison argues that the Midwest ISO must continue to recognize existing, Commission-approved arrangements that permit parties to self-provide reactive power. Detroit Edison explains that it has a right to self-supply reactive power under a Master Operating Agreement between Detroit Edison and International Transmission, an agreement that was accepted as just and reasonable by the Commission.<sup>12</sup>

79. Consumers states that it self-supplies reactive power in the METC pricing zone and contends that it is impermissibly discriminatory for the Midwest ISO to propose an exemption from Schedule 2 charges for Ameren bundled load and deny a similar exemption to Consumers. Consumers states that Schedule 2, as proposed by the Midwest ISO, must exempt Consumers’ Network Integration Transmission Service agreement load as well as Ameren’s bundled load.

80. WPS states that the Midwest ISO has improperly exempted parties under grandfathered agreements from the obligation to pay new Schedule 2 costs; the Midwest ISO has provided no justification for such exemption, according to WPS. WPS explains that the Midwest ISO’s proposal arbitrarily shifts the burden of cost recovery under the new Schedule 2 from 100 percent of the Midwest ISO’s load to

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<sup>11</sup> *Midwest Indep. Transmission Sys. Operator, Inc.*, 106 FERC ¶ 61,293 (2004).

<sup>12</sup> *International Transmission Co.*, 97 FERC ¶ 61,328 (2001).

only that load served without grandfathered agreements, relieving up to 25 percent of the Midwest ISO's load served (under grandfathered agreements) from any obligation to pay.

81. In contrast, MSATs state that Midwest ISO's revised Schedule 2 fails to recognize or make any accommodation for the various different types of reactive power arrangements that currently exist within the Midwest ISO's footprint. MSATs state that reactive power arrangements within the Midwest ISO vary considerably; MSATs are concerned that the terms of these existing agreements may be different from, as well as potentially inconsistent with, the terms provided for in revised Schedule 2. Moreover, the compliance filing also fails to explain whether and/or how the Midwest ISO will assume responsibilities for administering existing reactive power arrangements, according to MSATs. Accordingly, MSATs request that the Commission direct the Midwest ISO, in consultation with MSATs and other interested stakeholders, to develop and file Schedule 2 revisions that explain how existing arrangements are treated and identify the types of reactive power responsibilities that are assignable to the Midwest ISO.

82. In its answer, the Midwest ISO states that the terms of pre-existing arrangements vary, that some of them are contained in service agreements that were transferred to the Midwest ISO by the transmission provider when control over the transmission facilities was transferred to the Midwest ISO; other terms are a part of Commission-approved agreements to which the Midwest ISO is not a party. For this reason, the Midwest ISO does not believe that a generic solution is desirable or possible. Instead the Midwest ISO recommends that each pre-existing arrangement be addressed on a case-by-case basis rather than via a comprehensive solution. The Midwest ISO adds that the section 37.3 exception for Ameren's bundled load located in Missouri is necessitated by the specific conditions placed by the Missouri Public Service Commission on Ameren's participation in the Midwest ISO.

### **b. Commission Determination**

83. As we have stated before, our October 1 Order directed the Midwest ISO to revise Schedule 2 of its OATT to provide compensation for reactive power service to both transmission owners and non-transmission owners or IPPs. The language in section 37.3 of the Midwest ISO's OATT relating to ITCs' Schedule 2 obligation was accepted by the Commission prior to the instant proposal. Therefore, the concerns raised by both Detroit Edison and International Transmission regarding the reactive power obligation attached to ITCs are beyond the scope of this proceeding. Additionally, WPS's and MSAT's comments about the treatment of grandfathered agreements are misplaced since these provisions of section 37.3 are unchanged by the current filing before us. Prior to this filing, section 37.3 of Midwest ISO's OATT

provided that certain Transmission Owners were exempt from paying Schedule 2 charges when there was a grandfathered agreement that provided the Schedule 2 service.

84. With regard to the exception for Ameren's bundled load located in Missouri, we find that the exception is appropriate where there is a Commission-accepted Service Agreement on file that allows for self-supply of reactive power as a condition of participation in the Midwest ISO. With regard to other pre-existing agreements that are not grandfathered agreements under the Midwest ISO tariff but are Commission-accepted Service Agreements, the Midwest ISO's proposed case-by-case approach appears to be reasonable. The Midwest ISO should make a new section 205 filing to modify its tariff accordingly.

### **11. Non-Jurisdictional Entities**

85. The Midwest ISO states that it does not have a mechanism in Schedule 2 to compensate non-jurisdictional entities for reactive power.

