UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Compensation for Reactive Power Within the Standard Power Factor Range	)	Docket No. RM22-2-000

REPLY COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Notice of Proposed Rulemaking issued in this proceeding on March 21, 2024 ("NOPR"),[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 reply comments. In the NOPR, the Commission proposed (at P 1) to revise Schedule 2 to the *Pro Forma* Open Access Transmission Tariff ("OATT"), so that "transmission providers would be required to pay an interconnection customer for reactive power only when the transmission provider asks the interconnection customer to operate its facility outside the standard power factor range set forth in its interconnection agreement." In comments filed May 28, 2024, the NOPR received broad support. The NOPR correctly proposes a policy grounded fully in competition based regulation. Opposing comments come largely from generation owners opposed to the removal of subsidies that have benefited them, even though such subsidies are primarily the result of the nonsensical, wasteful and unworkable attempts to allocate a portion of costs recoverable in markets to a guaranteed reactive payment based on an

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[1] 186 FERC ¶ 61,203.

[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").

outdated and arbitrary cost of service approach referred to as the *AEP* Method.[3] Opposing comments have not raised any substantive new issues nor raised any flaws in the Commission's logic.[4]

Finalizing the approach stated in the NOPR would align reactive policy for transmission providers like PJM with the policy that has been applied in other organized wholesale markets since as early as the late 1990s, and that has been repeatedly confirmed.[5] Finalizing the NOPR would extend a just and reasonable, pro competition policy, to all jurisdictional markets and public utilities; protect PJM customers and others from unjust and unreasonable charges for reactive capability that generation owners are already required to

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[3] *See* Indicated Trade Associations ("ITAs") (The Electric Power Supply Association, the PJM Power Providers Group, the New England Power Generators Association, Inc., the Independent Power Producers of New York, Inc., and the Coalition of Midwest Power Producers ("COMPP")); Indicated Reactive Power Suppliers (KMC Thermo, LLC, Bitter Ridge Wind Farm, LLC, Guernsey Power Station LLC, Moxie Freedom LLC, Safe Harbor Water Power Corporation, BIF III Holtwood LLC, Brookfield Power Piney & Deep Creek LLC, Erie Boulevard Hydropower, L.P., Carr Street Generating Station, L.P., Bear Swamp Power Company LLC, Brookfield White Pine Hydro LLC, Brookfield Renewable Trading and Marketing LP, and Reworld Waste, LLC f/k/a Covanta (including Covanta Delaware Valley, L.P., Covanta Essex Company, Covanta Fairfax, LLC, and Covanta Plymouth Renewable Energy, LLC); Reactive Service Providers (CIP, D. E. Shaw Renewable Investments, L.L.C., Invenergy Renewables LLC, Leeward Renewable Energy, LLC, Lightsource Renewable Energy Operations, LLC, NextEra Energy Resources, LLC,1 Ørsted Wind Power North America, LLC, and RWE Clean Energy, LLC); American Council on Renewable Energy ("ACORE"); EDP Renewables North America LLC ("EDPR"); Middle River Power LLC ("MRP"); North American Generator Forum ("NAGF"); Generation Developers (National Grid Renewables Development, LLC, Vistra Corp. and Dynegy Marketing and Trade, LLC); Nuclear Energy Institute ("NEI"); National Hydropower Association ("NHA"); PSEG Companies (Public Service Electric and Gas Company, PSEG Power LLC, and PSEG Energy Resources & Trade LLC, and each wholly-owned, direct or indirect subsidiaries of Public Service Enterprise Group Incorporated); and Eagle Creek Reactive Generators (Mahoning Creek Hydroelectric Company, LLC, York Haven Power Company, LLC, Eagle Creek Reusens Hydro, LLC, Great Falls Hydroelectric Company Limited Partnership, Lake Lynn Generation, LLC, PE Hydro Generation, LLC, Black River Hydroelectric, LLC, All Dams Generation, LLC, and Eagle Creek Hydro Power, LLC); and Elevate Renewables F7, LLC ("Elevate").

