

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Midcontinent Independent
System Operator, Inc.

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Docket No. ER23-523-000

PROTEST OF THE ELECTRIC POWER SUPPLY ASSOCIATION

Pursuant to Rule 211 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“FERC,” the “Commission”),¹ the Electric Power Supply Association (“EPSA”)² hereby submits this protest in response to the November 30, 2022 filing of the Midcontinent Independent System Operator, Inc. (“MISO”), on behalf of the MISO Transmission Owners (“Transmission Owners” or “TOs”)³ pursuant

¹ 18 C.F.R. §§ 385.211.

² EPSA is the national trade association representing competitive power suppliers in the U.S. EPSA members provide reliable and competitively priced electricity from environmentally responsible facilities using a diverse mix of fuels and technologies. EPSA seeks to bring the benefits of competition to all power customers. This pleading represents the position of EPSA as an organization, but not necessarily the views of any particular member with respect to any issue. EPSA filed a doc-less intervention in this matter on December 8, 2022,

³ As noted in MISO’s filing, the MISO Transmission Owners consist of Ameren Services Company, as agent for Union Electric Company d/b/a Ameren Missouri, Ameren Illinois Company d/b/a Ameren Illinois, and Ameren Transmission Company of Illinois; Arkansas Electric Cooperative Corporation; City Water, Light & Power (Springfield, IL); Cooperative Energy; Dairyland Power Cooperative; East Texas Electric Cooperative; Entergy Arkansas, LLC; Entergy Louisiana, LLC; Entergy Mississippi, LLC; Entergy Texas, Inc.; Great River Energy; Indianapolis Power & Light Company; Lafayette Utilities System; MidAmerican Energy Company; Minnesota Power (and its subsidiary Superior Water, L&P); Missouri River Energy Services; Montana-Dakota Utilities Co.; Northern States Power Company, a Minnesota corporation, and Northern States Power Company, a Wisconsin corporation, subsidiaries of Xcel Energy Inc.; Northwestern Wisconsin Electric Company; Otter Tail Power Company; Prairie Power, Inc.; Southern Indiana Gas & Electric Company (d/b/a CenterPoint Energy Indiana South); and Southern Minnesota Municipal Power Agency.

to section 205 of the Federal Power Act.⁴ In this filing, the Transmission Owners propose to revise Schedule 2 – *Reactive Supply and Voltage Control from Generation or Other Sources Service* of MISO’s Tariff, which would eliminate all charges under Schedule 2 for the provision of reactive power from Transmission Owners’ own or affiliated generation resources as well as unaffiliated independent generation resources.

For the reasons detailed below, EPSA opposes this filing and asks that the Commission reject it without prejudice. In light of the acknowledged role⁵ that reactive power plays in maintaining system operation and reliability, EPSA again⁶ urges the Commission to initiate a generic proceeding to broadly examine its policies with respect to compensating reactive power capability in order to ensure that it is available from resources which can provide this service both within and outside the deadband, or standard power factor range. This examination should include reconsideration of the Commission’s Comparability Requirement.⁷

⁴ Midcontinent Independent System Operator, Inc. and MISO Transmission Owners, *Submission of Tariff Revisions Under Section 205 of the Federal Power Act*, (November 30, 2022) (“The TO Filing” or “Transmittal Letter”).

⁵ Federal Energy Regulatory Commission Staff, *Payment for Reactive Power*, Docket No. AD14-7-000, (April 22, 2014), “Reactive power is a critical component of operating an alternating current (AC) electricity system, and is required to control system voltage within appropriate ranges for efficient and reliable operation of the transmission system,” p. 4.

Federal Energy Regulatory Commission Staff, *Principles for Efficient and Reliable Reactive Power Supply and Consumption*, Docket No. AD05-1-000, (February 4, 2005) (“FERC Staff Reactive Power Principles Paper”), p. 3.

NERC Planning Standards, I. System Adequacy and Security D. Voltage Support and Reactive Power at 19 (Approved by Board of Trustees September 16, 1997).