#### **a. Comments**

86. The Michigan Agencies state that the Midwest ISO's tariff should be revised to compensate municipal and cooperative entities that are not subject to the Commission's jurisdiction and who, accordingly, do not submit their rates to the Commission for approval. The Michigan Agencies request modification of Schedule 2 to permit such entities to submit their revenue requirements or cost-based rates to the Midwest ISO for review and collection without having to file them for approval with the Commission.

87. The Midwest ISO states that it will defer to the Commission on this issue. The Midwest ISO also states that it does not perceive any difference between the Commission's approval of the revenue requirements for transmission facilities of the Michigan Agencies under Attachment O of the OATT and the revenue requirements potentially returned to the Michigan Agencies if they are to file for cost recovery under Schedule 2.

#### **b. Commission Determination**

88. We agree with the Michigan Agencies that the Midwest ISO's tariff should be revised to provide that non-public utility entities are eligible to receive compensation for reactive power. To qualify to receive payment for reactive power service,

however, a non-public utility entity must submit its revenue requirement for acceptance by the Commission.<sup>13</sup> The Midwest ISO should submit the revised language in the further compliance filing ordered below.

## **12. Inclusion of Audit Provisions**

### **a. Comments**

89. Several commenters request inclusion of provisions to permit customer audits of generators' performance with regard to reactive power service. WPS states that, although load serving entities will be obligated to pay the costs of compensating generators supplying reactive power, the Midwest ISO's compliance filing provides no means by which customers can audit a generator's reactive power service performance. WPS asserts that such reasonable audits provide another economic incentive to generators to perform in accordance with directions from the Midwest ISO or the control area operator. AMP-Ohio also maintains that the Midwest ISO should be required to provide customers that pay for reactive power service with the ability to audit what they pay for and with the information they will need regarding the Midwest ISO's procurement of reactive power.

90. In its answer, the Midwest ISO responds that such audits would be superfluous and unnecessary, because qualified generators that provide reactive power must file with the Commission and are subject to the Midwest ISO's ongoing compliance control. Moreover, the Midwest ISO states that customers are always free to file a complaint or request an investigation by the Commission if they believe a qualified generator has violated any laws or applicable tariffs.

### **b. Commission Determination**

91. We agree with the Midwest ISO that, because qualified generators must have their revenue requirements accepted by the Commission and entities may file complaints with the Commission, customer audits are not necessary.

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<sup>13</sup> While the Commission stated that a non-public utility need not file a rate schedule in order to be compensated for reactive power (*Standardization of Generator Interconnection Agreements and Procedures*, Order No. 2003-A, 69 Fed. Reg. 15,932 (Mar. 26, 2004), FERC Stats. & Regs. ¶ 31,160 at P 414 (2004)), we note that a non-public utility would need to submit a revenue requirement with the Commission.



### **13. Excess Voltage Control Services**

92. Section III.D.2 of Schedule 2 provides that owners of generation resources are free to file a rate schedule with the Commission for provision of voltage control in excess of the normal voltage control capability where the transmission provider or control area operator requests excess voltage control.

#### **a. Comments**

93. MSATs request that the Commission direct the Midwest ISO to provide standard compensation procedures for provision of excess voltage support. In support of standardized compensation procedures, MSAT state that the Commission has accepted tariff revisions by PJM Interconnection, LLC that explain how generators providing excess voltage support are to be compensated. MSATs contend that a case-by-case approach to compensation for excess voltage support could result in uncertainties and the potential for manipulation. Additionally, MSATs argue that section III.D.2 should be revised to allow a request by the Transmission Owner, as well as the Transmission Provider or Control Area Operator, to trigger compensation for excess voltage support. MSATs state that in Wisconsin, the transmission owner has the right to request excess voltage support, and the transmission owner is neither the transmission provider nor the control area operator.

94. In its answer, the Midwest ISO responds that such standardization is not needed at this time and is not the proper focus of this compliance proceeding. The Midwest ISO states that if a generator believes additional compensation is warranted for excess voltage control services, it is free to make its case at the time it files with the Commission for whatever level of cost recovery it deems appropriate.

