UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Compensation for Reactive Power Within the Standard Power Factor Range	Docket No. RM22-2-000

COMMENTS OF
TRANSMISSION ACCESS POLICY STUDY GROUP

The Transmission Access Policy Study Group ("TAPS") appreciates the opportunity to comment on the Federal Energy Regulatory Commission's ("Commission") March 21, 2024 Notice of Proposed Rulemaking ("NOPR"),[1] which (1) preliminarily finds that the current compensation of generators for providing reactive power in the standard power factor range has yielded unjust and unreasonable transmission rates and (2) proposes to remove such charges from transmission rates.[2]

As discussed below, TAPS supports the Commission's preliminary findings and the NOPR. The NOPR's proposed reforms will eliminate unjust and unreasonable rates resulting from the current approach to generator reactive power compensation, without adversely impacting reliability or depriving generators of the opportunity to recover the *de minimis* costs they may incur in providing reactive power in the standard power factor range. The Commission should adopt the proposed reforms without delay.

[1] *Comp. for Reactive Power Within the Standard Power Factor Range*, 186 FERC ¶ 61,203 (2024).

[2] *Id.* P 8.

I. INTEREST OF TAPS

TAPS is an association of transmission dependent utilities ("TDUs") in thirty-five states promoting open and non-discriminatory transmission access.[3] As entities entirely or predominantly dependent on transmission facilities owned and controlled by others, TAPS recognizes the importance of a robust and reliable transmission grid, and has a vital interest in just and reasonable rates for transmission, including ancillary services, as well as the proper competitive functioning of wholesale power markets.

As municipal, cooperative, and investor-owned load-serving entities, TAPS members are responsible for providing reliable and affordable service to the consumers and businesses that rely on them and their members. Our paramount concern is reliable service at reasonable cost to consumers. TAPS recognizes the importance of reactive power in the reliable delivery of power over the transmission system but has a strong interest in protecting against unjust and unreasonable compensation for reactive power.

TAPS has commented on nearly all major electric industry Commission rulemakings, including numerous proceedings concerning generator interconnection, wholesale markets, and reliability.

[3] *See* TAPS, https://www.tapsgroup.org (last visited May 21, 2024). Jane Cirrincione, Northern California Power Agency, is the TAPS Chair; Kevin Gaden, Illinois Municipal Electric Agency, is the Vice Chair. Thomas Heller is TAPS's Executive Director.

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II. COMMENTS

The NOPR correctly proposes to act under its Federal Power Act section 206[4] authority to remedy the unjust and unreasonable transmission rates caused by the current approach to compensating generators for providing reactive power within the standard power factor range. TAPS agrees with the NOPR's preliminary findings that current generator compensation for the supply of reactive power within the standard power factor range is "without a sufficient economic basis or justification,"[5] and that customers may not be receiving commensurate reliability benefits. The NOPR cites ample evidence supporting its findings.[6]

TAPS members have experienced first-hand how the continuous stream of reactive power compensation filings resulting from the current approach can yield unjust

[4] 16 U.S.C. § 824e.

[5] NOPR P 25.

[6] *See, e.g.*, *id*. P 29 & nn.64-65, P 30 & n.71 (observing that real power and reactive power are joint products with joint costs that cannot be separately allocated); *id*. PP 29, 32 (finding that the marginal costs of reactive power production are *de minimis*); *id*. P 40 (noting increasing charges to consumers for the provision of reactive power); *id*. PP 27, 38 (noting the increasing burden of reviewing charges and verifying the provision of reactive power).

and unreasonable transmission rates. As the Commission has recognized, the *AEP* methodology that many generators use in their reactive power compensation filings, and which was derived many years ago for synchronous generators,[7] is not well-suited for non-synchronous generators to which the methodology is now being applied.[8] For example, TAPS members have found it very difficult to verify the inputs to the *AEP* methodology for a specific generator based on publicly available data, because many generators seeking compensation do not submit a FERC Form No. 1.[9] These factors significantly increase the cost to customers of participating in a particular generator's reactive power compensation proceeding, which, even if settled, can be time-consuming and expensive. Because the rate impact from a single filing may be small to an individual wholesale customer, it often may not be cost-effective for an individual customer to actively participate in such proceedings. However, the cumulative impact of the large volume of filings by generators is significant, resulting in excessive rates that must be borne by consumers.

Nor can customers be assured they are receiving reliability benefits commensurate to the reactive power compensation paid under the current approach. The existing approach to reactive power capability compensation does not adequately consider a generator's actual contribution to reliability, or lack thereof.[10] For example, that approach

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[7] *See* NOPR n.45 (citing *Am. Elec. Power Serv. Corp*., Opinion No. 440, 88 FERC ¶ 61,141 (1999), *order on reh'g*, 92 FERC ¶ 61,001 (2000)).

