Good morning. My name is Steve Wofford. I am Vice President of Asset Operations for Constellation Energy Commodities Group. I would like to thank the Commission for the opportunity to be on this panel and would like to commend the FERC Staff for the White Paper they have published on reactive supply. It’s a great resource for all of us as we discuss the role of reactive supply and appropriate compensation mechanism for reactive supply.

Over the last five years, I’ve prepared the technical testimony for five reactive filings that Constellation Energy companies have submitted to the Commission and supported the preparation of a sixth filing. I also participated in the initial reactive working group that PJM established after the July 1999 Low Voltage Condition. In response to many participants’ requests, PJM has reactivated this group, and I’m participating on that group as well. In addition, I serve as Constellation’s representative on the PJM Reliability Committee. The topic of reactive supply and reactive compensation is important to me, and to Constellation, not only from an economic perspective, but from a reliability perspective as well.

The link to reliability is clear. In July 1999, PJM experienced a low voltage event. The root cause report indicated:

“Reactive Supply was insufficient to meet the demand”

The August 2003 Blackout report from the U.S. - Canada Power System Outage Task Force compared the 2003 blackout with previous North American outages and concluded:

“Inadequate reactive supply was a factor in most of the events.”

It further stated:

“Shunt capacitors and generating resources are the most significant suppliers of reactive power.”

Constellation has carefully considered how to address the lack of reactive supply as indicated within these reports. We understand the local nature of reactive power and the challenges of establishing a real time market for the supply in the short term. As an owner of generation across the country, both within established ISOs and outside of organized markets, Constellation is well aware of the challenges merchant generators face in receiving some level of
compensation for this very important product. Constellation has reached the following conclusions that we would like to share:

- Generators should be compensated for the provision of reactive power.
- Reactive power compensation should be provided to all generators as a cost based capacity payment based upon the design of the generator and its capability to provide reactive power.
- The "AEP Methodology" is an acceptable mechanism to define the costs associated with providing reactive power; others should also be considered.
- Where real power production is impacted in order to provide reactive power, generators should be provided their lost opportunity costs. PJM implemented this approach after the 1999 low voltage event.
- Within design and safety limits, generators should be expected to follow instructions of the transmission provider with respect to provision of reactive power.
- Due to the local nature of reactive power, a market based system for reactive power compensation is not appropriate at this time. This topic deserves additional discussion, but under the best case, it appears to be a number of years down the road. It is also important to note that in 2003, Reactive Payments in PJM were only 0.52% of the total costs of serving load. The cost of implementing a market design change needs to be balanced against the benefits. Put another way, Constellation is a great fan of markets, but in some cases we recognize that other compensation mechanism may be more appropriate.
- As with any regulatory changes, existing arrangements need to be considered when changing the compensation mechanisms for generators.

Thanks for the opportunity to be here today and share our views on this important subject. I would be happy to answer any questions you may have.

Dated: March 8, 2005