[4] *See* NOPR at PP 44 & 49.

[5] *See* NOPR at PP 4–7, 17–19.

provide as a condition to receive interconnection service; promote reliance on competition; and avoid the distorting effects of arbitrary out of market subsidies. A final order based on the NOPR should be issued as soon as possible.

I. REPLY COMMENTS

A. Opposing Comments Confuse Markets with Cost of Service Regulation.

ITAs argue (at 7) that the NOPR "erroneously assumes that there are no or only minimal costs associated with the provision of reactive power."[6] The NOPR makes no such assumption. The NOPR refers to incremental costs. Neither the ITAs nor any other opposing commenter, nor any of the precedent relied upon by opposing commenters, identify any additional costs or more than de minimis costs incurred by generators in order to provide reactive capability.

ITAs reveal a misunderstanding of how the *AEP* Method works. The *AEP* Method is not about identifying incremental costs incurred to provide reactive power. The *AEP* Method allocates the costs of an integrated power plant between reactive power and real power.[7]

Opposing commenters, surprisingly and without logical support, suggest that reliance on competitive markets somehow prevents the recovery of investment.[8] [9] [10] Markets

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6 Indicated Reactive Power Suppliers at 8–10, MRP at 2–3, Eagle Creek Reactive Generators at 3–4 and NEI at 8 make similarly erroneous arguments.

7 That testimony that created the *AEP* Method was about a subjective decision to reassign costs to different groups of customers that were already fully accounted for, and not about any asserted costs to provide reactive power that were not recovered elsewhere and not for any asserted additional costs of providing reactive power.

8 ITAs complain (at 12–15) about the effects of mitigation. Mitigation already applies to all costs that can be included in market offers under the rules. Mitigation ensures that such offers are competitive. Market power mitigation is a red herring in this proceeding. Market power mitigation is essential to ensuring competitive markets in general.

9 ITAs at 36, citing NOPR at P 29.

10 *See* Generator Developers at 26–28; PSEG *passim*.

provide an opportunity to recover all the costs associated with investing in and operating generators. Competitive markets set prices based on the fundamentals of supply and demand. Markets do not guarantee or limit prices based on suppliers' costs.

ITAs and other opposing commenters seek to protect guaranteed subsidies that are inconsistent with the operation of PJM markets and similar situated markets.[11] These critiques of the NOPR are fundamentally a critique of competitive wholesale power markets and an argument that customers should pay more than market prices for wholesale power.

Consistent with this theme, Elevate suggests (at 7–9) that paying revenues to storage resources in organized wholesale power markets is essential as a result of various asserted inadequacies in wholesale power market design that Elevate argues affect batteries. It is not rational market design to create an approximately $400 million per year guaranteed revenue stream to a range of market asset types, very few of which are batteries in PJM, based on a rate base rate of return model incorporating an arbitrary allocation of costs.

It is not the role of regulation through competition to create streams of revenues to cover up asserted market design issues. Elevate and others have the opportunity to comment on competitive market design and to make market design proposals related to batteries.

Indicated Reactive Power Suppliers argue (at 11–13) that "[t]here is no double recovery," because "[w]hile a generator may have the opportunity to recover all its costs in the PJM markets, it does not follow that a generator in fact recovers all its costs in the PJM markets." The NOPR does not require a finding that generators recover all of their cost in markets. Markets do not include such guarantees. In competitive markets, generation owners may overrecover their costs in markets at times and generators may underrecover their costs at times. The point is that when markets provide an opportunity to recover all costs, those same costs should not be recovered in a separate cost of service rate. The same investment

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[11] *See* Generation Developers at 17–22.

should not be recoverable and recovered in two parallel regulatory regimes. That result is plainly unjust and unreasonable.

