



VIA EFILING

June 14, 2017

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: *Virginia Electric and Power Company*, Docket Nos.
ER06-554-000 and EL16-89-000

Dear Secretary Bose:

Pursuant to Rule 602 of the Commission's Rules of Practice and Procedure, 18 CFR § 385.602 (2012), Monitoring Analytics, LLC acting in its capacity as the Independent Market Monitor for PJM ("Market Monitor"), submits this response to the offer of settlement submitted on May 25, 2017, by Virginia and Electric Power Company, doing business as Dominion Virginia Power ("Dominion") in the above proceedings.

The Market Monitor cannot agree to the unilateral offer of settlement and will not become a settling party. The Market Monitor opposes the offer of settlement on its merits and it should not be approved, unless it is modified to include certain clarifications and conditions necessary to ensure the ability of the Market Monitor to perform the monitoring function and to ensure compliance with the PJM market rules.

The Market Monitor cannot agree to the settlement because it specifies in Exhibit A reactive service revenue requirements for each unit included in the settlement value that sum to a total value of \$39,665,678. The \$39,665,678 value exceeds by \$12,165,678 the total black box settlement reactive service revenue requirement set at \$27,500,000.

The Market Monitor does not seek any change to the level of the Reactive Service Revenue Requirement set at \$27,500,000. The Market Monitor is concerned that the terms of the offer of settlement could prevent or inhibit an appropriate adjustment of the \$27,500,000 total black box settlement reactive service revenue requirement if a unit receiving an unspecified portion of such revenue requirement is deactivated or transferred. The failure to specify the actual portion of the \$27,500,000 attributable to each unit also makes it impossible to calculate a cost-based offers from such units in the PJM Capacity Market.

The settling parties have agreed, per Section 4.2 of the offer of settlement, not to attempt to change the rate through a filing under Section 206 of the Federal Power Act unless and until the total settlement value of \$39,665,678, based on the inflated values for individual units included in Exhibit A, is reduced below the \$27,500,000 total black box reactive service revenue requirement due to transfers and deactivations of individual units included in Exhibit A.¹ The Market Monitor does not object to the settling parties agreeing to a restriction on their Section 206 rights, provided that it is clear that no one other than the settling parties are bound by Section 4.2 or any other terms of the settlement. The Market Monitor requests that any approval of the settlement include an explicit statement that the Market Monitor and any other entity not executing the settlement and becoming a settling party is not in any way bound by the mechanism set forth in Section 4.2 of the Settlement or any other terms of the settlement.

In the event of a transfer or retirement of a unit included in Exhibit A, the Market Monitor will support a Commission initiated investigation of whether an adjustment to the \$27,500,000 total black box reactive service revenue requirement is appropriate or file itself or support another's filing of a complaint under Section 206 of the Federal Power Act seeking an appropriate adjustment. The Market Monitor anticipates that it will take the position that each unit listed in Exhibit A contributes to the total black box settlement reactive service revenue requirement of \$27,500,000 in the same proportion as its contributes to the \$39,665,678 total included in Exhibit A.

A second and related concern about the offer of settlement is the failure to identify unit specific reactive service revenue requirements such that the reactive service revenues can be included for a unit in any calculation of Projected PJM Market Revenues as defined in Section 6.8 of Attachment DD to the OATT. In order to submit a cost-based offer based on Avoidable Cost Rate less Project PJM Market Revenues, it is necessary to identify and include in the calculation all revenues from ancillary services provided in PJM.² A black box settlement reactive service revenue requirement covering multiple units does not permit the calculation of Projected PJM Market Revenues for each unit included in the total revenue requirement. The inflated unit specific values included in Exhibit A necessarily overstate the reactive revenues properly attributable to each unit because they sum a level much higher than the total black box reactive

¹ The "settling parties" include Dominion, North Carolina Electric Membership Corporation, Old Dominion Electric Cooperative, and Northern Virginia Electric Cooperative, Inc.

² OATT Attachment DD § 6.8(d) ("Projected PJM Market Revenues for any Generation Capacity Resource to which the Avoidable Cost Rate is applied shall include all actual unit-specific revenues from PJM energy markets, ancillary services, and unit-specific bilateral contracts from such Generation Capacity Resource, net of energy and ancillary services market offers for such resource.").

service revenue requirement. Without clarification of what portion of the \$27,500,000 total black box reactive service revenue requirement applies to each unit included in the overall total, Dominion cannot comply with the tariff when it calculates a cost-based offer in RPM auctions and the Market Monitor cannot monitor such calculations to ensure that such offers do not raise market power concerns. Accordingly, the Market Monitor requests that the offer of settlement not be approved unless it includes the explicit condition that each unit listed in Exhibit A shall be deemed to receive a portion of the \$27,500,000 total black box settlement reactive service revenue requirement in the same proportion as its contributes to the \$39,665,678 total included in Exhibit A, and that the resulting revenues will be included in any calculation of Project PJM Market Revenues under Section 6.8(d) of Attachment DD to the PJM OATT. In addition, because Section 6.8(d) relies on a rolling three-year average, the same proportion would be used to determine each unit's share of the current revenue requirement, which does not state unit specific values.³

Accordingly, the Market Monitor cannot agree to the unilateral offer of settlement and will not become a settling party. The Market Monitor opposes the offer of settlement, and such offer should not be approved unless it is appropriately clarified and modified as explained above.

Sincerely,



Jeffrey Mayes
General Counsel

³ *Id.* (“The calculation of Projected PJM Market Revenues shall be equal to the rolling simple average of such net revenues as described above from the three most recent whole calendar years prior to the year in which the BRA is conducted.”).