

ODEC's Reactive Compensation Proposal

ODEC's Experience with Reactive Rate Proceedings

- ODEC is both a payer and receiver of reactive revenues.
- ODEC has participated in numerous proceedings regarding cost-based reactive compensation under PJM's Schedule 2
- ODEC was also involved in litigation around the Panda Stonewall reactive compensation proceeding, which at that time, was the first such reactive rate challenge to be litigated in over a decade.
- ODEC is currently involved in nine settlement proceedings and four litigation cases
 - In many of these proceedings, applicants are requesting reactive revenues at a level six to eight times the average PJM reactive rate.
- ODEC has a unique perspective regarding the determination of just and reasonable rates for reactive capability under PJM

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Deficiencies with the AEP Methodology

- The AEP methodology was designed for synchronous coal fired generation facilities that are materially different in terms of equipment and function than non-synchronous generation facilities
 - Non-synchronous are the vast majority of the new reactive revenue filings.
 - Applicants are forced into a false exercise of attempting to draw analogies between equipment for synchronous and non-synchronous facilities

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Deficiencies with the AEP Methodology (cont.)

- The *AEP* methodology uses the accounting structures of the Commission's Uniform System of Accounts
- Company officers are required to provide sworn, attested accounting entries in the FERC Form No. 1 for the purpose of providing Commission staff with verifiable cost-of-service information.
- Most of the current applicants increasingly utilize EPC contractors to manage the development of generation facilities and usually do not have cost of service information to support the application of the *AEP* methodology.
 - These resource owners currently applying for reactive power compensation received waivers of the Commission's accounting and reporting requirements

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- These differences have contributed to the inability of the Commission staff and interested parties to determine whether the proposed reactive revenue requirement is just and reasonable.
- Which in turn has contributed to the many cases the Commission has set for settlement and litigation.
- Its is ODEC's observation that settled rates for near identical projects can vary significant depending on the level of customer intervention
 - This outcome result in a very poor rate product

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- 1. Compensation Mechanism
 - Flat Rate based on the facility's MVAR obligation under its ISA
 - Facilities will be compensated according to their ISA requirements. Penalties for nonperformance associated with its ISA obligation. Potential exists for bonus payments if PJM requests (and the generator provides) MVARs beyond the ISA obligations.
- 1A. Basis for Compensation
 - Compensation is based on the MVARs require to meet its ISA requirement.
- 1B. Treatment of leading vs. lagging capability
 - Lagging capability is the determinator for compensation
- 1C Eligibility for Compensation
 - Units that have not achieved commercial status as of the effective date of this proposal and have not already filed with FERC for a reactive rate. Only going forward option
 - Directly interconnected to the PJM transmission system and the facility is located within the PJM service territory (i.e. no pseudo ties)

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2. Reactive Capability Verification / Testing

Testing only required by PJM to ensure the generator can meet its ISA requirement

3. Delivery Point

Point of interconnection with the PJM system

4. Treatment of Resources interconnected at Distribution Level

Not eligible as these resources are not transmission level facilities. Must be directly interconnected to the PJM transmission system and the facility is located within the PJM service.

5. Treatment of Capacitors (and other standalone VAR equipment) located at Generator Sites

Schedule 2 reactive payments are for generating resources only and should not provide compensation associated with capacitors.

6. Cost development rules for non-synchronous resources if applicable

Not required

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7. Flat Rate Methodology

MVAR Rate will be based on the PJM average reactive rate as of 1/1/22

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 Total Reactive Compensation (aprox. \$335 million)

 System MVAR capability based on nominal plant MW ratings of all units and a 95% Power Factor

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8. Performance incentive/penalty

Penalties for nonperformance associated with its ISA obligation.

Potential exists for bonus payments if PJM requests (and the generator provides) MVARs beyond the ISA obligations.

Performance incentive/penalty mechanics to be developed by PJM

9. Eligibility for Reactive Services Uplift (Make Whole and Lost Opportunity Cost)

Yes

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10. Voltage schedule development process

ISA Power Factor requirement determined by PJM. It is expected the majority of these ISA will from 0.95 lagging to unity

11 Implementation

New reactive power compensation mechanism should not impact generating units that have rates on file with FERC or generating units that have a FPA section 205 filing that is pending at FERC at the time of this filing