

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

PJM Interconnection, L.L.C.

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Docket No. ER25-1073-000

**ANSWER AND MOTION FOR LEAVE TO ANSWER
OF THE INDEPENDENT MARKET MONITOR FOR PJM**

Pursuant to Rules 212 and 213 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. (“PJM”),² submits this answer and motion for leave to answer the answer submitted by LS Power Development, LLC, on March 5, 2025 (“LS Power”), and by PJM on March 10, 2025, the comments submitted in this proceeding by the Market Monitor on February 18, 2025. Neither LS Power nor PJM raise arguments in their answers that rebut the recommendations included in the Market Monitor’s comments. PJM should be directed to include the Market Monitor’s recommendations in its compliance filing in order to ensure just and reasonable compensation for reactive capability during the transition period.

¹ 18 CFR §§ 385.212 & 385.213 (2024).

² Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”), the PJM Operating Agreement (“OA”) or the PJM Reliability Assurance Agreement (“RAA”).

I. ANSWER

A. LS Power Fails to Rebut the Market Monitor's Recommended Corrections to the Transition Mechanisms.

LS Power argues (at 5), "the IMM and Dominion ignore the fact that the Net CONE (including the reactive power revenue offset used to calculate Net CONE) has an impact on auction results even in cases where the auction clears at the maximum price of Gross CONE." LS Power is incorrect. An auction that clears at Gross CONE is unaffected by the EAS Offset because the EAS Offset is not included in Gross CONE by definition.

LS Power cites (at 5–6) Brattle simulations based on Net CONE, in which Brattle concluded "the administrative Net CONE estimation has significant implications for the reliability of the VRR curve due to its impact on the price cap." LS Power asserts a speculative, unquantified and unsupported link between reactive net revenues and the use of the higher of Gross CONE and 1.75 times Net CONE as the maximum price on the VRR curve based on a general discussion in a consultant report to PJM. LS Power does not address the fact that the referenced LDAs cleared at Gross CONE and that there is no demonstrable or quantitative link between reactive revenues and Gross CONE. Reactive net revenues did not affect Gross CONE, did not affect the capacity market clearing price and therefore does not require a transition mechanism.

LS Power claims (at 6–7) that "market participants would have entered into and priced bilateral capacity transactions ahead of the 2025/2026 BRA based on their expectations regarding continued reactive power compensation under Schedule 2 of the PJM Tariff." This argument is speculative and irrelevant and unsupported. There is no information about what market participants assumed or did not assume about any part of net revenues. If the bilateral seller sold for less than the maximum price based on Gross CONE, that was a private decision. Ample notice existed that the rules for reactive compensation in PJM could change. Market participants assume regulatory risks in making their commercial arrangements. While a transition mechanism is appropriate to address the defined impact of market rules

on the capacity market clearing price, the transition mechanism defined by the Commission does not guarantee the results of private contractual arrangements.

LS Power argues (at 7) “that individual sellers’ MSOCs were not calculated using that assumed value but were instead based on their actual reactive power revenue requirements.” The Market Monitor performed an analysis determining that the inclusion of reactive revenues in offers based on reactive revenue above \$2,199 per MW-Year did not affect the clearing prices, and, for this reason, seller offers are not a reason to provide compensation above that level.

LS Power summarizes its position by stating that reactive revenues existed and affected capacity market offers and clearing prices but then draws (at 7–8) the illogical conclusion that the only way to be sure that clearing prices were not affected would be to rerun the auction.

The Market Monitor has stated repeatedly that a transition is needed because reactive revenues were included in the VRR curve and were included in some offers.³ That transition is not needed where it can be demonstrated that the inclusion of reactive revenues had no impact on the VRR curve as is the case for both BGE and DOM Zones. For the other resources, compensation above the level included in the VRR curve should not be part of a transition mechanism because it cannot be demonstrated that compensation above \$2,199 per MW-year affected clearing prices. The Market Monitor’s analysis shows that inclusion in offers of reactive revenues above \$2,199 per MW-year did not affect clearing prices in the Rest of RTO. The three LDAs with separate clearing prices were Rest of RTO, BGE and DOM.

The Market Monitor has stated repeatedly that the inclusion of reactive revenues in the calculation of the Net CONE for the reference resource reduced Net CONE and reduced

³ See, e.g., Monitoring Analytics, 2024 *State of the Market Report for PJM: January through September* (November 14, 2024) at 654–655.

capacity market clearing prices as a result.⁴ That is why the Market Monitor has supported a transition mechanism for LDAs where there was an impact on Net CONE and a corresponding impact on the clearing price.

The impact on capacity market clearing prices was in auctions where the price was affected by the Net CONE of the reference resource through its impact on the VRR curve. However, it is clear that the inclusion of reactive revenues in the definition of Net CONE for the reference resource had no impact on the 2025/2026 BRA clearing price in the BGE and DOM LDAs because they both cleared at Gross CONE, meaning that the level of Net CONE for the reference resource did not affect the clearing price.

LS Power raises the separate and reasonable question about whether the reactive revenue offsets that were included in the capacity market offers of individual resources affected capacity market clearing prices in areas of the market that did not clear at Gross CONE. Market Monitor analysis of the 2025/2026 BRA shows that the inclusion of reactive revenues at levels greater than \$2,199 per MW-year in offers did not affect the clearing prices in the 2025/2026 BRA.

The conclusion is that no transition is needed for the BGE and DOM LDAs and that there is no reason to pay any units that cleared in Rest of RTO more than the default \$2,199 per MW-year during the transition.

B. PJM Can Apply a Rate Based on the \$2,199 per MW-Year Offset.

PJM argues (at 11) that it cannot apply a rate based on the \$2,199 per MW-year level of the offset because reactive rates are based on \$/year or \$/month. If PJM knows how to calculate the current reactive rate for units, it can calculate a monthly rate by dividing the annual rate by 12 and multiply by the ICAP MW as needed.

⁴ See, e.g., Comments of the Independent Market Monitor for PJM in Opposition to Offer of Settlement, Docket No. ER22-2048-000 (January 9, 2024), Exhibit IMM-0001 at 6:20–7:11.

II. MOTION FOR LEAVE TO ANSWER

The Commission's Rules of Practice and Procedure, 18 CFR § 385.213(a)(2), do not permit answers to answers or protests unless otherwise ordered by the decisional authority. The Commission has made exceptions, however, where an answer clarifies the issues or assists in creating a complete record.⁵ In this answer, the Market Monitor provides the Commission with information useful to the Commission's decision making process and which provides a more complete record. Accordingly, the Market Monitor respectfully requests that this answer be permitted.

III. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to this answer as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,



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⁵ See, e.g., *PJM Interconnection, L.L.C.*, 119 FERC ¶61,318 at P 36 (2007) (accepted answer to answer that "provided information that assisted ... decision-making process"); *California Independent System Operator Corporation*, 110 FERC ¶ 61,007 (2005) (answer to answer permitted to assist Commission in decision-making process); *New Power Company v. PJM Interconnection, L.L.C.*, 98 FERC ¶ 61,208 (2002) (answer accepted to provide new factual and legal material to assist the Commission in decision-making process); *N.Y. Independent System Operator, Inc.*, 121 FERC ¶61,112 at P 4 (2007) (answer to protest accepted because it provided information that assisted the Commission in its decision-making process).

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Dated: March 20, 2025

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 20th day of March, 2025.



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