

Stakeholder Comments Template

Subject: Reactive Power and Financial Compensation

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the Issue Paper for the Reactive Power Requirements and Financial Compensation initiative that was posted on May 22nd, 2015. Upon completion of this template please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **June 11, 2015**.

1. Please provide feedback on the reactive power technical requirements.

The Six Cities support the ISO's proposal to establish a uniform requirement for all resources, including asynchronous resources, to provide reactive power capability and automatic voltage control. As discussed in the Issue Paper, the expansion of asynchronous renewable resources and the high ratio of asynchronous generation relative to synchronous generation at certain points during the operating day justifies a change to the ISO's current approach of imposing reactive power requirements on asynchronous generators only as dictated by the results of studies performed during the interconnection process. The Six Cities generally concur that a uniform requirement would be more equitable and efficient, and it would appear to resolve the ISO's concerns regarding the limitations of the study process in identifying whether reactive power from interconnecting resources is needed. Consistent with the ISO's proposal, applying this change prospectively to resources interconnecting through the Generation Interconnection Delivery Application Process ("GIDAP") in the first queue cluster window following the effective date of the revisions is appropriate.

At this time, the Six Cities do not have comments on the specific technical requirements for asynchronous generators that are discussed in the Issue Paper.

2. Please provide feedback on the financial compensation for reactive power.

The Six Cities do not support establishing a new compensation structure for providing reactive power capability, particularly given that the Issue Paper does not provide adequate information regarding the cost impacts of expanding payments to generators or include any substantive discussion of cost allocation. The Six Cities do not oppose, however, continuing the existing approach of providing compensation to generators that are instructed by the ISO (through exceptional dispatches) to operate outside of standard design ranges.

With respect to whether capability payments should be made to generators, the Six Cities observe that the Issue Paper does not seem to reflect a full evaluation of whether generators are presently being harmed or disadvantaged through the absence of a capability payment structure. For example, the ISO states that technology and equipment costs for providing reactive power, at least as to asynchronous generators, are expected to be “*de minimis*”, although this conclusion is contested by some stakeholders. (See Issue Paper at 26.) The Issue Paper does not include a quantification of costs that would support either view. It is important to have a clearer understanding of whether there are incremental capability costs for both synchronous and asynchronous resources and what those costs are estimated to be within the ISO before deciding if some type of new compensation is appropriate, particularly considering that synchronous (and many asynchronous) resources have been supplying reactive power without such compensation under the current structure. Data from other ISOs/RTOs that have adopted this type of compensation mechanism could potentially be useful in evaluating the level of potential costs within the ISO.

Additionally, it seems that the two capability payment mechanisms proposed in the Issue Paper require considerable refinement before they could be applied within the ISO. With respect to the “AEP” methodology, the Issue Paper notes that it has not been used in the context of asynchronous resources (see Issue Paper at 28), while the second proposed approach would require actions by FERC (or its staff) to derive “safe harbor” compensation values. As to this latter option, it is unclear whether the Commission would be willing to devote resources to such an effort, nor is it clear what procedural steps the Commission would need to take given that establishing uniform reactive power compensation values could have broad policy implications beyond the California ISO.

As to the ISO’s discussion of provision payments, the Six Cities, as noted, do not oppose continuance of the current structure. The Issue Paper, however, asks whether “additional provision payments and a new exceptional dispatch category for resources that are able to switch between providing real power and reactive power very quickly” might be needed. (See Issue Paper at 30.) It may be appropriate to explore whether the existing compensation approach (for providing compensation if a resource is needed for reactive power levels outside of the standard range) would need to be modified in some way to reflect enhanced participation in the supply of reactive power by asynchronous resources.

Apart from listing various principles related to cost causation and benefits, the Issue Paper's discussion of cost causation is limited to a statement that capability and provision payments might each have different cost allocations. (*See* Issue Paper at 30-31.) In the Six Cities' view, cost allocation issues should be an integral part of this stakeholder proceeding, and discussion of establishing new capability payments and expanding reactive power provision payments is incomplete without considering how responsibility for these payments will be allocated. The evaluation of allocation issues should include an assessment of the magnitude of such cost allocations and the impacts on the stakeholders who will ultimately be responsible for such payments. Because there are no capability payments that are provided currently and reactive power requirements are already imposed universally on synchronous resources and on approximately three-quarters of new asynchronous resources (*see* Issue Paper at 9), it is difficult to justify imposing new costs on a subset of ISO stakeholders merely as a consequence of expanding the obligation to supply reactive power capability to include all asynchronous resources.

With respect to compliance and testing issues, the Six Cities believe that compliance and testing should be linked to compensation. While they do not support establishing a capability payment, if such payments are established and a resource is, through testing, revealed to be incapable of actually providing reactive power, then a claw-back mechanism or penalty structure should apply.