



FERC Proposes to Eliminate Reactive Power Compensation for Generation

Resources

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On March 21, 2024, the Federal Energy Regulatory Commission (FERC or the Commission) issued its Compensation for Reactive Power Within the Standard Power Factor Range Notice of Proposed Rulemaking,¹ which proposes to prohibit generators from receiving compensation from transmission providers for providing reactive power within the standard power factor range or “deadband.” The NOPR, if adopted, would represent a departure from the Commission’s current policy that requires transmission providers to compensate generators for providing reactive power within the deadband if the transmission provider pays its own or affiliated generation for reactive power.² The Commission’s proposal to eliminate reactive power compensation comes at a time when numerous markets are facing imminent resource adequacy shortfalls as a result of the retirement of existing generation resources.³

The NOPR explains that generators can provide reactive power—which is critical to ensuring system stability so that real power may be transmitted—within the deadband at “no cost” or *de minimis* costs that can be recovered through energy or capacity payments.⁴ Thus, according to the Commission, customers in regions where generators are compensated for reactive power may be paying for service “without a sufficient economic basis or justification.”⁵ The NOPR asserts that in these regions where generators are compensated for reactive power “the costs to transmission customers have increased substantially without any commensurate increase in benefits.”⁶ Accordingly, the NOPR preliminary finds that allowing

transmission providers to compensate generators for reactive power within the deadband has resulted in unjust and unreasonable transmission rates because:

1. Generators already provide reactive power within the standard power factor range at no cost or *de minimis* cost.⁷
2. Compensation provided to generators for providing reactive power within the standard factor range may result in “undue compensation or other market distortions.”⁸
3. Generators are obligated to provide reactive power within the standard power factor range as a condition of interconnection and consistent with good utility practice.⁹

The NOPR credits statements made by parties in response to its November 18, 2021, Notice of Inquiry¹⁰ that any incremental costs generators incur for providing reactive power “are typically captured in [their] resource offers”¹¹ and that the fact that generators are not compensated in California Independent System Operator Corporation, Southwest Power Pool Inc. and other regions indicates that “perhaps generators are adequately recovering their costs through some other means.”¹²

The NOPR identifies a number of issues with FERC's existing policy for providing reactive power, including that such compensation is not tied to a particular geographic need, the process for establishing resource specific reactive cost-of-service rates is “resource-intensive, time-intensive, and administratively burdensome for ratepayers, transmission providers, and market participants,” and the methodology for testing and verifying reactive capability is unduly burdensome.¹³ The NOPR also asserts, without elaboration, that allowing resources to recover the costs of providing reactive power within the deadband in organized competitive wholesale markets “risks overcompensation and market distortion in ways that did not exist prior to the existence of organized markets.”¹⁴

The NOPR provides a preemptory defense that eliminating reactive power compensation will not harm reliability. The Commission “preliminarily disagrees” with the argument that reactive power compensation is necessary given the increase of non-synchronous generating facilities because it “preliminarily find[s] that requiring transmission providers to continue paying for reactive power already required by a generating facility’s interconnection

agreement is not necessary to ensure that generating facilities provide reactive power when required.”¹⁵

Similarly, the NOPR provides a preemptory defense against the argument that it will prevent generators from recovering their costs. The Commission discounts arguments that reactive power compensation is important for financing generation facilities stating that “although the prospect of receiving separate, fixed reactive power payments may be beneficial for developing certain generating facilities, resource developers continue to develop new generating facilities in regions without such payments.”¹⁶ The NOPR also asserts that independent power producers can recover their costs in other ways, “such as through higher power sales rates of their own.”¹⁷

Despite its preliminary findings, the NOPR seeks comment on, among other issues, the following:

- The reliability impact of prohibiting transmission providers from including in their transmission rates any charges associated with the supply of reactive power within the standard power factor range from a generating facility in regions where generating facilities currently receive such compensation.¹⁸
- Whether, and if so how, the elimination of separate reactive power payments will affect generating facilities’ ability to recover their costs in the markets that currently provide reactive power compensation within the standard power factor range.¹⁹
- Whether, and if so how, eliminating separate reactive power compensation within the standard power factor range may affect investment decisions to build, or finish building, generation facilities, and whether, and if so how, the elimination could otherwise affect generators’ business decisions in those markets.²⁰
- If the Commission allows existing generation resources that have previously received compensation for reactive power supply to continue to receive compensation for a limited period while prohibiting new generation resources from receiving reactive power compensation, how should it determine eligibility for continued compensation in a manner that is just and reasonable and not unduly discriminatory or preferential.²¹

Comments on the NOPR are due 60 days after the date of publication of the NOPR in the *Federal Register*.

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

2 *Standardization of Generator Interconnection Agreements & Procs.*, Order No. 2003, 104 FERC ¶ 61,103 (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, at P 42 (2005), *aff'd sub nom. Nat'l Ass'n of Regul. Util. Comm'rs v. FERC*, 475 F.3d 1277 (D.C. Cir. 2007).

3 See e.g., Monitoring Analytics, LLC, *State of the Market Report for PJM at 1* (Mar. 14, 2024), *available at*: https://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2023.shtml (“One of the key challenges facing the PJM markets is the potentially high level of expected thermal resource retirements between now and 2030 with no clear source of replacement capacity. Although the exact numbers may vary, an estimated total of between 24,000 MW and 58,000 MW of thermal resources are at risk of retirement, including 4,285 MW of announced retirements, 19,635 MW of retirements as a result of state and federal environmental regulations, and 33,744 MW of retirements for economic reasons, based on expected forward prices.”);

4 NOPR at P 8.

5 *Id.* at P 25.

6 *Id.* at P 26.

7 *Id.* at P 29.

8 *Id.* at P 28.

9 *Id.* at P 29.

10 *Reactive Power Capability Compensation*, 177 FERC ¶ 61,118 (2021).

11 NOPR at P 31 (quoting *Reactive Power Capability Compensation*, Docket No. RM22-2-000, Comments of Southwest Power Pool Inc. (Feb. 22, 2022) (“Variable costs of generating reactive power are de minimis and are generally limited to changes in losses within the generating facility which are part of the overall efficiency of the resource and, as such, are typically captured in the resource offers submitted to the SPP Integrated Marketplace.”)).

12 *Id.* (quoting *Reactive Power Capability Compensation*, Docket No. RM22-2-000, Initial Comments of Old Dominion Electric Cooperative, Northern Virginia Electric Cooperative Inc. and Dominion Energy Services Inc. at 9 (Feb. 22, 2022)).

13 *Id.* at P 36.

14 *Id.* at P 39.

15 *Id.* at P 43.

16 *Id.* at P 45.

17 *Id.* at PP 15, 47.

18 *Id.* at P 47.

19 *Id.* at P 49.

20 *Id.*

21 *Id.* at P 56.

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