⁶ *Motion of the Electric Power Supply Association and the Northwest & Intermountain Power Producers Coalition for Leave to Intervene and Protest*, U.S. Department of Energy Bonneville Power Administration, Docket Nos. EL07-65-000, EF07-2021-000, (submitted June 19, 2007);

Post-Workshop Comments of the Electric Power Supply Association, Third-Party Provision of Reactive Supply and Voltage Control and Regulation and Frequency Response Services, Docket No. AD14-7-000, (submitted June 9, 2014).

⁷ *Comments of the Electric Supply Association, Reactive Power Requirements for Non-synchronous Generation*, Docket No. RM16-1-000, (January 25, 2016), “While outside the scope of this proceeding, EPSA urges the Commission to also address comparable compensation for reactive power so that full comparability for the provision of reactive power services can be met in the future.”

I. COMMENTS

A. Reactive Power is an Established Service Needed to Maintain System Reliability

As the Commission and other entities tasked with preserving reliability have long acknowledged, “[r]eactive power supply is essential for reliably operating the electric transmission system.”⁸ Thus, the Schedule 2 capability to provide reactive power is compensated for separately in numerous markets due to its role as an essential reliability service for which such compensation is appropriate.⁹ In the instant filing, the Transmission Owners state that compensation is not necessary for reactive power inside of the deadband as generators are required to install equipment to provide or absorb reactive power as part of their interconnection requirements and thus do not require compensation unless there is a comparability issue.¹⁰ And, here, the TOs propose to eliminate all charges for reactive power from their own and affiliated generation resources, so thus will also terminate the obligation to unaffiliated resources.

EPSA again raises strong concerns regarding the perverse manner in which this principle ensures comparability across all generators capable of providing reactive power as it undercuts the importance of the *service* needed and being provided while overlooking the manner in which vertically integrated Transmission Owners can be

⁸ FERC Staff Reactive Power Principles Paper, p. 3;

See e.g., North American Electric Reliability Corporation and California Independent System Operator Corporation, [2013 Special Reliability Assessment: Maintaining Bulk Power System Reliability While Integrating Variable Energy Resources – CAISO Approach](#), (dated Nov. 2013) (recognizing that reactive power and voltage control are “essential reliability services”), p. 1.

⁹ Reactive Power Capability Compensation, 177 FERC ¶ 61,118 (2021), P 12 & n.27. Resources in PJM Interconnection, L.L.C. and Midcontinent Independent System Operator, Inc. use the AEP methodology to establish individualized reactive power rates, while resources in ISO New England Inc. and New York Independent System Operator, Inc. are compensated under a flat rate set forth in their respective tariffs.

¹⁰ Transmittal Letter, pp. 3-4.

compensated through retail rates for the impact of this service on their facilities.¹¹ Thus EPISA reiterates that the Commission needs to assess this policy and its application in an administrative or rulemaking proceeding in which all impacted parties may comment and deliberate. It may be appropriate, for example, to expand the scope of the pending Notice of Inquiry on *Reactive Power Capability Compensation*¹² opened last November to address compensation and market design issues to also include the issues raised by this proceeding, including the reactive power comparability principle.

The Commission's comparability principle as applied to reactive power compensation distorts the Commission's obligation to ensure that rates do not unduly discriminate among similarly situated resources. This application, which lacks context and logic, does not support the needed *reliability service* at issue but simply ensures that if some resources are not compensated separately for this important capability through Schedule 2, then none shall be compensated. During the current and escalating energy transition, this is the worst approach to valuing reliability services as it may in fact disincent resources – particularly small generation resources which are often non-synchronous renewable facilities – from being available at times when reactive power is needed, both inside and outside the deadband. Further, this doctrinaire policy ignores the fact that TOs which zero out reactive power compensation from wholesale market tariffs may be able to recover its affiliates' costs and other financial impacts associated with the production of reactive power through retail rates.

¹¹ *Motion of the Electric Power Supply Association for Leave to Intervene and Protest*, Southwest Power Pool, Inc., Docket No. ER07-371-000, (January 16, 2007).

Motion of the Electric Power Supply Association and the Northwest & Intermountain Power Producers Coalition for Leave to Intervene and Protest, U.S. Department of Energy Bonneville Power Administration, Docket Nos. EL07-65-000, EF07-2021-000 (June 19, 2007).

