

Western Power Trading Forum comments on Reactive Power and Financial Compensation revised straw proposal

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WPTF appreciates the opportunity to provide these comments on the ISO's Reactive Power and Financial Compensation revised straw paper posted October 8, 2015, stakeholder meeting held on October 15, 2015, and MSC discussion that took place on October 20, 2015. We primarily comment on the financial compensation portion of this initiative.

The ISO's explanation on why they removed all capability payments is insufficient.

The ISO has removed all capability payments from the proposal. The revised straw paper posted October 8, 2015 primarily addresses this in two places, first on page 12:

The previous straw proposal considered possibly creating a limited form of capability payments that would apply only to merchant resources on a going forward basis, but after considering this option the ISO is no longer proposing this provision.

And later in response to comments on page 24:

After review of stakeholder responses and internal assessment, the ISO is not proposing any form of capability payments for reactive power. The ISO believes that providing reactive power capability constitutes good utility practice and should be a necessary condition of interconnecting a resource to the ISO grid.

In general, WPTF finds both of these explanations insufficient to fully understand the ISO's reasoning. "Good utility practice" is not synonymous with "no cost recovery." In fact, it is well understood that cost recovery is an essential part of good utility practice or it would be impossible for the practice to be efficiently achieved in the long-term. WPTF requests further clarity in the next draft on how generators will be able to achieve (at a minimum) cost recovery for providing reactive power capability to the grid.

The ability to value reactive power capability costs will be increasingly important as the ISO integrates an increasing amount of renewable generation.

The increase in renewable generation in the next decade- primarily solar- will lead to changes in the need for reactive power during off-peak periods and evening hours. Eventually, the ISO will be faced with increasing circumstances where renewable resources cannot provide sufficient reactive power in local areas without investment into reactive power equipment. This could be, for example, because solar resources cannot provide reactive power during dark, evening hours or because the renewable resources in the area were interconnected prior to the new requirement. The ISO would then have to decide the most economical solution to meet the local reactive power need. It is unclear to WPTF whether the ISO has the studies or procurement authority in place to effectively and efficiently do so.

The ISO is proposing a blanket requirement on all future asynchronous resources to address unforeseen needs due to the increase in renewable generation on the grid. The ISO also has the ability to procure reactive power capability through Reliability Must Run (RMR) contracts. These tools alone may not be sufficient to ensure efficient procurement of reactive power. Even if the ISO adapts both transmission and generation planning studies in order to identify the reactive power need, without an established capability payment to compare costs across resources, the ISO will not have a mechanism for evaluating and procuring different options.

WPTF believes the Market Surveillance Committee discussion that took place on October 20, 2015 began to delve into these issues and WPTF is interested in whether the ISO agrees that there is a potential gap in studies and procurement ability as well as reactive power services.

WPTF cannot support the current proposal without additional justification.

WPTF asks that the ISO at a minimum further vet the proposal with the MSC and provide additional justification for removing the capability payment component of the proposal. We also reiterate our comments provided on September 3, 2015 supporting the safe harbor compensation approach and noting the different between RA contract and interconnection requirements and compensation.

Thank you for your consideration.