

**Statement of David Clarke, Navigant Consulting, Inc.
On Behalf of LIPA
(March 8, 2004)**

I would like to thank the Commission for this opportunity to address the future treatment of reactive power issues and to commend Commission Staff for an excellent and exhaustive analysis of reactive power issues in its recently released White Paper.

I am here in my capacity as consultant to LIPA – which is a municipal utility serving Long Island, New York. I am here today to provide observations regarding the ability of merchant transmission facilities to contribute reactive power capabilities. As you may know, LIPA has advocated for the development of merchant transmission in the Northeast, including the Cross Sound Cable which interconnects from New England into LIPA's transmission system at Shoreham, New York. LIPA currently holds the long term rights to transmission service over the facility and rights to the Cross Sound Cable's other capabilities—which include the ability to provide reactive power. A second merchant project, the Neptune Cable, connecting LIPA and PJM also is planned.

The Cross Sound Cable is an HVDC-light facility of about 300 MW, based on IGBT (Insulated Gate Bipolar Transistor) technology. The Cross Sound Cable's terminal equipment is able to provide both net leading and lagging VARs in the dynamic timeframe, over the entire range of cable power flow. If the terminal equipment is energized, even at zero flow, it will respond and dynamically adjust reactive power production or consumption, usually to hold a pre-set voltage schedule. Like other IGBT technologies, it has excellent performance in transient low voltage conditions following a fault. The dynamic VAR capability of the facility is recognized as being comparable or superior to equivalent generation. In fact, ISO-NE has routinely relied upon the Cross Sound Cable as a source of reactive power. For example, between September 2003 and May 2004, the CSC was called upon approximately one-hundred thirty-five (135) times, either through affirmative request of ISO-NE or the NYISO or through automatic response, to provide voltage or reactive power support to protect the stability of operations of the electric grids on either side of Long Island Sound.

The issue is payment for the VAR service. At this time, neither the New York nor New England ISO tariffs compensate non-generator sources, like the Cross Sound Cable for reactive power that such facilities provide, nor are these costs folded into LIPA regulated transmission rates. Thus, even though the terminal equipment is a valuable source of dynamic and steady-state reactive power, no compensation is provided. Moreover, those parties that pay for transmission service over the merchant transmission facility are not the parties that reap the reliability benefit of the facility's VAR capability. Thus, a small number of transmission customers subsidize reactive capabilities from which a wider set of customers benefit. Such subsidies provide a disincentive for merchant transmission developers to include net reactive power capabilities into future projects, an issue that comparable compensation could address.

I would note that NEPOOL and ISO-NE have initiated a review of the treatment of reactive power in New England. That review will address, among other matters, potential compensation of non-generator reactive power sources, like the Cross Sound Cable. LIPA is participating in those discussions and looks forward to a productive discussion on the future treatment of reactive power in the New England market.

We agree with the White paper's conclusion that long-term "changes in policy . . . are likely to take some time to implement." The conclusion that comparability issues can and should be addressed well before a comprehensive re-working of reactive power markets is also well founded. We believe that the Commission should address, specifically, comparability issues for merchant transmission. Moreover, reliability benefits from merchant transmission VAR capability, where such capability can be established, should be compensated comparably with similar services provided by generation.

Thank you again.