

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

<b>Reactive Supply Compensation in</b>	)	
<b>Markets Operated by</b>	)	<b>Docket No. AD16-17-000</b>
<b>Regional Transmission Organizations and</b>	)	
<b>Independent System Operators</b>	)	

**COMMENTS OF THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.**

In accordance with the *Supplemental Notice of Workshop* issued by the Federal Energy Regulatory Commission (“FERC” or “Commission”) on June 22, 2016 in the above-referenced proceeding (the “Notice”), the New York Independent System Operator, Inc. (“NYISO”) hereby submits post-workshop comments in response to certain questions raised in the Notice and during the workshop convened on June 30, 2016 (“Workshop”).<sup>1</sup> The NYISO appreciates the opportunity to work with the Commission and FERC Staff through the in-person workshop and submission of these comments.

**I. COMMENTS**

Reactive Supply, or Voltage Support Service, is an essential ancillary service for maintaining reliable bulk power system operations. Since its inception in 1999, the NYISO has

---

<sup>1</sup> *Supplemental Notice of Workshop*, AD16-17-000, June 22, 2016.

compensated Suppliers<sup>2</sup> of Voltage Support Service.<sup>3</sup> Rate Schedule 2 of the NYISO's Market Administration and Control Area Services Tariff ("Services Tariff") provides an annual capacity payment per MegaVar ("MVar")<sup>4</sup> to generators that qualify pursuant to the NYISO's procedures and that test the capability of the equipment used to supply MVAr.<sup>5</sup> From 1999 through 2015, the NYISO compensated Voltage Support Service Suppliers based on their demonstrated lagging reactive support capability.

For calendar year 2016, the NYISO amended its Voltage Support Service program compensation due to increased need for leading reactive power support throughout the New York Control Area ("NYCA"). Leading support has become more important as the generation mix changes and uneconomic resources retire or are not dispatched in western New York, resulting in less power flowing from western New York to load centers in eastern New York. Between 2010 and 2014, the NYISO substantially increased the number of requests for leading reactive power support due to higher off-peak transmission voltages. More than 90% of the NYISO's reactive power support requests during this time were for leading reactive power support. In contrast, prior to 2010, more than 90% of the NYISO's reactive power support requests were for lagging reactive power support.

Under the tariff provisions put into place in 2016, Voltage Support Service Suppliers are now compensated for both lagging and leading reactive power support. Voltage Support Service Suppliers are required to demonstrate both lagging and leading reactive power capability annually with a test or through operational data. Reactive Power capability tests must be

---

<sup>2</sup> Capitalized terms not otherwise defined herein shall have the meaning specified in Section 1 of the NYISO's Open Access Transmission Tariff ("OATT") and Section 2 of the Market Administration and Control Area Services Tariff.

<sup>3</sup> Voltage Support Service is provided under Rate Schedule 2 of the NYISO's OATT.

<sup>4</sup> Qualifying Suppliers are compensated through monthly payments equaling 1/12<sup>th</sup> of the annual payment.

<sup>5</sup> See Services Tariff Section 15.2.

performed under normal operating conditions. Compensation for Voltage Support Service is based on their demonstrated lagging and leading reactive power capability from the prior year as determined in the test or through actual operation. The NYISO believes it is important to test reactive response under actual system conditions each year. Testing under real-world system conditions, like actual performance, provides NYISO Operations with confidence that reactive supply is available when and where it is needed.

The NYISO's 2016 Voltage Support Service compensation rate was determined through its stakeholder process, based on the prior rates paid for the service. The NYISO's Voltage Support Service compensation structure pays qualified Suppliers an annual value for the total of their demonstrated lagging and leading reactive power capability. Installed Capacity Suppliers receive 1/12<sup>th</sup> of their annual payment per month. Compensation for Voltage Support Service Suppliers that are not Installed Capacity Suppliers is prorated by actual operating hours per month. The Installed Capacity ("ICAP") market in New York expects that resources are capable of providing reactive support, and Installed Capacity Suppliers are automatically qualified for Voltage Support Service compensation, as determined by annual performance testing. As a result, Voltage Support Service revenues are subtracted from the ICAP market proxy unit's gross Cost of New Entry ("CONE") when determining the ICAP Demand Curve reference points. This offset of revenues from the ICAP Demand Curve also provides incentive for Installed Capacity Suppliers to make reactive services available to the NYISO.

