Stakeholder Comments

SCE Comments on Reactive Power Requirements and Financial Compensation

Submitted by	Company	Date Submitted
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The following are Southern California Edison's (SCE) comments on the California Independent System Operator's (CAISO) August 13, 2015, Straw proposal[1].

SCE supports the CAISO's proposal to limit capability payment eligibility to new resources that can demonstrate that they have not been compensated in their contracts

SCE appreciates the CAISO's consideration of comments from parties on the matter of financial compensation. SCE supports both the capability and provision payment proposals of the CAISO. Section 5.6 of the revised proposal accurately captures the issues associated with capability payments and arrives at a logical conclusion. The CAISO is not changing the proposed compensation for provision and SCE supports this as the original proposal adequately captured the value of providing VAR support. SCE believes that the CAISO has appropriately balanced the capability compensation given the competing interests of existing contracts and just and reasonable recovery of costs. Providing existing resources a capability payment would entail not just determination of whether a resource is compensated within its contract but also the mechanism for delivery of payment by the CAISO to ensure no double payment occurs and that the appropriate payment is received by the right party. Either of those processes would be complex. Resources usually recover their fixed and variable costs through bilateral contracts with load serving entities. Without evidence of unrecovered reactive power costs, the CAISO cannot assume the need for capability payments. SCE agrees that current contracts would have already contemplated the current tariff requirements to provide VAR support. However, the terms of such contracts may differ, and so any form of CAISO payment after the signing of such contract could create discrepancy in the contract. In addition, existing resources were built with

[1] http://www.caiso.com/Documents/StrawProposal_ReactivePowerRequirements_FinancialCompensation.pdf

the knowledge that they had to provide VAR support capability and would have considered such cost in their decision to build. As such, SCE believes it is a reasonable policy to provide capability payments only to new generation that does not have a contract which compensates the generator for VAR support capability.

SCE opposes the "safe harbor" payment method for resources eligible for capability compensation and supports the AEP method

The CAISO proposes using either a "safe harbor" approach or the AEP method. The former would compensate all generators the same amount based on historical data. The latter is a FERC-approved method that details the cost of components required for provision of reactive power. As new generators are required to demonstrate that they are not being compensated for capability within their existing contracts, consistency and accuracy would demand that the AEP method be used. Not only is this method in line with a detailed demonstration of the lack of compensation of fixed costs in an accurate and consistent manner, this is also a FERC-approved approach. Thus, SCE recommends that all resources seeking capability compensation should use the AEP approach to demonstrate their lack of compensation for reactive power fixed costs. A "safe harbor" approach entails uniform compensation for all resources, regardless of their specific contractual details. There is no monitoring of the costs and revenues particular to each resource and no differentiation based on these. Without tracking these, a "safe harbor" approach can result in compensation for capital costs that have already been recovered. In contrast, the AEP approach ensures an accurate tracking of accounts by detailing revenue and cost data relevant to each resource. This precludes a double payment from occurring by analyzing each resource's information rather than providing a cash flow to all resources without any justification of need.