

Reactive Power Requirements and Financial Compensation

Issue Paper

Dated: May 22, 2015

Comments Submitted: June 11, 2015

Summary:

Calpine supports the proposed actions in the Issue Paper directionally and in substance. Specifically, we support equivalent requirements and compensation for synchronous and asynchronous resources. For the capability payment, Calpine prefers a “safe harbor” price rather than an obligation to file unit-specific costs. Finally, while the proposed capability payment is an incremental revenue stream, we are not convinced, as some suggest, that this is a “windfall” or even that it will result in incremental compensation for synchronous resources.

Avoiding Discrimination

The issue paper suggests that reactive requirements and compensation should be undifferentiated between synchronous (“SR”) and asynchronous resources (“AR”). Calpine agrees.

The Issue Paper, however, places different and less stringent obligations on ARs in that the capability range and the dynamic range obligations are more narrow than those currently applicable to SRs. These differences might be explained by the difference in the point of measurement (generator terminals for SRs and Point-of-interconnection for ARs.) If so, the next proposal should further explain and justify these differences.

“Safe-Harbor” Capability Payments are Reasonable

Calpine supports the creation of a payment for reactive capability, as differentiated from, and as complementary to, payments for the provision of reactive support outside the defined range. That payment would be reflective of the full range of capability from the required lead/lag standards.

6/11/2015

The CAISO was ordered, as part of the MRTU Order in 2005, to develop a market for the provision of voltage support services. As described in the Issue Paper, voltage support (the creation or absorption of VARs) is a very local requirement. Simply put, VARs “don’t travel well”. Without foreclosing the possibility of a bid-based market, Calpine understands that with today’s technology and distribution of resources, any practical implementation of a market for voltage support would likely vest significant market power upon local resources.

As such, we support the ISO’s call for capability payments based approximately on costs. Specifically, we support the development of “safe-harbor” values that form the basis of these payments. To do otherwise (including unit-specific demonstrations of costs, and allocations therein) strikes us as a much less efficacious approach.

Windfall, Schmindfall

Some parties allege that a payment for reactive capability for existing resources would represent undue compensation, a “windfall” as it was described. Calpine disagrees.

First, *if* it does result in incremental compensation, it is long overdue as the Commission ordered this product 10 years ago.

Second, Calpine is not at all convinced that this will result in incremental compensation for resources. While it is undeniable that if approved, a capability payment would result in a new revenue stream, this does not necessarily equate to incremental compensation. In fact, these revenues would certainly be recognized during bilateral negotiations between suppliers and loads. Market prices for Resource Adequacy or tolls should and most likely will change in the light of this new revenue stream.

Thanks

6/11/2015