In 2016, the NYISO is paying qualified Voltage Support Service Suppliers \$2,633.47/MVAr of demonstrated capability.<sup>6</sup> The compensation rate will increase to

---

<sup>6</sup> Prior to 2016, generators providing Voltage Support Service were compensated \$3,919/MVAr annually based on the lagging reactive power capability demonstrated by the generator's annual lagging reactive power test or operational data. Leading reactive power tests were required once every three calendar years to qualify for compensation; however, the leading reactive power test results did not directly impact a generator's compensation.

\$2,688.77/MVAr of demonstrated capability for calendar year 2017. The NYISO increases the compensation rate annually based on the average annual Consumer Price Index. In 2015, Voltage Support Service payments administered by the NYISO totaled approximately \$63.7 million, less than 1% of the total annual market payments by load.

Voltage Support Service Suppliers are also compensated under Services Tariff Rate Schedule 2 for lost opportunity costs incurred when required to reduce real energy output in order to provide reactive power. The NYISO rarely instructs generation resources to deviate from their economic schedules to provide reactive support and did not provide any such instructions to resources in 2015.

Reactive supply payments are tied to capacity obligations or actual performance; therefore, resources must remain available to the NYISO for compensation. Suppliers are required to maintain a fully functioning automatic voltage regulator (“AVR”) for full compensation. In the event of an AVR outage, Suppliers are grouped into three categories: (1) Suppliers that commence AVR repairs within thirty days of the outage; (2) Suppliers that notify the NYISO of the outage within thirty days but fail to commence repairs during that time; and (3) Suppliers that fail to notify the NYISO of AVR outages within thirty days. Each AVR outage category has its own compensation level. Suppliers that commence AVR repairs within thirty days will continue to receive full VSS compensation. A Supplier that notifies the NYISO of AVR outages lasting longer than thirty days, but fails to commence repairs within thirty days, will receive one-half of its monthly Voltage Support Service payment, and the full monthly Voltage Support Service payment will be restored when the AVR returns to full functionality. Suppliers that fail to notify the NYISO of AVR outages lasting longer than thirty days will be disqualified from the Voltage Support Service program for the remainder of the calendar year.

Voltage Support Service Suppliers' ability to immediately return to the Voltage Support Service program provides a more stable amount of reactive power throughout the year for reliable operation of the bulk power system.

The NYISO's recent changes to Voltage Support Service compensation were fully implemented for calendar year 2016 and the NYISO is encouraged by the response from Voltage Support Service Suppliers in New York State. With the lagging and leading compensation in place for 2016, the NYISO is seeing a positive leading response from Suppliers and continues to maintain the necessary reactive support for the NYCA. Therefore, the NYISO sees no benefit to modifying its Reactive Supply compensation framework at this time.

## **II. COMMUNICATIONS AND CORRESPONDENCE**

All communications and correspondence concerning these Comments should be served as follows:

Robert E. Fernandez, General Counsel  
Raymond Stalter, Director, Regulatory Affairs  
\*James H. Sweeney, Attorney  
10 Krey Boulevard  
Rensselaer, NY 12144  
Tel: (518) 356-7659  
Fax: (518) 356-8825  
[jsweeney@nyiso.com](mailto:jsweeney@nyiso.com)

\*Person designated for receipt of service.

### III. CONCLUSION

WHEREFORE, the NYISO respectfully requests that the Commission consider these comments and refrain from initiating a proposed rulemaking that would require adjustments in compensation methods for Reactive Supply.

Dated: July 28, 2016

Respectfully submitted,

/s/ James H. Sweeney

James H. Sweeney

Attorney

New York Independent System Operator, Inc.

10 Krey Blvd.

Rensselaer, New York 12144

(518) 356-7659

[jsweeney@nyiso.com](mailto:jsweeney@nyiso.com)