

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Red Oak Power, LLC

)
)
)

Docket Nos. ER22-2946-001

**COMMENTS OF
THE INDEPENDENT MARKET MONITOR FOR PJM
IN OPPOSITION TO OFFER OF SETTLEMENT**

Pursuant to Rule 602(f) of the Commission’s Rules and Regulations,¹ Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor (“Market Monitor”) for PJM Interconnection, L.L.C.² (“PJM”), submits this reply in opposition to the offer of settlement (“Offer”) filed in this proceeding on August 30, 2023, by Red Oak Power, LLC (“Red Oak”).

Red Oak proposes on a black box basis an annual total revenue requirement for reactive capability of \$1,800,000.00, or \$2,319.59 per MW-year, or \$6.36 per MW-day for the 776 MW facility, on an ICAP basis. The proposed ARR for the Red Oak facility is significantly higher than the average rate paid for reactive power in PJM. The average revenue requirement for reactive capability in PJM was \$1,914 per MW-year in 2022. No justification has been provided for why customers should pay 1.21 times the average PJM price of reactive for reactive from Red Oak. There is no reasonable basis for the proposed disparity in cost for the same service. Reactive is a homogeneous product which should have the same price for all sellers. This result has not been explained or supported by Red Oak in their filing or their black box Offer. This disparity is inconsistent with competitive markets.

The facts relevant to whether the level of the rate proposed by Red Oak are appropriate should be established at hearing. The first issue that should be examined at

¹ 18 CFR § 385.602(f) (2023).

² Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”).

hearing is why PJM customers should pay any revenue requirement to Red Oak under Schedule 2. In the recent *Midcontinent Independent System Operator, Inc. (MISO)* case, the Commission approved MISO's FPA § 205 filing revising the MISO Tariff Schedule 2 to eliminate all charges under Schedule 2 for the provision of reactive power within the standard power factor range.³ The decision found “the provision of reactive power within the standard power factor range is, in the first instance, an obligation of the interconnecting generator and good utility practice,” and there is, thus, no obligation to provide separate compensation for reactive capability.⁴ The Commission explained that its holding reaffirms its policies stated, e.g., in Order No. 2003.⁵ It is also consistent with the approach long used in other RTOs, including CAISO and SPP.⁶ The Commission rejected arguments that reactive payments should be continued “because generators have come to rely on the compensation for Reactive Service in order for the generators to remain financially viable.”⁷ The Market Monitor has argued this position in the *Fern Solar* hearing, where its brief on exceptions to the initial decision is pending before the Commission.⁸

The Commission may approve a contested offer of settlement only based on its merits.⁹ A contested settlement may be approved on its merits under one of the four approaches set forth in *Trailblazer Pipeline Company*.¹⁰ None of the approaches under

³ 182 FERC ¶ 61,033 (2023).

⁴ *Id.* at P 53.

⁵ *Id.*

⁶ *Id.* at PP 56–57.

⁷ *Id.* at P 54.

⁸ *See Fern Solar LLC*, Docket No. ER20-2186, et al.

⁹ 18 CFR § 385.602(h)(1) (“If the Commission determines that any offer of settlement is contested in whole or in part, by any party, the Commission may decide the merits of the contested settlement issues, if the record contains substantial evidence upon which to base a reasoned decision or the Commission determines there is no genuine issue of material fact.”).

¹⁰ The four approaches for approving a settlement under *Trailblazer Pipeline Company* include: (i) addressing the contentions of the contesting party on the merits when there is any adequate record; (ii) approving a contested settlement as a package on the ground that the overall result of the

Trailblazer Pipeline Company can be relied on for approval of the Offer. The Offer does not resolve the issues raised in the order setting this matter for hearing.¹¹ There is no record supporting the revenue requirement as just and reasonable, including as a “package.” The Market Monitor represents the public interest in efficient and competitive markets. The settlement cannot be analyzed under the fair and reasonable standard applicable to uncontested settlements because the public interest in efficient and competitive markets is a central issue in this proceeding. There is no possibility of severing the issues in the manner contemplated under the *Trailblazer Pipeline Company* approaches.

Although the Commission encourages settlements, that policy is not a license to resolve cases at all costs.¹² An offer of settlement, as in this case, that is unfair, unreasonable, or against the public interest must be rejected.¹³ Instead, this case should proceed to hearing so that the record can be developed and issues of material fact and law can be resolved on the merits.

Article 20 of the Offer’s proposed settlement provides: “This Settlement establishes no principles and no precedent with respect to any issue in these proceedings.” If the Offer is approved, it will unavoidably establish a benchmark rate level for facilities like the Red Oak facility. The public interest is better served by resolution of the issues raised in this proceeding on the basis of a full evidentiary record and reasoned analysis.

settlement is just and reasonable; (iii) determining that the contesting party's interest is sufficiently attenuated such that the settlement can be analyzed under the fair and reasonable standard applicable to uncontested settlements when the settlement benefits the directly affected settling parties; or (iv) preserving the settlement for the consenting parties while allowing contesting parties to obtain a litigated result on the merits. *See Trailblazer Pipeline Company*, 85 FERC ¶ 61,345 (1998).

¹¹ *Red Oak Power, LLC*, 181 FERC ¶ 61,156 at PP 11–12 (2022).

¹² *See, e.g., Arkla Energy Resources*, 49 FERC ¶ 61,051, 61,217 (1989); *Transwestern Pipeline Co.*, 9 FERC ¶ 61,075, at 61,166 (1979).

¹³ 496 F.3d at 701.

In the attached affidavit of Dr. Joseph E. Bowring (“Affidavit”), included pursuant to Rule 602(f)(4), Dr. Bowring explains why the requested revenue requirements are excessive and unsupported.¹⁴

The issues raised in this proceeding have significant cost implications going forward. Failing to resolve these issues means that customers must make payments to the facilities and similar facilities at levels exceeding the competitive and reasonable level for the facilities. Resolution of these issues should not be deferred. There is significantly greater administrative efficiency if new issues are resolved now, rather than after years of baseless and arbitrary settlements.

In the Affidavit, Dr. Bowring explains why the level of the annual revenue requirement is excessive. The issue of an appropriate rate level under Schedule 2 needs resolution on the merits in this case and for future cases. The Market Monitor opposes the Offer. The Offer should be rejected. Further, settlement discussions in the proceeding should be terminated, and the issues raised in this proceeding should be decided on the merits.

Respectfully submitted,



Jeffrey W. Mayes

General Counsel
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleview, Pennsylvania 19403
(610) 271-8053
jeffrey.mayes@monitoringanalytics.com

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

John Hyatt
Senior Economist
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleview, Pennsylvania 19403

¹⁴ 18 CFR § 385.602(f)(4).

(610) 271-8050

john.hyatt@monitoringanalytics.com

Dated: September 19, 2023

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 19th day of September, 2023.



Jeffrey W. Mayes

General Counsel

Monitoring Analytics, LLC

2621 Van Buren Avenue, Suite 160

Eagleville, Pennsylvania 19403

(610) 271-8053

jeffrey.mayes@monitoringanalytics.com

Attachment
Exhibit Nos. IMM-0001–0004

Bowring Affidavit
and Supporting Exhibits