

FERC Order No. 904 Compliance

*Elimination of Compensation for Reactive Power
Capability Within the Standard Power Factor
Range*



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FERC Order No. 904 Compliance

Proposed Effective Date: June 1, 2025

- On October 17, 2024, the Federal Energy Regulatory Commission (FERC) issued [Order No. 904](#) on Compensation for Reactive Power within the Standard Power Factor Range
 - ISO's comments on the preceding Notice of Inquiry (NOI) and Notice of Proposed Rulemaking (NOPR) supported maintaining its existing design based on economic principles, system benefits, rate transparency, and administrative simplicity
 - FERC denied ISO's arguments in its Final Rule
- In accordance with the Order, ISO's compliance filing will eliminate compensation for reactive power within the standard power factor range established in the interconnection agreement
- Compliance filings are due by March 27, 2025, and FERC allowed for an effective date up-to 90 days thereafter (by June 26, 2025)



Overview of Compliance Proposal

- ISO's Compliance proposal modifies Schedule 2 to eliminate VAR CC credits
 - On the compliance effective date, ISO will terminate all QRR designations with no Participant action required
- No changes to Energy make-whole credits: Cost of Energy Produced (CEP), Lost Opportunity Cost (LOC), and Cost of Energy Consumed (CEC)
 - These credits will continue to ensure resources are no-worse-off financially for following ISO dispatch instructions
 - FERC's decision on reactive capability compensation does not require modification to these credits
- The following slides show the conforming definition and Market Rule 1 Tariff changes



TARIFF REDLINES



Summary of Proposed Tariff Changes for MC Action

| Section | Tariff Change | Reason for Change |
|--------------------------------------|---|--|
| I.2.2. Definitions: | <p>Qualified Generator Reactive Resource(s) is any generator source of dynamic reactive power that meets the criteria specified in Schedule 2 of the OATT.</p> | VAR CC Compensation Program is being removed. “Qualified” refers to reactive resources voluntarily participating in the CCCP, so the terms are being removed |
| III.13.1.1.2. 2.3. Offer Information | <p>(c) — By submitting a New Capacity Qualification Package, the Project Sponsor certifies that an offer from the New Generating Capacity Resource will not include any anticipated revenues the resource is expected to receive for its capacity cost as a Qualified Generator Reactive Resource pursuant to Schedule 2 of Section II of the Transmission, Markets and Services Tariff.</p> | Schedule 2 CCCP reference is being eliminated as capacity Project Sponsors won't have anticipated VAR CC revenue and the term QRR is being retired from the Tariff |



Conclusion

- ISO-NE's Order No. 904 Compliance proposal contains revisions to Sections I.2 of the OATT and III.13 of Market Rule 1 to conform with updates to Schedule 2 of the OATT as discussed at the Transmission Committee
- Compliance filings are due March 27, 2025, and FERC allowed for an effective date up-to 90 days thereafter (by June 26, 2025)
 - Proposed effective date is June 1, 2025 to align with Monthly Settlement CCCP Process



Stakeholder Schedule

| Stakeholder Committee and Date | Scheduled Project Milestone |
|---|---|
| Transmission Committee December 19, 2024 | Summary of compliance requirements and high-level compliance plan |
| Markets Committee January 14, 2025 | Summary of compliance requirements and conforming changes |
| Transmission Committee January 29, 2025 | Additional detail on compliance plan and initial review of proposed Tariff language |
| Markets Committee February 11, 2025 | Additional review of proposed conforming Tariff language and vote |
| Transmission Committee February 27, 2025 | Additional review of proposed Tariff language and vote |
| Participants Committee March 6, 2025 | Vote |

A circular collage of icons representing various aspects of sustainable energy and environmental management. The icons include solar panels, wind turbines, factories with smokestacks, houses, recycling bins, electric vehicles, and energy storage batteries. The icons are arranged in a circular pattern, with some overlapping, creating a sense of a continuous cycle or a holistic approach to sustainability. The color palette is primarily blue and green, with some yellow and orange accents.

APPENDIX 1

Governing Document References



Requirements for Provision and Auditing of Reactive Power

- NERC Standards:
 - MOD-025-2
 - MOD-032-1
 - VAR-002-4.1
- ISO Tariff
 - III.1.5.3 Reactive Capability Audits
 - OATT Schedules 22, 23, 25
- Planning Procedure
 - PP5-1 Section 2.1
- Operating Procedures
 - OP-12 Section IV.A.2 (and various others)
 - OP-23 Resource Auditing Section IV



APPENDIX 2

Order No. 904 References



Order No. 904 References on Power Factor Range

- Paragraph 1 of Order No. 904 states: “As a result of this final rule, transmission providers will be required to pay an interconnection customer for reactive power only when the transmission provider requests or directs the interconnection customer to operate its facility outside the standard power factor range **set forth in its interconnection agreement**”
- Footnote 2 of Order No. 904 states: “Operating ‘inside the standard power factor range’ refers to a generating facility providing reactive power within the power factor range **set forth in the generating facility’s interconnection agreement** when the unit is online and synchronized to the transmission system”
- Footnote 18 of Order No. 904 states: “Providing reactive power within design limitations is not providing an ancillary service; it is simply ensuring that a generator lives up to its obligations”

