

533. NYTO proposes revising Article 9.3 of the NOPR LGIA to remove any incentive for the Interconnection Customer to “create” circumstances (e.g., emergencies) that would warrant noncompliance.

534. Southern asserts that it is inappropriate to impose broad obligations on a Transmission Provider’s Transmission Systems in the LGIA. The LGIA should govern only the interconnection of an Interconnection Customer and the Interconnection Facilities necessary to achieve the interconnection, not the entire Transmission System.

535. Dynegy states that proposed LGIA Article 9.3 fails to consider the economic effect of operating instructions on the Interconnection Customer, which could be financially devastating, and that the article should make clear that the Transmission Provider must compensate the Interconnection Customer for responding to such operating instructions.

#### Commission Conclusion

536. We agree with NERC’s concern that the proposed language appears to grant the Interconnection Customer a blanket right not to follow the operating instructions of the Transmission Provider during normal operating conditions and accordingly delete the proposed language in the Final Rule. We expect a Transmission Provider to follow NERC procedures and to take every precaution not to cause any material adverse impact on the safe and reliable operation of the Generating Facility. It is essential that the Interconnection Customer follow all orders given by the Transmission Provider, unless they would result in impairment to public health or safety, since otherwise the Transmission Provider would be unable to effectively manage its Transmission System.<sup>85</sup> Final Rule LGIA Article 13.6 (Interconnection Customer Authority) allows Interconnection Customers to take “actions or inactions” necessary to “preserve the reliability of the Interconnection Customer’s Generating Facility” during an Emergency Condition.

537. In response to NYTO’s comments, all Parties are obligated to follow Good Utility Practice and to abide by their obligations under the LGIA. If a Party were to manufacture an Emergency Condition, it would be a violation of the LGIA, as well as a

serious Breach of NERC and other reliability rules.

538. Southern’s concerns are misplaced. Proposed LGIA Article 9.3 simply stated that the Transmission Provider shall maintain its system in a safe manner and that the Interconnection Customer is required to follow the instructions of the Transmission Provider under normal circumstances.

539. Dynegy’s comment also appears to be misplaced. Proposed LGIA Article 9.3 dealt with the obligations of the Transmission Provider, not the obligations of the Interconnection Customer. Assuming that Dynegy’s comment applies to Article 9.4 instead, we clarify that a Party is not obligated to follow a Transmission Provider’s instructions that would cause harm to its Generating Facility, unless public health and safety would be threatened by noncompliance.

540. *Article 9.6.1—Power Factor Design Criteria*—Proposed LGIA Article 9.6.1 would have required the Generating Facility to be designed so that at the continuous rated power output, its power factor would be within a range of 0.97 leading to 0.95 lagging, unless the Transmission Provider has established different requirements applicable to all Interconnection Customers in the Control Area on a comparable basis.

#### Comments

541. NERC proposes that the Commission require power factor capabilities to be “within a range required by Good Utility Practice,” which incorporates NERC standards by reference. It cites its own Planning Standard, which allows a generator to be within the range of 0.95 leading to 0.90 lagging and argues that such a range provides more responsive reactive absorption and supply than the range proposed in Article 9.6.1. That Planning Standard also requires that if the Generating Facility does not meet the requirements, the Interconnection Customer must make alternate arrangements for supplying dynamic reactive power to meet the area’s reactive power requirements. However, NERC concedes that a power factor requirement of 0.95 leading to 0.95 lagging is a common practice in some NERC regions.

#### Commission Conclusion

542. We adopt the power factor requirement of 0.95 leading to 0.95 lagging because it is a common practice in some NERC regions. If a Transmission Provider wants to adopt a different power factor requirement,

Final Rule LGIA Article 9.6.1 permits it to do so as long as the power factor requirement applies to all generators on a comparable basis.

543. *Article 9.6.3—Payment for Reactive Power*—Proposed LGIA Article 9.6.3 would have provided that the Transmission Provider pay the Interconnection Customer for reactive power that the Generating Facility provides or absorbs. Such payment would be in accordance with the Interconnection Customer’s rate schedule unless service is subject to a Commission-approved RTO or ISO rate schedule. If no rate schedule is in effect, the Transmission Provider would compensate the Interconnection Customer in an amount that would be due the Interconnection Customer had the rate schedule been in effect when the service commenced; provided, however, that the rate schedule must be filed with the Commission within 60 Calendar Days of the commencement of service.

#### Comments

544. El Paso and others maintain that the Interconnection Customer should not be compensated for reactive power provided or absorbed within the power factor range established in Article 9.6.1 (Power Factor Design Criteria) since it is only meeting its obligation to do so. MidAmerican, Cleco, El Paso, Nevada Power, PG&E, and Western state that the Interconnection Customer should be compensated for the reactive power it provides or absorbs when the Transmission Provider asks the Interconnection Customer to operate its Generating Facility outside the established power factor range. Cleco and Nevada Power also contend that if the Transmission Provider pays for reactive power, so should the Interconnection Customer, when it does not meet the Transmission Provider’s voltage schedule that can be met by the established power factor range.

545. MidAmerican and Cleco argue that reactive power should be paid for only if the Interconnection Customer has filed a rate schedule with the Commission prior to the commencement of service. Duke argues that the last sentence of the NOPR LGIA Article 9.6.3 that provides for filing of a rate schedule within 60 Calendar Days of having provided reactive service without a rate schedule should be moved to Article 11.6 (Interconnection Customer Compensation) to cover a similar situation during an Emergency Condition. Cal ISO believes that the procurement of reactive power should be left to another proceeding (such as a Regional Market Design proceeding),

<sup>85</sup> Pacific Gas and Electric Company, *et al.*, 81 FERC ¶ 61,122 at 61,456 (1997).