



informational filing explaining the basis for the decision by the Reactive Power Supplier not to terminate or revise its cost-based rate schedule.”

PJM’s compliance filing is not adequate to address the serious flaw in PJM’s rules for reactive power services identified in the Show Cause Order. The revisions in the December 24<sup>th</sup> Filing include explicit obligations for reactive suppliers that were and are implicit. PJM should stop paying deactivated units for reactive services (post-deactivation) regardless of any explanation provided.

Schedule 2 should be revised to require PJM to determine which specific generating units are supplying reactive services to PJM customers and pay only those units for such services. PJM should not bill its customers for services that they do not receive and pay providers for services that they do not provide. Units should not be paid for providing reactive power when they have deactivated

Accordingly, the Commission should reject PJM’s proposed revisions to the tariff and direct PJM to file revisions to Schedule 2 consistent with the principle that PJM should not pay units for reactive services that do not provide reactive services.

## **I. COMMENTS**

### **A. The December 24<sup>th</sup> Filing Is Inadequate.**

In the Show Cause Order the Commission raised valid concerns about payments made by customers through PJM to units that have deactivated and are not provided reactive services. The Show Cause Order stated (at P 7):

We take this action in light of PJM’s intervention in the Sunbury proceeding, and from the FirstEnergy Corp. filing, as well as postings on the PJM website ... that suggest PJM continues to pay generation and non-generation resources for Reactive Service after units have deactivated. The PJM Tariff neither explicitly states that reactive power payments will cease when a generation or non-generation resource owner has deactivated a unit such that the unit is no longer capable of providing the service, nor does the PJM Tariff explain whether and how the reactive power payments are adjusted when a unit is transferred from a fleet.

The Show Cause Order stated further (at P 8):

The Commission is concerned that the PJM Tariff may be unjust and unreasonable, or unduly discriminatory or preferential, given the lack of clarity concerning termination or of change in payments for Reactive Service when generating units are no longer capable of providing reactive power or have been transferred out of a fleet, respectively. Paying for a service required under the Tariff where, as in the cases discussed above, the generation or non-generation resource owner is no longer capable of providing that service [fn16: *See Midwest Indep. Transmission Sys. Operator, Inc.*, 114 FERC ¶ 61,192, at P 19, *order on reh'g*, 116 FERC ¶ 61,283 (2006) ...] is unjust and unreasonable.<sup>17</sup> In *Tennessee Gas Pipeline Co.*, [fn18: 102 FERC ¶ 61,075, *order on reh'g*, 103 FERC ¶ 61,275, *order on reh'g*, 105 FERC ¶ 61,120 (2003) ...] for example, the Commission held that once a pipeline chooses to terminate a shipper's service, the customer no longer has an obligation to pay under its contract for that service.[fn19: *Id.* P 32 ...]

The Commission identified that its principal concern is that customers not pay for a service under the tariff to a provider who is not providing that service.

PJM, appropriately, does not attempt to explain the basis for the decision by the Reactive Power Supplier not to terminate or revise its cost-based rate schedule. PJM does explain (at 1–5) that it is not responsible for setting the rates for reactive services, including an approach that established reactive services in the aggregate for fleets of units providing reactive services.

In the initial order providing for reactive services in PJM, it was determined that regional rates for reactive services were equivalent to zonal transmission rates.<sup>3</sup> This meant

---

<sup>3</sup> *See Pennsylvania-New Jersey-Maryland Interconnection, et al.*, 81 FERC ¶ 61,257 (1997) (“As with the transmission revenue requirement, the reactive supply service charge is based on the costs of the local service area. While some of the [Regional Transmission Owners] have adopted the reactive power charge from their individual open access tariffs, others have not. Accordingly, we set the reactive supply service charges for hearing. We will establish eight separate proceedings to consider the proposals of each [Regional Transmission Owner].”).

that the Transmission Owner/Generation Owner was being paid for providing reactive services to the zone as though it had a franchise equivalent to the franchise for transmission services. The rate for reactive services operated like any other utility service to a franchise. But this made sense only if no other seller was providing reactive services in the same franchise under a separately filed rate. Multiple rates for the reactive service should never have applied in the same zone unless the franchise rate for reactive were reexamined.

Once multiple rates applied in the same zone, the initial rate needed to be converted to unit specific rates or the new supplier needed to be paid out of the existing rate.

Instead, over the subsequent years, numerous additional rates for reactive services were filed for individual units and plants not owned by the transmission owners who continued to provide reactive services under a rate meant to recover service for the zone on a franchise cost-of-service basis, equivalent to transmission service.<sup>4</sup> The original approach in Schedule 2 did not anticipate future changes in the entities providing reactive services and the units that would be used to provide them. PJM revised Schedule 2 in 2000 to allow new reactive service providers but did not adequately address the issue of legacy franchise rates for reactive services. By letter order issued September 25, 2000, revisions to Schedule 2 filed by PJM were approved that allowed PJM to compensate new generation facilities and that provided for the allocation of a portion of reactive fees collected if units were divested.<sup>5</sup> No provision was made for deactivated units. The franchise cost-of-service rates were left undisturbed.

