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March 1, 2017

Ms. Barcy McNeal  
Administration/Docketing  
Public Utilities Commission of Ohio  
180 East Broad Street, 11th Floor  
Columbus, Ohio 43215-3793

Re: *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan*, Case No. 14-1297-EL-SSO

Dear Ms. McNeal:

Pursuant to Section V.C.2 of the Third Supplemental Stipulation and Recommendation approved by the Commission on March 31, 2016, Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company ("Companies") hereby file their quarterly update to the Commission on the state of the wholesale electricity markets from the Companies' perspective.

Very truly yours,

/s/ N. Trevor Alexander

N. Trevor Alexander

# FirstEnergy's Perspective on PJM's Wholesale Electricity Markets: 2016

## ADDENDUM: Q1 2017 ISSUES

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*This section will be updated on a quarterly basis (December 1, March 1, June 1, and September 1), whereas the main body of the report will be updated annually on September 1. The purpose of this section is to provide an overview of key FERC and PJM initiatives active in each quarter.*

### Executive Summary

The new year has yet to bring positive change for FERC and PJM; wholesale markets remain in a state of uncertainty. President Trump named Cheryl LaFleur acting Chairman of the FERC, immediately followed by former Chairman Bay's rapid departure and leaving FERC with only two of five Commissioners. Without a quorum of at least three Commissioners, FERC has suspended Commission meetings until further notice. PJM will continue to work through the stakeholder process on key issues, but FERC is limited in its ability to act on any potential filings until there are enough Commissioners to vote.

Federal versus state jurisdictional lines will continue to be a significant issue in front of FERC as new Commissioners are appointed. On his last day at FERC, Commissioner Bay notably spoke out against the Minimum Offer Price Rule (MOPR) concepts, stating "Despite the best intentions of the commission, in my view, the MOPR has turned out to be unsound in principal and unworkable in practice. No other market in the United States is subject to the same construct in which a federal agency reviews state action and imposes an administrative price floor on supply offers from certain resources that have received state support. This places the commission in direct and recurring conflict with the states, ignores the pervasiveness of state and federal policies that support resources in one fashion or another, and represents a significant intervention in the market that raises costs to consumers."<sup>1</sup> This is significant as several PJM stakeholders have recently filed an amendment to an existing complaint at FERC; the amendment requesting that the MOPR be expanded to cover resources receiving revenues from Illinois Zero Emissions Credits for nuclear generation. The MOPR, and particularly Bay's position, is just one example where there is a variety of conflicting opinions on an appropriate solution.

PJM stakeholders continue to point out the flaws in the capacity markets, and certain stakeholders recently called for a new task force to address necessary changes to the capacity regime and a mechanism for incorporating public policy into the PJM market construct. PJM responded by establishing the requested task force, although FirstEnergy notes that the issues are broader than the narrow problem statement approved for study and action. Specifically, energy markets continue to be focused on short term marginal cost. As renewables' marginal cost is zero or negative, coupled with a surplus of gas supply, price formation continues to signal exit of baseload resources, especially in Ohio. The task force will begin meeting in March 2017 with an anticipated recommendation by year end. However, FirstEnergy cautions that there has been no stakeholder consensus on contentious issues in

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<sup>1</sup> Docket No. ER14-1639-005, Concurring Statement by Norman Bay attached to February 3, 2017 Order

the past and, as noted, there is significant difference of opinion between the stakeholders as to the nature of the perceived flaws, and the remedy for any such flaw that is set for discussion.

## **Energy Market Issues**

[Settlement Intervals and Shortage Pricing \(RM15-24\)](#): On June 16, 2016, FERC issued a final rule on settlement interval and shortage pricing (Order No. 825). The rule will require RTOs and ISOs to align settlement intervals with dispatch in real-time energy and ancillary services markets, and will require RTOs and ISOs to trigger scarcity pricing in any interval in which there is a shortage of reserves. PJM's compliance filing was filed January 11, 2017. Under FERC Order 825, shortage pricing changes should be implemented May 11, 2017, and settlement interval changes should be implemented January 11, 2018. After several discussions with stakeholders, PJM plans to implement both shortage pricing and settlement interval changes simultaneously by February 1, 2018.

