

Reactive Power in PJM: Clean Energy Caucus Solutions Package

Reactive Power Compensation Task Force
July 8, 2022



AEP-Stated Rate Approach

- Establish Proxy Capital Costs for Plant Components to Determined Fixed Capability Component
- Apply Proxy Reactive Allocator to Fixed Capability Component
- Determine Proxy Balance of Plant Amount
- Apply Proxy Balance of Plant Allocator to Balance of Plant Amount
- Apply Proxy Fixed Charge Rate
- Results in *AEP*-Based Stated Rate

Benefits

- No more rate cases at FERC
- Would be streamlined just like transmission formula rates are now streamlined
- Transparent
- Certainty and Predictability
- Easy to implement future changes in the industry in terms of cost and technology

Schedule 2

- Would include the “formula” that is used to derive the rate per generation type
- Actual rates would be published on PJM’s website

Proxy Reactive Capital Investment - Wind

- Wind turbines/Transformers
- AEE: AC collection system
- AEE: LV portion of Substation
- Capacitor and/or reactor banks
- GSU

Total Proxy Reactive Capital Investment - Wind

Sum of the investment in the following items:

- Wind turbines/Transformers x Reactive Component Cost Allocator x Reactive Allocator
- AC collection system x AEE Allocator x Reactive Allocator
- LV portion of Substation x AEE Allocator x Reactive Allocator
- Capacitor and/or reactor banks
- GSU x Reactive Allocator
- Balance of Plant x BOP Allocator

Proxy Fixed Charge Rate

Typical components include:

- O&M / A&G
- Depreciation
- Cost of Capital
- Federal and State Income Tax
- ADIT
- Taxes Other Than income

For Simplicity, could include only

- Proxy O&M / A&G (is often 1.50 to 4.00% of original CapEx)
- Straight line depreciation rate for sinking fund recovery period calculation, such as 4% or 5%
- Proxy Cost of Capital: Wide variety among PJM Transmission Owners; use a weighted average cost of capital such as 50/50 cap structure, 4.0% debt rate, 10.5% equity rate
- No federal or state income tax gross-up or ADIT offset

Sponsor Companies

- Pine Gate Renewables, LLC
- Solar Energy Industries Association
- GlidePath Power Operations LLC
- NextEra Energy Resources, LLC
- Clearway Energy
- Open Road Renewables
- Lightsource BP
- Leeward Renewable Energy
- Invenergy
- Jupiter Power
- TransAlta
- Genex Solar
- Cypress Creek Renewables

Thank You