As things now stand, multiple parties are serving the same franchise service area under separate filed rates.

---

<sup>4</sup> See, e.g., *FPL Energy MH 50*, 96 FERC ¶ 61,035 (2001).

<sup>5</sup> Docket No. ER00-3327-000.

Current practice is not consistent with fundamental cost-of-service ratemaking principles. The Commission has identified a serious flaw in the PJM rules for reactive services that should be changed immediately, in this proceeding.

PJM represents (*id.*) its role as serving as a conduit for the collection of a rate filed and approved by others. The Market Monitor agrees that responsibility for the problem identified in the Show Cause Order is shared. The Market Monitor does not agree that PJM's representations fully define its responsibilities as a public utility and a Regional Transmission Organization regulated under the Federal Power Act.<sup>6</sup>

PJM submits tariff revisions in response to the Commission's directive that it "either terminate or adjust its cost-based rate schedule to account for the deactivated or transferred unit." PJM explains (at 5–6) that its proposed revisions to Schedule 2 (and Part V) of the OATT "require that ninety days prior to the deactivation or transfer of a generation unit each Reactive Power Supplier either: (1) submit a filing to either terminate or adjust its cost-based rate schedule to account for the deactivated or transferred unit; or (2) submit an informational filing explaining the basis for the decision by the Reactive Power Supplier not to terminate or revise its cost-based rate schedule." Under this approach, PJM would not terminate or adjust its rate schedules but instead monitor whether others terminate or adjust their rate schedules. PJM would continue to pay for reactive services from units that it knows have deactivated and to bill its customers for those services. PJM would also fail to solve the larger of problem of duplicative cost-of-service rates covering the same region.

PJM does not have the authority and responsibility to determine the rates filed and approved by others. PJM does have the authority over and responsibility for its market rules for billing and settlement. That authority, as a practical matter, can and should be

---

<sup>6</sup> See, e.g., *Regional Transmission Organizations*, Order No. 2000, FERC Stats. & Regs. ¶ 31,089 (1999), *order on reh'g*, Order No. 2000-A, FERC Stats. & Regs. ¶ 31,092 (2000), *aff'd sub nom. Pub. Util. Dist. No. 1 of Snohomish County, Washington v. FERC*, 272 F.3d 607 (D.C. Cir. 2001).

used to effectively terminate or revise cost-based rate schedules that result in improper billing and payments for services not rendered. Suppliers of reactive services rely on PJM for billing and settlements in PJM markets.

PJM customers rely on PJM's market rules to protect them against abuses. When PJM procures services on customers' behalf, it stands in their shoes. PJM has fiduciary duties when it procures reactive power for PJM customers. PJM's proposed revisions are not adequate to satisfy the Commission's objectives and they fall well short of PJM's capability to meet those objectives.

**B. All Units Providing Reactive Power in PJM Should Be Required to File a Unit Specific Rate.**

The Commission should direct PJM to revise Schedule 2 of the OATT to provide for collection of rates only from specific units and only at times when such units are capable of providing reactive power services. Units are not capable of providing reactive services when they have deactivated or they do not have the equipment needed to provide reactive services. Whether or not such a unit has a rate for reactive services on file, the service must be provided in order to get paid.

Billing and settlement under Schedule 2 should not be available to suppliers to collect rates based on fleets of units or for generating plants comprised of multiple units, but only for rates filed for individual units. There is no reason why Schedule 2 cannot include this requirement. A unit that that has been deactivated and/or does not have equipment needed to provide reactive service should not be paid by PJM customers for reactive service. It is not necessary for PJM to take a position in proceedings establishing cost-of-service rate schedules for the affected units. It is necessary that PJM bill its customers and pay its suppliers only for services that are provided. If PJM implements a rule revised as proposed here, the Commission will achieve its objectives under the Show Cause Order.

Accordingly, PJM should be directed to revise Schedule 2 to provide for collection of rates only from specific units and only at times when such units are capable of providing reactive power services.

## II. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to these comments as the Commission resolves the issues raised in these proceedings.

Respectfully submitted,



---

Jeffrey W. Mayes

Joseph E. Bowring  
Independent Market Monitor for PJM  
President  
Monitoring Analytics, LLC  
2621 Van Buren Avenue, Suite 160  
Valley Forge Corporate Center  
Eagleville, Pennsylvania 19403  
(610) 271-8051  
*joseph.bowring@monitoringanalytics.com*

General Counsel  
Monitoring Analytics, LLC  
2621 Van Buren Avenue, Suite 160  
Valley Forge Corporate Center  
Eagleville, Pennsylvania 19403  
(610) 271-8053  
*jeffrey.mayes@monitoringanalytics.com*

Dated: January 12, 2015

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Eagleville, Pennsylvania,  
this 12<sup>th</sup> day of January, 2015.



---

Jeffrey W. Mayes

General Counsel

Monitoring Analytics, LLC

2621 Van Buren Avenue, Suite 160

Valley Forge Corporate Center

Eagleville, Pennsylvania 19403

(610) 271-8053

*jeffrey.mayes@monitoringanalytics.com*