[Uplift and Transparency \(RM17-2\)](#): On January 19, FERC opened a new rulemaking on Uplift Cost Allocation and Transparency. This is one of a series of rulemakings tied to FERC's 2014 energy price formation efforts. Under the proposed reforms, grid operators that allocate real-time uplift costs to deviations would be required to allocate them only to market participants whose transactions are reasonably expected to have caused the costs. The rulemaking also requires each grid operator to post uplift costs paid and operator-initiated commitments on its website, and to define in its tariff its transmission-constraint penalty factors, including the circumstances under which the penalty factors can set locational marginal prices, and any procedure for temporarily changing the factors. Comments are due April 10, 2017.

[Fast Start Pricing \(RM17-3\)](#): On December 15, FERC issued a NOPR that requires regional grid operators to adopt market rules that meet certain requirements when pricing fast-start resources. The NOPR proposes that, at a minimum, an RTO/ISO: 1) Must apply fast-start pricing to any resource committed that can start up within 10 minutes or less, has a minimum run time of one hour or less, and submits economic energy offers to the market; 2) Should incorporate commitment costs, such as start-up and no-load costs, of a fast-start resource in energy and operating reserve prices during the resource's minimum run time; 3) Must modify its fast-start pricing to relax the economic minimum operating limits of fast-start resources and treat them as dispatchable from zero to the economic maximum operating limits for the purpose of calculating prices; 4) May allow an offline fast-start resource to set prices, but only if the resource is feasible and economic for addressing certain system needs; and 5) Must incorporate fast-start pricing in both the day-ahead and real-time markets. Comments were filed by multiple parties on February 28.

[Energy Storage Participation in Energy Markets \(RM16-23\)](#): On November 17, FERC issued a Notice of Proposed Rulemaking (NOPR) related to electricity storage in organized energy markets. The NOPR would require each ISO/RTO to establish market rules that accommodates electric storage participation in the organized wholesale electric markets and define distributed energy resource aggregators as a type of market participant. Comments were filed by multiple parties on February 13.

## **Capacity Market Initiatives**

[Seasonal Capacity \(ER17-367, EL17-32, and EL17-36\)](#): On November 16, PJM submitted a filing at FERC to aggregate seasonal resources for participation in PJM's capacity market. PJM is proposing to independently aggregate resources, regardless of location, to provide for more flexibility for

DR/renewable qualification. Multiple parties filed comments on December 8, and several parties filed complaints in support of extending the base capacity product for an additional year and implementing a seasonal capacity construct at PJM.

[Underperformance Risk Management \(URMSTF\)](#): The Underperformance Risk Management Senior Task Force (URMSTF) met on December 7 to address two problems: (i) the fact that current capacity rules may not provide adequate options to manage the risk of underperformance during capacity performance compliance hour(s); and (ii) any operational, markets, planning and seams coordination challenges associated with the integration of external Capacity Performance resources into PJM. This task force is temporarily on hiatus. Consensus was not reached on risk management. A proposal that strengthens requirements for external resources to participate in PJM markets received stakeholder consensus and PJM is expected to file on this matter in the near future.

### **Ancillary Services Market Initiatives**

[Primary Frequency Response \(RM16-6\)](#): On November 17, FERC issued a Notice of Proposed Rulemaking (NOPR) that proposed to amend interconnection agreements to require that all new generating facilities install, maintain, and operate a functioning governor or equivalent controls and to operate these controls at certain parameters. Multiple parties filed comments on the topic on January 24.

[Regulation \(RMISTF\)](#): PJM's Regulation Market Issues Senior Task Force (RMISTF) met on December 8, January 24, and February 27. The RMISTF was formed to evaluate the application of the marginal benefit factor in pricing and settlement in the Regulation Market. PJM is considering an increase in the performance participation threshold from 40% to 75%.

### **Anticipated Future Initiatives**

- PJM has indicated it will share a fuel diversity study with stakeholders in early 2017
- PJM will implement a new Security and Resilience Advisory Committee, which will meet quarterly beginning in 2017 and participate in other committee meetings as requested
- Capacity Construct and Public Policy Senior Task Force to begin meetings in March
- FERC announced at NARUC it will host a Technical Conference on incorporating state policy into markets

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**Case No(s). 14-1297-EL-SSO**

Summary: Notice of Quarterly Update Pursuant to Section V.C.2. of the Third Supplemental Stipulation and Recommendation electronically filed by Mr. Trevor Alexander on behalf of Ohio Edison Company and The Cleveland Illuminating Company and The Toledo Edison Company