#### **b. Commission Determination**

95. We agree with the Midwest ISO that, should a generator believe additional compensation is warranted for excess voltage control services, the generator should file with the Commission for such cost recovery on a case-by-case basis. The Midwest ISO has complied with our directive in the October 1 Order to provide a mechanism for non-discriminatory payment for reactive power and compensation provisions for excess voltage control are outside the scope of this compliance filing. Further, we will not direct the Midwest ISO to change the provisions of section III.D.2 to explicitly allow for generators to file a rate schedule with the Commission where a transmission owner requests excess voltage control service. MSATs failed to explain in what circumstances a transmission owner would require excess voltage control or why the control area operators are not the appropriate entities to request excess voltage control.

## **14. Direct Contact**

### **a. Comments**

96. FirstEnergy states that, as is the case with control area operators, qualified generators should be able to contract directly with the Midwest ISO to establish the rates, terms, and conditions under which they will be compensated for such service. FirstEnergy contends that there is no logical reason to require all such arrangements to be made through control area operators and/or independent transmission companies. FirstEnergy states that, with regard to its control area operator, the Midwest ISO's proposal imposes unnecessary administrative burdens on the control area operator.

97. In its answer, the Midwest ISO states that it communicates with the control area operators and they direct the qualified generators to produce or absorb reactive power. The Midwest ISO states that this scheme does not contemplate the type of direct communication FirstEnergy proposes and it would be burdensome for the Midwest ISO to administer.

### **b. Commission Determination**

98. We conclude that this matter is beyond the scope of this compliance proceeding. The Midwest ISO previously communicated with control area operators and the Commission did not direct any changes to this procedure.

## **15. Compensation of Uncollected Revenues**

### **a. Comments**

99. Exelon states that section III of revised Schedule 2 would restrict compensation to a *pro rata* allocation of amounts collected by the Midwest ISO for a Qualified Generator's share of its net annual reactive power revenue requirement. Exelon states that that the *pro rata* allocation would put the risk of customer default on the generator providing a service to the Midwest ISO. Exelon requests that the Commission direct Midwest ISO to compensate generators for any defaulted payments through an uplift charge or some other mechanism.

### **b. Commission Determination**

100. We find that the Midwest ISO's proposal to return a *pro rata* share of the amounts collected for reactive power is consistent with section 7 of the Midwest ISO OATT that provides remedies for Transmission Customer defaults. Section 7 provides different remedies for customer defaults if the customer is a Transmission

Customer or a Market Participant. While Market Participant defaults are uplifted to keep sellers whole, defaults by Transmission Customers can result in the reduction of payments to Transmission Owners or ITCs. We find that, since Transmission Customers pay the reactive power charges, the Midwest ISO consistently has applied the provisions of section 7 to provide for a *pro rata* reduction in the payment to providers of reactive power.

## **16. Generators Connected to a Distribution System**

### **a. Comments**

101. Commenters raise issues about eligibility to receive reactive revenue payments based on a generation resource's location on the electric grid. AMP-Ohio requests clarification that a generator meeting the standards in the tariff but connected to a distribution system is eligible to receive such payments. FirstEnergy proposes to limit eligibility of existing generation resources to receive reactive revenue payments to those generators that are physically located on the transmission system.

### **b. Commission Determination**

102. Section 1.7a of Midwest ISO's Schedule 2 defines a Generation Resource as: "An electric facility with the appropriate metering equipment having the capability to produce energy and capacity." We find that, regardless of a generation resource's location on the electric grid, as long as a generation resource meets these qualifications it is eligible to receive reactive power revenue payments.

## **17. Conforming and Editorial Modifications**

103. FirstEnergy recommends certain ministerial modifications to revised Schedule 2. We find that these modifications are appropriate and, accordingly, we will require the Midwest ISO to modify revised Schedule 2 as follows:

- Revise the second sentence in section I, which reads: "Thus, this Schedule 2 - Reactive Supply and Voltage Control from Generation Sources Service must be provided for each transaction on the Transmission System.", to read: "Thus, service under this Schedule 2 - Reactive Supply and Voltage Control from Generation Sources Service must be provided for each transaction on the Transmission System."

- Revise the third sentence in section I, which reads: “The amount of reactive power and voltage control from Generation Resources that must be supplied with respect to the Transmission Customer’s transaction...”, to read: “The amount of Reactive Supply and Voltage Control from Generation Sources Service that must be supplied with respect to the Transmission Customer’s transaction....”

The Commission orders:

(A) The Midwest ISO’s compliance filing is hereby conditionally accepted, effective January 1, 2005, as discussed in the body of this order.

(B) The Midwest ISO is hereby directed to submit, within 30 days of the date of this order, a compliance filing, as discussed within the body of this order.

By the Commission.

( S E A L )

Magalie R. Salas,  
Secretary.