[8] *Id.* PP 25, 27 & n.63 (noting difficulties with applying *AEP* methodology, particularly to non-synchronous generators).

[9] *Id*. P 27 & n.63.

[10] *See id*. P 35 (acknowledging that the current framework could allow certain generating facilities to be compensated for reactive power although they provide no reliability benefit to the transmission system).

does not account for relevant factors such as location, the need for reactive power, deliverability to where reactive power may be needed, possible degradation in generator performance or other changes over time. The result is that the current approach to reactive power compensation requires consumers to pay excessive charges for reactive power that may not be needed or is in the wrong location.

Importantly, reliability has not suffered in regions in which reactive power in the standard power factor range is not compensated, as confirmed by years of experience in regions in which the absence of such compensation is a long-standing practice.[11] Reliability has not been weakened in those areas because the Commission's twenty-year-old requirement that interconnection customers have equipment to provide such reactive power works to ensure that reactive power is available.[12] Nor has the absence of compensation for the *de minimis* cost of reactive power equipment reduced new applications by interconnecting generators. Indeed, the Commission adopted Order 2023 to address the enormous interconnection queues that afflict all regions, with no exceptions for the regions where no compensation is currently afforded.[13] Simply put,

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[11] California Independent System Operator ("CAISO") has never compensated generators for reactive power in the standard power factor range*, id.* n.47, and commented in this proceeding that "its current approach to not compensate for reactive power provided within the standard power factor range has not resulted in major issues of concern with the level of reactive power." *Id*. P 43 (citing Comments of the California Independent System Operator at 5 (Feb. 22, 2022), eLibrary No. 20220222-5191). Southwest Power Pool, Inc. ("SPP") removed such compensation from its tariff in 2007. *Sw. Power Pool, Inc.*, 119 FERC ¶ 61,199, *order on reh'g*, 121 FERC ¶ 61,196, P 17 (2007). Other Transmission Providers removed reactive power compensation for the standard power factor range, as early as 2005. *See* NOPR n.34.

[12] *Standardization of Generator Interconnection Agreements & Procs.*, Order No. 2003, 104 FERC ¶ 61,103, PP 540-42 (2003), *order on reh'g*, Order No. 2003-A, 106 FERC ¶ 61,220, *order on reh'g*, Order No. 2003-B, 109 FERC ¶ 61,287 (2004), *order on reh'g*, Order No. 2003-C, 111 FERC ¶ 61,401 (2005), *aff'd sub nom. Nat'l Ass'n of Regul. Util. Comm'rs v. FERC*, 475 F.3d 1277 (D.C. Cir. 2007) (requiring large generators to design their facilities to provide 0.95 leading to 0.95 lagging reactive power at the Point of Interconnection.); *see also Reactive Power Requirements for Non-Synchronous Generation*, Order No. 827, 155 FERC ¶ 61,277, *order on clarification and reh'g*, 157 FERC ¶ 61,003 (2016) (removing prior exemption for wind generators to comply with this reactive power requirement).

[13] *Improvements to Generator Interconnection Procs. & Agreements*, Order No. 2023-A, 184 FERC ¶ 61,054, P 38 & n.102 (citing Joseph Rand et al., Lawrence Berkeley Nat'l Lab., *Queued Up:*

there is no reason to believe that removing these unjust and unreasonable transmission charges will negatively impact reliability.

In addition, the NOPR's proposed elimination of unjust and unreasonable reactive power compensation within the standard power factor range would not treat generators unfairly or in a discriminatory manner. The Commission's long-standing policy is "that the provision of reactive power within the standard power factor range is, in the first instance, an obligation of the interconnecting generator and good utility practice."[14] Under that policy, the Commission has permitted such compensation only to avoid undue discrimination:[15] interconnecting generators were required to be compensated "*if*, *and only if*, the transmission provider pa[id] its own or affiliated generators for reactive power within the standard power factor range."[16] In other words, the Commission has never required payment of separate, cost-based reactive power compensation within the

Characteristics of Power Plants Seeking Transmission Interconnection at 7-8 (Apr. 2023), https://emp.lbl.gov/sites/default/files/queued_up_2022_04-06-2023.pdf)), *set aside in part,* 185 FERC ¶ 61,063 (2023) (observing that at the end of 2022, there were over 10,000 active interconnection requests in interconnection queues in every region (including regional transmission organizations/independent system operators ("RTOs/ISOs") (collectively referred to as "RTOs") and non-RTOs), representing over 2,000 gigawatts of potential generation and storage capacity, more than four times the volume of the interconnection queues in 2010, and a 40% increase over the interconnection queue size from just the year prior), *set aside in part and clarified,* 186 FERC ¶ 61,199 (2024), *petition for review dismissed in part sub nom. Fla. Power & Light Co. v. FERC,* 2024 WL 1562692 (D.C. Cir. 2024).

