

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

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WPTF appreciates the opportunity to provide these comments on the ISO's Reactive Power and Financial Compensation issue paper posted August 13, 2015 and meeting held on August 20, 2015.

WPTF urges the ISO to revert back to its original proposal and move forward with the development of a "safe harbor" rate for reactive power capability. The ISO stated in its August 20, 2015 meeting that the reason for moving away from a capability payment for existing interconnected resources was that they believed these costs were already being recovered in Resource Adequacy contracts and therefore a payment from the ISO could lead to a double payment. WPTF believes that this logic is ultimately flawed.

***Not all interconnected resources have a capacity contract.*** The presumption that reactive power costs are recovered through contracts ultimately can only apply to resources that have a contract in the first place. There are many resources that do not have contracts throughout the year or in any given month; but still provide reactive capability support that benefits the entire grid.

***Not all interconnected resources have going forward fixed costs covered in their contract.*** As the ISO noted, the Resource Adequacy construct leads to many different contractual provisions. It is possible that costs to provide reactive power may or may not be included in any given contract. Therefore some resources may be compensated for the service to the grid while other resources are not. It was suggested by the ISO that ultimately these costs will have to be recovered somewhere could be recovered through the energy market by adding a small portion of the resource's reactive power fixed costs to their energy bid. If WPTF understood this suggestion correctly, this would lead to an inefficient and unfair market outcome as well as the need to include reactive power costs into resource's Default Energy Bids.

For example, imagine two identical resources, where one has their reactive power capability cost recovered and one does not. Both are providing equal reliability services to the grid, but only one is getting their reactive power costs recovered through a contract. This is fundamentally unfair because they are providing the same service to the grid and have equal reactive power obligations to the grid.

***The potential for double payments is only a transitional concern and one that can be limited through a safe harbor market design.*** The ISO routinely changes rules that affect payment streams to scheduling coordinators for load and supply. Rules change frequently because of FERC, reliability, or efficiency needs. There is frequently a transition period for contracts to catch up to new rules. This is a fact of mid- and long-term contracting and should not be used as a reason not to make needed and fair market changes. The ISO can mitigate the impact of

potential double payments during the transition period by explicitly acknowledging the potential within the safe harbor methodology.

The safe harbor methodology would allow, not require, a scheduling coordinator (SC) for a resource to request recovery of reactive power fixed costs up to a certain amount from the ISO or to request a higher amount from FERC. Therefore, under this structure, if reactive power costs were already recovered, the scheduling coordinator would be under no obligation to seek recovery from the ISO. If the scheduling coordinator did seek recovery of payments, these payments in the majority of situations would already be covered under any contract the resource is under. Some contracts may explicitly state that any reactive power payments go to a certain party, other contracts may simply have a blanket clause for unexpected streams of revenue. Ultimately, the majority of current contracts already address issues such as these and all future contracts going forward will take into account reactive power capability payments from the ISO. All other things being equal, over time the cost of Resource Adequacy capacity may slightly be reduced if the ISO explicitly compensates for reactive power. Therefore there is only a small set of resources, for a small period of time, that even have the slightest potential for a double payment.

The ISO could further limit the potential for double payments by modifying the safe harbor proposal to state that a resource can only demonstrate to FERC only unrecovered reactive power fixed costs above the safe harbor price.

Thank you for your consideration.