UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C.	)))	Docket No. ER25-1073-000

COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rule 211 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 these comments responding to the filing submitted by PJM on January 28, 2025 ("January 28th Filing"), in compliance with Order No. 904, issued November 24, 2024.[3]

In Order No. 904, the Commission directed that payments for reactive capability under Schedule 2 to the PJM tariff be eliminated, effective January 27, 2025.

The January 28th Filing should not be approved as filed because it is incomplete. PJM should be required to submit a modified compliance filing that excludes units in the DOM and BGE Zones from transition payments after May 31, 2025, because the inclusion of reactive revenue in the net energy and ancillary services offset ("EAS Offset") did not affect the clearing prices in those Zones. PJM should be required to submit a modified compliance filing that caps transition payments to individual units at the level of the reactive revenues included in the EAS Offset used to define the Variable Resource Requirement ("VRR") curve for the

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1 18 CFR § 385.211 (2022).

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").

3 *Compensation for Reactive Power Within the Standard Power Factor Range*, Order No. 904, 189 FERC ¶ 61,034 (2024) ("Order No. 904"); *reh'g denied*, 189 FERC ¶ 62,127 (2024).

2025/2026 Base Residual Auction, $2,199 per MW-Year. Both changes are needed in order to create a complete and consistent transition mechanism based on the logic advanced by PJM.

I. COMMENTS

A. Schedule 2

The Commission ordered the termination of Schedule 2 payments and charges subject to the time required to eliminate the impacts of Schedule 2 payments from the PJM Capacity Market. As the Commission stated: "[t]his flexibility would accommodate the potential section 205 filings that some RTOs/ISOs mentioned may accompany any final rule compliance filings, such as PJM's adjustments to market rules to remove the offset in auction parameters."[4]

The transition mechanism is explicitly based on the premise that capacity market prices were affected by the inclusion of reactive revenues in the capacity market. That is not true in all cases. Where the capacity market prices were not affected by the inclusion of reactive revenues there is no need for a transition mechanism and the payment of reactive revenues can terminate effective June 1, 2025, the beginning of the 2025/2026 Delivery Year.

Reactive revenues have been incorporated in the capacity market in three ways. Reactive revenues have been included in the EAS Offset for the reference resource in the capacity market demand curve, the VRR curve. Reactive revenues have been included in the net revenue offset for Minimum Offer Price Rule ("MOPR") offer floors. Reactive revenues have been included in the net revenue offset for Market Seller Offer Caps ("MSOC").

By order issued February 14, 2025, the Commission approved the removal of Schedule 2 revenue from the EAS Offset for the reference resource and from the EAS Offset in MOPR

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[4] Order No. 904 at P 225.

floor prices in the 2026/2027 capacity market auction to be run in July 2025, with resultant prices effective on June 1, 2026.[5]

PJM also proposes, by implication, that Schedule 2 revenues be removed from the EAS Offset in MSOC offer caps in the 2026/2027 capacity market auction to be run in July 2025, with resultant prices effective on June 1, 2026.[6] [7]

In the January 28th Filing, PJM proposes to terminate payments to units and charges to customers under Schedule 2 to the OATT ("Schedule 2") for reactive power capability "within the power factor range specified in its Generation Interconnection Agreement or any other interconnection agreement" in order to comply with Commission policy stated in Order No. 904.

While the January 28th Filing includes important provisions of a transition, it is not complete. The January 28th Filing should not be approved except on condition that (i) the transition mechanism excludes resources in BGE and DOM from eligibility to receive payments after May 31, 2025, and (ii) reactive payments to all eligible resources are capped at $2,199 per MW-Year.

B. Transition Mechanism.

1. PJM's Transition Mechanism Includes Some Important Features that Should Be Approved.

The Market Monitor agrees with PJM's four criteria for eligibility to receive payments under the transition mechanism.

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5 *See PJM Interconnection, L.L.C.*, 190 FERC ¶ 61,088 at P 97 (2025). The reactive revenue that would have been included in the EAS Offset was $2,546 per MW-year for the 2026/2027 BRA, an increase over the $2,199 per MW-year included in the EAS Offset for the 2025/2026 BRA.

6 *Id*.

7 See OATT Attachment DD § 6.8(d) (MSOC "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.").

The Market Monitor agrees with PJM that that the transition mechanism should terminate and no resource should receive Schedule 2 payments starting on June 1, 2026.

The Market Monitor agrees that only resources that are cleared capacity resources for the 2025/2026 Delivery Year should be eligible to receive Schedule 2 revenues after May 31, 2025, and this excludes both replacement resources and FRR resources. However, if a cleared resource were replaced, the resource that was replaced no longer has a capacity obligation and should not be paid. PJM's revised compliance filing should clarify this point.

The Market Monitor supports PJM's approach to fleet resources.

The Market Monitor supports PJM's position that no resource that does not provide reactive power to the BES should receive Schedule 2 revenues.

The identified four criteria have each been supported as just and reasonable, with the proposed clarification to the definition of cleared capacity resource. As a result, the Market Monitor recommends the approval of these four criteria with the proposed change to the definition of cleared capacity resource.

2. PJM's Transition Mechanism Does Not Meet Stated Objective.

PJM's transition proposal is flawed and requires modification in order to meet the stated objective of Order No. 904 and the January 28th Filing.