[14] NOPR P 16 (citing *Midcontinent Indep. Sys. Operator, Inc.*, 182 FERC ¶ 61,033, P 53 ("*MISO*"), *order on reh'g*, 184 FERC ¶ 61,022 (2023), *appeal pending, sub nom. Capital Power Corp. v. FERC* (D.C. Cir. petition for review filed on May 23, 2023); *Bonneville Power Admin. v. Puget Sound Energy, Inc.*, 125 FERC ¶ 61,273, P 18 (2008) (describing "Order Nos. 2003 and 2003-A [as] establish[ing] a reactive power compensation policy that, in the first instance, treats the provision of reactive power inside the [standard power factor range] as an obligation of good utility practice rather than as a compensable service and permits compensation inside the [standard power factor range] only as a function of comparability").

[15] Order No. 2003-A, 106 FERC ¶ 61,220, P 416 (agreeing "that if the Transmission Provider pays its own or its affiliated generators for reactive power within the established range, it must also pay the Interconnection Customer").

[16] *MISO*, 182 FERC ¶ 61,033, P 52.

standard power factor range to all interconnecting generators in all circumstances.[17] Rather, Transmission Providers were given the *option* to provide for such reactive power compensation for its own generation, provided all generators on its system were treated comparably, and Transmission Providers could also eliminate such compensation for itself and others on a comparable basis.[18]

The NOPR's proposed elimination of compensation for reactive power within the standard power factor treats all generators comparably and does not deprive generators of the opportunity to recover the *de minimis* costs they may incur in providing reactive power in the standard power factor range. The Commission is not required to *guarantee* that generators recover their incremental costs of providing power in the standard power factor range (to the extent those costs exist). The *opportunity* to recover costs is all that is required.[19] As the Commission has recognized, "in a competitive market, the Commission is responsible only for assuring that [a resource] is provided the *opportunity* to recover its costs, not a guarantee of cost recovery."[20] TAPS agrees with the NOPR that

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[17] Indeed, half of the RTOs (CAISO, SPP, and Midcontinent Independent System Operator, Inc. ("MISO")), and some non-RTO Transmission Providers, do not provide compensation for reactive power in the standard power factor range. NOPR PP 17-19.

[18] *MISO*, 182 FERC ¶ 61,033, P 53 ("MISO [Transmission Owners] do not have an obligation to continue to compensate an independent generator for reactive power within the standard power factor range when its own or affiliated generators are no longer being compensated."); *Id*. ("Commission's precedent allows transmission providers to eliminate compensation for reactive power within the standard power factor range for all generators, regardless of whether the generator is owned by or otherwise affiliated with a transmission owner or is independent.") (citing *Pub. Serv. Co. of N.M*, 178 FERC ¶ 61,088, P 29 (2022); *Nev. Power Co.*, 179 FERC ¶ 61,103, P 20 (2022); *Bonneville Power Admin. v. Puget Sound Energy, Inc.*, 120 FERC ¶ 61,211, P 20 (2007); *E.ON U.S. LLC*, 119 FERC ¶ 61,340, P 15 (2007); *Entergy Servs., Inc.*, 113 FERC ¶ 61,040, P 38 (2005)).

[19] *CXA La Paloma, LLC v. CAISO*, 165 FERC ¶ 61,148, P 71 (2018) ("The Commission has been clear that suppliers in competitive wholesale electricity markets are not guaranteed full cost recovery, but only the opportunity to recover their costs.").

[20] *ISO New England Inc*., 135 FERC ¶ 61,029, P 254 & n.182 (2011) (internal quotations and citations omitted).

bilateral contracting and organized markets offer generators other opportunities to recover such costs.[21]

TAPS supports the Commission's expeditious implementation of the proposed reforms. The NOPR proposes to require each Transmission Provider to submit a compliance filing within 60 days of the effective date of a final rule in this proceeding. In addition, the NOPR proposes to allow a Transmission Provider 90 days from the date of the compliance filing for its revisions to become effective.[22] The Commission should not delay granting relief to customers, including TAPS members, that have been harmed by excessive generator compensation for the provision of reactive power within the standard power factor range and accompanying inefficient, administratively burdensome, case-by-case determinations. Nor should generators benefit any longer than necessary from currently unjust and unreasonable rates.

CONCLUSION

The Commission should expeditiously move forward to adopt the NOPR as its final rule.

[21] NOPR P 42.

[22] *Id*. P 54.

Respectfully submitted,

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