ITAs argue (at 22–24) that the NOPR would impose confiscatory rates. The policy proposed in the NOPR has been effective for decades in some markets without complaint.[12] The notion of a confiscatory rate is based on the outdated rate base rate of return regulation model and is not relevant to markets, where participation is voluntary and prices are determined by the fundamentals of supply and demand.[13] It is not clear exactly what rate is allegedly confiscatory. This argument, like other arguments from opponents of the NOPR, is simply an attack on competitive wholesale market design.

B. Opposing Comments Identify No Reliability Issue.

ITAs argue (at 16–21) that without Schedule 2 subsidies generation needed for reliability will not be built.[14] PJM determines the amount of resources required for reliability and procures that amount through markets. There is no evidence from any of the markets where this policy already exists that it has created a reliability issue.

C. Power Purchase Agreements Are Not a Reason to Delay Reform.

Some comments opposing the NOPR present power purchase agreements as an obstacle to reform and a basis for an exemption from the new rule.[15] When buyers and sellers enter into power purchase agreements, the contracting parties define and assign regulatory risk. Customers are not responsible to manage or pay for suppliers' risks. In the PJM market

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[12] For this reason, PSEG's (at 20–22) and others argument that the Commission must explain a change in policy is unavailing. The NOPR proposes only to make policy rational and consistent by uniformly implementing policies that have been implemented in at least some markets for decades.

[13] *See* OA Schedule 1 § 3.2.3B. This tariff provision addresses the concern raised by NHA (at 2–5) about compensation for opportunity costs based resulting from PJM dispatch directives.

[14] MRP at 6 and NAGF at 1–2 make similar arguments.

[15] *See* Indicated Reactive Power Suppliers at 15–16; Reactive Service Providers at 59–60; ACORE at 3–4; EDPR at 3–4.

and elsewhere, there has been ample notice of regulatory risk of the potential loss of the windfall payments to generators based on reactive filings.

D. Resources Are Obligated to Provide Reactive Capability.

Reactive Service Providers argue (at 7–29) that the Commission has not shown that generators providing reactive power within the standard power factor range is the obligation of a generator. Reactive Service Providers challenge the Commission's reliance on the generation interconnection rules and the definition of the standard power factor range included in NERC rules.[16] Reactive Service Providers arguments are misplaced. Such attacks on the rules and standards can be disregarded because they are collateral attacks on final rules and standards that are not within the scope of this proceeding. Reactive Service Providers arguments challenging longstanding Commission policy and multiple Commission orders are also beside the point.

The fundamental logic of the obligation to provide reactive service, frequency control service and other essential elements of interconnecting to the power grid is that the grid is a network. All generators who connect to the grid benefit from that network effect. All generators who connect to the grid have corresponding obligations to the grid that permit the grid to function as an effective and reliable network. It has always been the case that there are standards for interconnecting to the network. Meeting those standards is part of being a resource on the network. The actual costs of interconnecting to the grid can be significant for resources but those costs are part of the cost of building a resource and part of the investment decision for resource owners and not a reason for a separate guaranteed payment. Opposing commenters are not asserting that they should receive a separate cost of service payment for interconnecting to the grid.

This fundamental logic is incorporated in interconnection service agreements. The terms are included in the *pro forma* interconnection agreements in the Commission rules and

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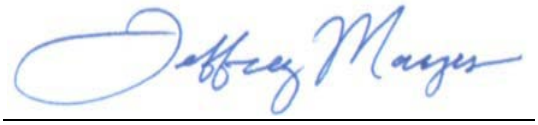
[16] Reactive Service Providers at 7–31.

in the PJM OATT, and they become binding on resources when they execute individual interconnection service agreements that allow them to obtain the interconnection service that allows them to sell power in the network based market.

II. CONCLUSION

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

Respectfully submitted,



Jeffrey W. Mayes

General Counsel
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Eagleville, 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
Eagleville, Pennsylvania 19403
(610) 271-8051
joseph.bowring@monitoringanalytics.com

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