

Submitted by	Company	Date Submitted
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Reactive Power Requirements

NRG supports the CAISO’s decision to relax the response time to one second (from one cycle).

NRG also supports the CAISO’s decision to apply this requirement prospectively beginning with Cluster 9. NRG does not support imposing this requirement on generators currently in the CAISO interconnection queue, even if those generators’ interconnection agreements have not been fully negotiated and executed.

NRG agrees that the Y axis for Figure 2, page 20 of the Straw Proposal should be labeled “pu of actual output”.

Financial Compensation

The CAISO’s position is as follows: the CAISO will not provide reactive power capability payments to resources only to new resources that have made a demonstration that their fixed costs for reactive capability equipment are not currently covered under their contracts.

The CAISO bases its position on the following:

- Such payments are unwarranted because the CAISO already requires resources to provide reactive power support within a specified power factor as a condition of interconnection. (Straw Proposal at 28)
- Providing an across-the-board capability payment for all resources will cause market and contracting inefficiencies. (Straw Proposal at 28)
- Current agreements for most interconnected resources already appropriately cover these reactive power capability fixed costs. (Straw Proposal at 28)

The CAISO also asserts that it does not want to become involved in bilateral contracts between load serving entities and suppliers.

NRG strongly opposes the CAISO’s position for the following reasons.

- The CAISO’s proposal to pay reactive power compensation only to new resources that demonstrate those costs are not covered in their bilateral contracts is *both* discriminatory *and* requires that the CAISO interpret bilateral contracts. It is discriminatory because, by the CAISO’s own admission, every resource that is interconnected to the CAISO Controlled Grid has an obligation to provide reactive power service to the CAISO, yet the CAISO would provide compensation for this service only to new resources that demonstrate that their contracts do

not provide compensation for this service. Thus, under the CAISO's proposal, every resource that is not a "new" resource would be ineligible for compensation for services that they are required to provide to the CAISO. And the only way a new resource would qualify for compensation is if the CAISO agreed with the interpretation that an existing contract covered the costs of providing reactive power – in direct contradiction to the CAISO's oft-stated position that it wants no part of interpreting bilateral contracts.

- The CAISO's position that compensation for reactive power service is already handled through existing bilateral contracts is simply incorrect. NRG can find no examples of bilateral contracts that include reactive power compensation. The CAISO's position that current agreements for most resources cover the costs of providing reactive power service is unsupported. The CAISO has not surveyed bilateral contracts to confirm that this representation is true. The CAISO's stated desire to not get involved in interpreting bilateral contracts would be more convincing if it did not represent what bilateral contracts do or do not cover without confirming representation with both sets of counterparties to those contracts.
- The CAISO's position that compensation of reactive power is already handled through bilateral contracts (in addition to being factually wrong) also ignores the fact that not every resource that provides reactive power to the CAISO also has a bilateral contract. Denying compensation on the basis that such costs are covered by bilateral contracts discriminates against resources that do not have bilateral contracts. Furthermore, bilateral contracts often only cover parts of the year or specific months. Finally, we note that the most common type of bilateral contract is a Resource Adequacy contract, which is not intended to allow for recovery of fixed costs, such as those incurred to provide reactive power support.
- The CAISO providing compensation for reactive power will not create contracting inefficiencies. Parties routinely include in bilateral contracts provisions that expressly treat how certain payments from the CAISO are to be shared between the buyer and the seller. However, the treatment of CAISO market compensation should be negotiated between the buyer and the seller, not assumed away by the CAISO in the biased favor of one set of parties. Adding another provision to a bilateral contract to handle reactive power capability payments would be mechanically trivial, but adding this provision – or failing to add it - would be commercially non-trivial, and warrants the negotiated consideration by both parties. The CAISO should not discriminatorily side with one set of counterparties by taking the position that dealing with this issue explicitly in bilateral contracts would create "contracting inefficiencies". If the CAISO truly wants to stay out of contracts and commercial terms, it should provide just and reasonable compensation for the reliability services it requires to operate the grid, and let commercial counterparties negotiate how that compensation is handled in their bilateral agreements.
- Just because the CAISO requires a resource be able to provide a certain service as a condition of interconnection does not mean that the provider of that service should not be compensated for

that service. Again, if the CAISO wants to remain a neutral party with respect to bilateral contracting, it should provide just and reasonable compensation for the reliability services it requires and leave the treatment of those payments to the negotiated resolution of the buyer and the seller.

- The CAISO has indicated that it would prefer a uniform reactive power requirement to identifying location-specific or resource-specific requirements through the interconnection study process.¹ This means that the CAISO may require a resource to provide reactive power even if the resource is not required to provide reactive power to maintain reliable voltage at that location. If the CAISO is going to impose a uniform reactive power requirement regardless of whether the resource actually needs to provide reactive power at that location, the CAISO must ensure that the reactive power that is provided is compensated. Consistent with the CAISO's desire to impose a uniform reactive power requirement, the most non-discriminatory way to provide that compensation is to provide uniform reactive power capability payments to all resources.

NRG reiterates its position that capability compensation should be at a uniform "safe harbor" rate. Litigating large numbers of cost-of-service filings is in no party's interest.

¹ See, e.g., the CAISO's response to LSA comment on page 5 of the August 13 Straw Proposal.