

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Midwest Independent Transmission
System Operator, Inc.

Docket No. ER04-961-001

ORDER GRANTING IN PART AND DENYING IN PART REHEARING

(Issued March 8, 2005)

1. In its October 1 Order,¹ the Commission directed Midwest ISO to compensate all generators for reactive supply and voltage control (collectively, reactive power) from generation resource service under Schedule 2 of its open access transmission tariff (OATT). On November 1, 2004, Midwest Stand-Alone Transmission Companies (MSATs)² requested rehearing of the Commission's October 1 Order. In this order, we will grant in part and deny in part MSATs' request for rehearing.

Background

2. On June 25, 2004, Midwest ISO filed proposed Schedule 21 to supplement existing Schedule 2, which relates to the provision of reactive power from generation resource service. Schedule 2 had compensated the transmission owners' generators for reactive power but had no mechanism to compensate independent power producers (IPP) for this service. 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 Midwest ISO's proposed Schedule 21 as unduly discriminatory. The Commission also found Schedule 2 to be

¹ *Midwest Indep. Transmission Sys. Operator, Inc.*, 109 FERC ¶ 61,005 (2004) (October 1 Order).

² MSATs state that for purposes of this filing the MSATs include: American Transmission Company LLC, International Transmission Company, and Michigan Electric Transmission Company, LLC.

unjust, unreasonable, and unduly discriminatory under section 206 of the Federal Power Act, because Schedule 2 had no mechanism to compensate non-transmission owners or IPPs. Accordingly, the October 1 Order directed Midwest ISO to revise Schedule 2 to provide compensation for reactive power service to transmission owners and independent transmission companies (ITC), as well as non-transmission owners or IPPs.

4. MSATs request rehearing of the Commission's October 1 Order. MSATs explain that they do not object to the Commission's rejection of proposed Schedule 21, but request that the Commission correct certain mischaracterizations or otherwise clarify that the October 1 Order was not intended to impose new reactive power obligations.

Rehearing Request

5. MSATs request that the Commission clarify that it did not intend to confer reactive power obligations that do not currently exist. If the Commission did intend to confer such new obligations, MSATs request rehearing.

6. In particular, MSATs request clarification or rehearing with respect to four statements made by the Commission in the October 1 Order, which are discussed further below. MSATs explain that they recognize that their requested clarifications are technical and are unlikely to impact the outcome of the proceeding, but assert that the clarifications are necessary to ensure that the statements are not misconstrued or cited as a basis for conferring reactive power obligations on entities that do not currently possess them. In this regard, MSATs explain that they are not "market participants" and should not be categorized as such under Midwest ISO's OATT or the Commission's regulations. They further explain that because the provision of ancillary services such as reactive power qualifies an entity as a "market participant" under the Commission's regulations,³ it is important that the description of such services within Midwest ISO be accurate.

7. MSATs seek the following specific clarifications. First, MSATs seek clarification with respect to paragraph 2 (first sentence) of the October 1 Order that states: "Schedule 2 provides compensation for reactive power from generation sources from transmission owners or, as applicable, an independent transmission company (ITC)." MSATs assert that reactive power cannot be provided from ITC generation resources as stated. They explain that under Commission precedent ITCs may not own generation and must be independent of all "market participants," which include entities that provide ancillary services to the regional transmission organization. They also note that certain transmission owners within Midwest ISO do not own generation.

³ Citing 18 C.F.R. § 35.34(b)(2)(i) (2004).

8. MSATs next seek clarification with respect to paragraph 2 (second sentence) of the October 1 Order that states: “Under Schedule 2, rates for reactive power are based on the control area operator rates on file with the Commission....” MSATs assert that Schedule 2 rates assessed by Midwest ISO are derived from investments and costs incurred by generators to provide reactive power to the system. They assert that the quote is correct, but that the revenue requirements may also be calculated and filed by generators directly.

9. MSATs also seek clarification with respect to paragraph 6 of the October 1 Order that states: “Schedule 2 of Midwest ISO’s OATT ... explains that reactive power service will be provided by the control area operator within Midwest ISO where the load is located. Under Schedule 2, Midwest ISO receives the revenues for reactive power and then passes through these revenues to the control area operator.” MSATs state that procurement and provision of reactive power within Midwest ISO need not be conducted via control area operators, similar to the previous proposed clarification.

10. MSATs finally seek clarification with respect to paragraph 10 (second sentence) of the October 1 Order that states: “[Midwest ISO] argues that the changes in the instant filing would insure two things: ‘(1) a conditional entitlement for compensation that those generation resources not currently covered by or entitled for inclusion in a Transmission Owner’s or Independent Transmission Company’s (ITC) zonal revenue requirement....’” MSATs assert that this quote blurs the distinction between transmission service revenue requirements and reactive power revenue requirements. They maintain that generator-based costs to provide reactive power service are not included within transmission service revenue requirements as suggested by the quote.

Discussion

11. At the outset, we clarify, as requested by MSATs, that in the October 1 Order the Commission did not intend to confer reactive power obligations on MSATs that do not currently exist. With respect to the specific clarifications sought by MSATs, we discuss them further below.

12. With respect to the first issue for which MSATs seek clarification, the Commission agrees with MSATs that the language could be misleading. In summarizing Midwest ISO’s Schedule 2, the Commission did not mean to imply that ITCs could provide reactive power from ITC generation resources. Accordingly, we will grant rehearing with respect to this issue. With respect to the second and third issues (paragraph 2, second sentence, and paragraph 6), we will deny MSATs’ requests for rehearing. As to paragraph 2 (second sentence), we were merely summarizing what Schedule 2 does and, as MSATs recognize, that summary was correct. MSATs ask the Commission to go beyond that Schedule 2 summary to discuss a matter concerning another option for calculating and filing revenue requirements that is irrelevant and

outside the scope of the Commission's October 1 Order rejecting Midwest ISO's proposed Schedule 21. We will not do so and, accordingly, deny MSATs' rehearing request with respect to this issue. Similarly, as to paragraph 6, we were merely summarizing, in the background of the order, what Schedule 2 does, and there is no dispute that the Commission's summary is accurate. Instead, MSATs again ask the Commission to go beyond that Schedule 2 summary to discuss another option for procuring and providing reactive power. This matter is also irrelevant and outside the scope of the Commission's October 1 Order rejecting Midwest ISO's proposed Schedule 21. Accordingly, we will deny MSATs' rehearing request with respect to this issue. With respect to the fourth issue, the Commission notes that the language MSATs are requesting that the Commission clarify is a direct quote from Midwest ISO's filing. Moreover, the quoted language is in the background section of the October 1 Order that merely summarizes Midwest ISO's filing. Accordingly, the Commission will not provide the requested clarification and will deny MSATs' rehearing request with respect to this issue. Accordingly, we will grant MSATs' request for rehearing in part and deny in part.

The Commission orders:

MSATs' request for rehearing is hereby granted in part and denied in part, as discussed in the body of this order.

By the Commission.

(S E A L)

Linda Mitry,
Deputy Secretary.