Rather than simply terminating Schedule 2 payments prior to the 2025/2026 Delivery Year, PJM needs a transition in order to remove the impact of those generator revenues from the capacity market and thus to ensure that capacity market prices are not inappropriately reduced during that period for any capacity resources.

PJM explains (at 14):

> This proposal is centered on the principle that the Net Cost of New Entry ("Net CONE") of the Reference Resource used to establish the Variable Resource Requirement Curve ("VRR Curve") for these auctions was formulated with an EAS Offset that included the presence of reactive revenues. Given that the proposed reforms of the December 9 FPA 205 Filing are designed to remove the reactive revenues from the EAS Offset, it is logical to include in the transition mechanism those generation or other sources that cleared

> in a Reliability Pricing Model Auction on the basis of a VRR Curve that included reactive revenues.

The Market Monitor agrees with PJM's logic. If the VRR curve were shifted and individual unit offer caps (MSOC) were reduced based on the assumption that capacity resources receive reactive revenues and the result was lower clearing prices in the capacity auction, then a transition mechanism is required to ensure that capacity market prices were not inadvertently reduced.

However, PJM does not follow its own logic through to propose a fully just and reasonable transition mechanism. The key PJM statement is: "… it is logical to include in the transition mechanism those generation or other sources that cleared in a Reliability Pricing Model Auction on the basis of a VRR Curve that included reactive revenues." Each price separated LDA has a separate VRR curve in the RPM Auction. Two of those LDAs cleared at the maximum price, Gross CONE, which by definition does not include reactive revenues or any net revenues from any source.

Schedule 2 revenues in the tariff defined in the amount of $2,199 per MW-year were included in the EAS Offset for the reference resource in the 2025/2026 capacity market auction. The result was to reduce the Net CONE for the reference resource, shift the VRR curve (capacity market demand curve) and reduce clearing prices for LDAs that cleared at less than the maximum price in that auction.[8] Therefore, any resource that sold capacity in an LDA for which the price was reduced as a result of the inclusion of by Schedule 2 revenues should be permitted to continue to receive their specific Schedule 2 revenues during the

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8 *See, e.g.*, Monitoring Analytics, 2024 *State of the Market Report for PJM: January through September* (November 14, 2024) at 654–655; IMM, "FERC Order 904," Presentation the PJM Markets Implementation Committee (December 4, 2024), which can be accessed at: <*https://www.pjm.com/-/media/DotCom/committees-groups/committees/mic/2024/20241204/20241204-item-04-2---imm-ferc-order-904-reactive-revenues-education.pdf*> .

2025/2026 Delivery Year in order to maintain the consistency between reactive revenues paid to individual units and the capacity market clearing prices.

However, no such continuation of Schedule 2 revenue is appropriate for any resource that sold capacity in an LDA for which the clearing price was not reduced as a result of the inclusion of Schedule 2 revenues. There are two such LDAs: BGE and DOM. The price paid for capacity in both these LDAs was Gross CONE.[9] Gross CONE is by definition not affected by net revenues and therefore not affected by Schedule 2 revenues. In addition, the clearing prices in those two LDAs were not affected by resource specific offer caps (MSOC) and therefore not affected by Schedule 2 revenues.

For this reason and based on the logic of PJM's filing, PJM should modify its transition mechanism to terminate all Schedule 2 payments to capacity resources and associated charges to PJM customers in the BGE and DOM LDAs effective at the beginning of the 2025/2026 Delivery Year, June 1, 2025.

PJM has not supported the continued payment of reactive revenues to capacity resources that were not paid reduced capacity market prices as a result of the inclusion of reactive revenues in the VRR curve. Such payments and charges are not just and reasonable. The Market Monitor recommends the termination of payments to such resources effective May 31, 2025.

3. PJM's Transition Mechanism Is Flawed Because It Would Allow Individual Unit Reactive Payments Greater than $2,199 Per MW-Year.

Existing Schedule 2 payments to some resources exceed the $2,199 per MW-year that is included in the VRR Curve as the EAS Offset for the 2025/2026 BRA. PJM does not address whether individual existing resources should continue to receive in excess of $2,199 per MW-year in Schedule 2 revenues until the termination of payments. PJM's logic does not justify

[9] The maximum price on the VRR curve for the 2025/2026 BRA was the greater of 1.5 times Net CONE or Gross CONE. The actual maximum price in these two LDAs was Gross CONE.

any payments exceeding the level of the EAS Offset. PJM's logic contradicts the need for any such payments and associated charges to PJM customers.

The transition period identified by the Commission for which PJM proposes detailed rules is intended to ensure that the balance between payment of reactive revenues to individual units and the reduction of capacity market prices based on the inclusion of reactive revenues in the EAS Offset in the VRR Curve is maintained. If the payments to units were terminated while capacity market prices were still affected by the inclusion of reactive revenues in the EAS Offset, that balance would not be maintained. However, it is also true that if the payments to some individual units exceeds the $2,199 per MW-year that is included in the EAS Offset, that balance would not be maintained.

The January 28th Filing should not be approved except on the condition that payments to all eligible individual resources be capped at $2,199 per MW-Year. No resource should be paid more than $2,199 per MW-year for reactive power capability during the transition. The offset is the level of revenue assumed in the VRR curve and there is no reason that any resource should receive in excess of that amount during the transition, in order to maintain the intended balance between payments to individual units and the impact on the capacity market.

II. CONCLUSION

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

Respectfully submitted,

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Dated: February 18, 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 18th day of February 18, 2025.

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