

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

)	
Reactive Supply Compensation in Markets)	Docket No. AD16-17-000
Operated by Regional Transmission)	
Organizations and Independent System)	
Operators)	
)	

REPLY COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to the workshop convened in the above referenced proceeding on June 30, 2016, Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM (“Market Monitor”), offers these comments in reply to the comments filed on July 28, 2016, by (“AWEA”) in this proceeding. AWEA appears to argue that wind units should receive cost of service compensation for reactive capability apart from how the rules apply to other types of generators. AWEA’s argument should be rejected.

AWEA’s additional argument that the burdens of cost of service compensation disproportionately impact wind generating units is another reason to end the cost of service approach and to rely on the market.

AWEA states (at 4) that “[p]aying generators for both reactive capability and provision” is “even more important with asynchronous generators, because in many cases, the reactive need is geographically distant from the generator and the generator faces a high cost of providing reactive power service.” The likely location of wind generators does not justify treating wind generators differently under the rules. One policy for the recovery of the costs of reactive capability in PJM and other competitive markets should apply with equal force to all generators of all types and sizes. Any other approach would distort the markets and reduce efficiency.

Commission rules now require all generators, including wind generators, to have reactive capability as a requirement to receive interconnection service.¹ Given that the policy of requiring reactive capability is standard for all generation types, and such capability is a condition for eligibility to receive interconnection service, the best and most efficient policy would be to remove cost of service payments for generation capability and to allow generators to recover the costs of reactive capability from the markets.

Current policies applicable to cost of service rates are poorly designed, and allow for the recovery of costs that are not for reactive capability and/or are not useful to system operators and the customers they serve. The best reform would be to eliminate cost of service rates for reactive capability across the board.

AWEA identifies an additional reason to eliminate cost of service reactive rates (at 5):

Many wind plant owners choose to forego filing to receive compensation because the burdensome transaction costs of filing and litigating to receive payment under cost-based rates exceed the value of such payments. The result is that wind plants are de facto denied payment for providing reactive service, an outcome that is not just and reasonable and is unduly discriminatory.

AWEA argues that allowing cost of service rates discriminates against suppliers providing relatively less capability. If this is correct, the best approach would be to remove the administrative burden for all types and sizes of generating units and allow compensation through competitive markets.

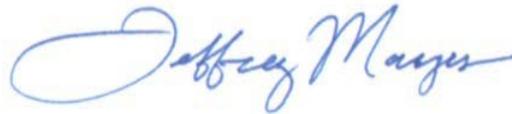
The best approach for recovering reactive capability costs is through markets when markets are available as they are in RTOs/ISOs. The best approach for recovering reactive

¹ See *Reactive Power Requirements for Non-Synchronous Generation*, Order No. 827, 155 FERC ¶ 61,277 at 9 (2016) (“[T]he equipment needed for a wind generator to provide reactive power has become more commercially available and less costly, such that the cost of installing equipment that is capable of providing reactive power is comparable to the costs of a traditional generator.”).

capability costs in PJM is through the capacity market. The capacity market already incorporates reactive costs and reactive revenues. The treatment of reactive costs in the PJM market needs to be modified so that the capacity market incorporates reactive costs and revenues in a more efficient manner. Increased reliance on markets for the recovery of reactive capability costs would promote efficiency and consistency. Customers, market administrators and regulators will be better served by a simpler and more effective competition based approach.

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

Respectfully submitted,



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Dated: September 20, 2016

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 September, 2016.



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