¹² Federal Energy Regulatory Commission, *Notice of Inquiry*, Reactive Power Capability Compensation, Docket RM22-2-000, (November 18, 2021).

It is important to recognize that the “costs” to generators providing reactive power both inside and outside the deadband extend beyond the foregone energy (and associated energy revenues) produced and provided to the system. Another cost is the wear and tear to the generator components, which increase maintenance costs and shortens equipment component life – impacted by the provision of reactive power in excess of the standard power factor range in particular. If MISO’s petition is accepted, generators that provide this service would not be compensated for their maintenance costs and the reduction of component life.

Given the high replacement cost of the equipment required to provide reactive power (but to be uncompensated under the TOs’ proposal), some generators with the technology to do so may make the economic decision to shut off during those times in which reactive power may be the only service sought in order to avoid more rapidly depreciating their equipment without compensation for doing so. Thus, the elimination of Schedule 2 compensation for the multiple costs and facility impacts associated with providing reactive power within the deadband may impact the investments and availability of resources which are capable of providing reactive power in excess of the standard power factor when needed. The compensation that is to remain for reactive power provision in excess of the standard power range is limited to the foregone energy margins that generators would have earned but for providing reactive power and may not be sufficient alone to support the investment needed to retain that capability.

Accordingly, while EPSA recognizes that the TO filing has been submitted pursuant to this existing comparability policy, EPSA respectfully requests that the Commission initiate a new proceeding to open a broader examination of the

Comparability Requirement and the many impacts that this application has on the availability of reactive power both inside and outside the deadband.

B. Compensation for Reliability Products and Services Will be Necessary During the Energy Transition

As noted in their filing, the Transmission Owners are aware that MISO and its stakeholders are considering system attributes needed to maintain reliability through the resource transition in MISO, an effort the Transmission Owners support.¹³ This support nominally recognizes that the importance of providing additional avenues for compensation of particular system reliability services will be necessary as the energy transition continues. However, in this instance the TOs are proposing to foreclose an existing revenue stream for a service that assists in preserving reliability.

As the resource mix continues to change, both in MISO and across the country, revenue opportunities through existing energy markets are expected to decline for many resources, particularly those that will be needed less often to provide power but likely more often to preserve reliability.¹⁴ As has been discussed by the both MISO and the Commission,¹⁵ the designation of new products, services, and attributes will be critical to both integrate new technologies and maintain system reliability. These efforts are acutely important to provide the market revenues needed to maintain generation facilities that will likely be called on to provide power at drastically lower frequency, but

¹³ Transmittal Letter, p. 9.

¹⁴ E3, *Scalable Markets for the Energy Transition: A Blueprint for Wholesale Electricity Market Reform*, (May 2021) p. 19. "An abundance of zero-marginal cost generation (wind, solar) will suppress energy prices in the energy market (and thus energy margins) during many hours, and therefore the ability of both clean resources and conventional capacity resources to recover their fixed costs."

¹⁵ [MISO Resource Adequacy Subcommittee \(RASC\), System Attributes Overview](#), Midcontinent Independent System Operator, Inc., (October 12, 2022);

Federal Energy Regulatory Commission, *Technical Conference Regarding Energy and Ancillary Services Markets*, Docket No, AD21-10-000, (September 14, 2021).

that will still be needed to keep the lights on. Thus, at this time of evolution in the power sector, it is shortsighted to eliminate an existing stream of compensation which provides just and reasonable compensation to generators that provide an essential reliability service. As the efforts to define and compensate new products, attributes, and services are still in their nascent stage, taking a step backwards on this front would be counterproductive to these initiatives to ensure reliability as the grid transitions.

II. CONCLUSION

EPSA respectfully requests that the Commission reject the Transmission Owners filing without prejudice. Given the importance of these issues and the ongoing debate around them, EPSA asks that the Commission initiate a new proceeding to facilitate a broader examination of the Commission's reactive power policies.

Respectfully submitted,

ELECTRIC POWER SUPPLY ASSOCIATION

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Dated: December 21, 2022

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document on each person designated on the official service list compiled by the Secretary of the Federal Energy Regulatory Commission in this proceeding.

Dated at Washington DC, this 21st day of December 2022.

/s/ N.E. Bagot
Nancy Bagot