

Stakeholder Comments Template

Subject: Reactive Power and Financial Compensation

Submitted by	Company	Date Submitted
Margaret E. McNaul mmcnaul@thompsoncoburn.com 202.585.6940	Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (“Six Cities”)	Sept. 3, 2015
Bonnie S. Blair bblair@thompsoncoburn.com 202.585.6905		

This template has been created for submission of stakeholder comments on the Draft Straw Proposal for the Reactive Power initiative that was posted on August 13th, 2014. Upon completion of this template please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **September 3, 2015**.

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

The Six Cities oppose the ISO’s proposal to provide financial compensation for the capability to produce reactive power to certain new resources based on some as-yet unspecified demonstration that their fixed costs for reactive power capability are not covered under existing contracts. The justification for this proposal, as articulated by the ISO, is unclear, and it will result in additional costs assessed to load-serving entities. The ISO should not adopt it and should instead revert back to its existing approach of compensating resources only for the production of reactive power outside standard design ranges.

First, while the ISO asserts that the expected impact of its capability payment proposal is expected to be small, the ISO provides no metrics or data that support this conclusion. When considering the possible allocation of new costs to load-serving entities in its Balancing Authority Area, the ISO should provide some quantification of the likely financial impact. No such assessment accompanies the Straw Proposal.

Second, the Straw Proposal lists a host of reasons not to expand reactive compensation to include capability payments – including the potential to result in “market and contracting inefficiencies,” the potential for double-payment, the potential for over-payment, the logistics of administering new forms of compensation, and the possibility that existing contracts may be reopened and potentially re-negotiated. (See Straw Proposal at 28.) Moreover, the ISO states that “contracting and procurement practices within the ISO are sufficiently distinct from other organized markets that have previously implemented

capability payments.” (*Id.*) Given these reasons, it is difficult to discern why the ISO would nonetheless move forward with a new capability payment, even one that is (currently) proposed to be limited to new resources.

Third, the ISO states that it “is still considering” how it will determine which resources have contracts that reflect compensation for reactive power and which resources do not. (Straw Proposal at 29.) The ISO has, in other contexts, avoided taking on responsibility for interpreting bilateral contracts, and it is puzzling why the ISO is considering a new compensation structure that would appear to require it to do so with respect to reactive power. The Cities agree that some entity needs to review and approve claims of entitlement to capability payments by new resources before load-serving entity rates are increased to include these payments, and question whether the ISO or any other party short of FERC is properly authorized to make that determination.

Fourth, while the Straw Proposal ostensibly limits compensation for reactive capability only to new resources, the justification for this limitation is unclear. What about resources that, under contracts that come up for re-negotiation after the new compensation structure becomes effective, are not compensated for reactive power under their new contracts? Does the ISO intend for those resources to become eligible for capability compensation and, if not, how would the ISO propose to defend limiting its capability compensation structure to only new resources that can show they are not compensated for their reactive power capability? In the Six Cities’ view, the ISO’s proposal is a slippery slope to full capability compensation to all resources.

Fifth, the Six Cities stated in their previous comments on the ISO’s Issue Paper in this proceeding that there is insufficient information that resources are being harmed or are in some way disadvantaged through the existing production payment structure. The Straw Proposal again includes no specific information that resources require additional compensation for the capability to provide reactive power or that resources are incurring capital costs for which they are not compensated.

While the Six Cities do not support implementing capability payments for reactive power, the Six Cities, consistent with their prior comments, do not oppose expanding the existing provision payment structure to reflect specific technologies and capabilities of asynchronous resources with respect to reactive power provision. The Six Cities understand that these modifications to the production payment structure are intended to ensure that asynchronous resources are treated comparably to synchronous resources in terms of provision payments for reactive supply compensation. The Six Cities will provide further comments when the ISO proposes specific changes to its existing compensation structure.

Finally, the Six Cities understand the Straw Proposal to provide for universal application of the ISO’s existing testing authority, including to asynchronous resources. (Straw Proposal at 30.) The Six Cities support this aspect of the Straw Proposal. While the Six Cities continue to oppose 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 clawback mechanism or penalty structure should apply.

2. Please provide feedback on the effective date proposal.

The ISO's proposal to implement the proposed requirements for asynchronous resources beginning with interconnection customers in queue Cluster 9 appears to be reasonable. As discussed above, the Six Cities oppose providing capability compensation as proposed in the Straw Proposal.

3. Please provide any additional feedback on the reactive power technical requirements.

The Six Cities do not have comments on the specific technical requirements for asynchronous generators that are discussed in the Straw Proposal.