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December 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,



James F. Lang

FirstEnergy's Perspective on PJM's Wholesale Electricity Markets: 2017

ADDENDUM: Q4 2017 ISSUES

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

We are now one step closer to having a full Commission at FERC with the U.S. Senate's November 2 confirmation of the nominations of Kevin McIntyre and Richard Glick. McIntyre will serve as Chairman. and will serve out the remainder of a term that ends June 2018 and a full term that ends June 2023. Glick will serve out the remainder of a term that ends in June 2022. Commission meetings resumed September 20 after a long hiatus due to a lack of quorum. The Commission continues to work on the backlog of orders, and expects to be caught up by the end of November. Pipelines and grid resilience have been key priorities during Neil Chatterjee's time as Interim Chairman.

The main focus of this reporting quarter has been around the Department of Energy's (DOE's) proposed Grid Resiliency Pricing Rule. On September 28, Secretary Perry exercised his authority under Section 403 of the Department of Energy Organization Act to propose a rule that independent system operations and regional transmission organizations, such as PJM, must develop and implement market rules that accurately price generation resources needed for the reliability and resiliency of the grid. The proposed rule would allow for the recovery of costs and a reasonable return on equity for units which meet the eligibility requirements under the rule, including having 90 days of on-site fuel. FERC opened docket RM18-1 to address the proposal, and initial and reply comments were filed by hundreds of parties, including FirstEnergy, on October 23 and November 7, respectively. FERC is required to consider the rule and take final action by December 11. Final action may include, among other things, adopting the rule as proposed, adopting the proposed rule with modifications, or an outright rejection of the proposed rule.

Reliability and resiliency are not the same thing; reliability is about the ability to perform as expected, whereas resiliency is about the ability to withstand, mitigate the impact of, and recover from events. FirstEnergy believes that it was necessary and appropriate for the DOE to take action. NERC recognizes that baseload coal and nuclear plants contribute to resiliency, and recently recommended that regulators consider fuel diversity as they evaluate electric system plans and establish energy policy objectives. Stakeholders have diverse opinions about which specific actions should be taken, but generally agree that resiliency is not considered today and should be considered in the future.

FirstEnergy strongly supports ensuring that resilient generating facilities receive just and reasonable compensation for the value they provide to the electric grid. While the recent activity around the DOE rule has been encouraging, it is important to continue to pursue legislative solutions at the state level to ensure timely action. Time is of the essence to prevent additional premature retirements of fuel-secure

generation resources that have the essential reliability and resiliency attributes needed to keep the lights on in times of crisis.

Capacity Market Initiatives

Capacity Construct/Public Policy Senior Task Force (CCPPSTF): The CCPPSTF was created to assess the Reliability Pricing Model (RPM) to ensure potential state public policy initiatives and RPM objectives are not at odds. The group will identify both the characteristics of a well-functioning capacity construct, as well as potential public policy initiatives states could take regarding resource adequacy, fuel diversity, public, and environmental policies. Based on the identified factors, the group will discuss whether modifications are required to RPM. The CCPPSTF met six times during this reporting period. There are currently 8 proposals on the table, from AMP, Exelon, Monitoring Analytics, LS Power, PJM, NOVEC, NRG, and Sustainable FERC. A final binding poll on these proposals was conducted on November 17. Monitoring Analytics' (MA) proposal was the only proposal to receive a simple majority (63%) of the 8, while 64% of those polled preferred the status quo. The MA proposal will be voted on at the December 21 MRC where it will need 2/3 sector weighted vote for approval. PJM's ambitious goal (as directed by the PJM Board) is to have capacity market reforms that accommodate state policy objectives effective for the upcoming May 2018 BRA for 2021/2022 Planning Year; outcomes related to the proposed DOE rule may affect this timeline.

Incremental Auction Senior Task Force (IASTF): The IASTF was created to focus on reviewing the current PJM RPM Incremental Auction process and structure with specific focus on circumstances where PJM is a capacity seller. This group met 5 times this quarter and has reviewed excess capacity sale and Incremental Auction practices. A binding poll on the Incremental Auction structure and PJM sell-back offers was conducted on November 22 and will guide whether or not changes originating at the senior task force will be considered by the Markets & Reliability Committee.

Summer-Only Demand Response Senior Task Force (SODRSTF): The newly formed Summer-Only Demand Response Senior Task Force is tasked with investigating potential opportunities to value summer-only Demand Response resources through the load-forecasting process or other mechanisms that would serve as an alternative to supply-side participation in the capacity market. The problem statement and issue charge have been approved, but the group has yet to meet.

Energy Market Issues

Energy Market Price Formation: PJM focused on price formation in its October 23 and November 7 comments at FERC in response to the proposed DOE rule, stating that price formation will benefit resiliency, and should be addressed through reforms to be submitted to the Commission within a Commission-directed timeframe. PJM believes that further action on resiliency should be discussed over time. On November 15, PJM issued a new white paper on price formation, proposing to allow inflexible units to set LMP by implementing an extended LMP method known as "Integer Relaxation", and proposing to reform shortage pricing by implementing a real-time 30-minute operating reserve product and basing the price on a new Operating Reserve Demand Curve based on the Value of Lost Load. PJM estimates the Energy Price Formation proposal will raise total market costs 2%-5% (but it is unclear if this also includes shortage pricing impacts). PJM plans to present an associated problem statement and issue charge on the topics at the December 7 MRC meeting, with implementation in 2019.

Hourly Offers: PJM implemented hourly offers on November 1. On November 3, PJM submitted a filing reflecting the PJM/IMM proposal to reevaluate which schedule, either the cost-based or price-based, is cheapest, and the reapply the offer cap when offers are updated. The current rules don't allow for this reevaluation, which (in PJM and the IMM's view) wouldn't allow market power mitigation to "keep up" with intraday updates. Further, with the implementation of hourly offers, units can self-schedule with 20 minutes notice. Given this, PJM also submitted in this filing a proposal to modify its rules to address offer capping of resources that are self-scheduled in real-time. PJM proposes running the Three Pivotal Supplier test on such units every hour following the first hour of operation.

Ancillary Services Market Initiatives

Primary Frequency Response Senior Task Force (PFRSTF): The PFRSTF was created on May 25, 2017 to evaluate primary frequency response within PJM, evaluate if additional language is needed to the Operating Agreement, Open Access Transmission Tariff and manuals for requirement of frequency response capabilities and discuss any potential compensation mechanisms associated with providing primary frequency response capability. The group met four time this quarter and is currently soliciting design components and solution options from stakeholders.

Other

Distributed Energy Resources: PJM has been discussing market issues related to distributed energy resources (DER) via special sessions of the Market Implementation Committee (MIC) for most of 2017, with five meetings this quarter. The group is reviewing a proposal from PJM regarding new market rules associated with energy and ancillary services, and is accepting other proposals. PJM stakeholders developed a charter to form a new permanent subcommittee of the Markets and Reliability Committee (MRC) related to DER to address both market and planning and operational integration challenges including coordination with the electric distribution companies when the DER is interconnected to the distribution system. The new subcommittee should also engage significant stakeholder participation of Electric Distribution Companies, States, and Municipal and Cooperative entities. The charter includes language to ensure market rules respect the distribution system and state/local jurisdictional agency standards and protocols to ensure safety and reliability. The new charter received an overwhelming endorsement from the MIC and is expected to receive an endorsement from the MRC on December 7. The new subcommittee is expected to take over the work started in past special sessions of the MIC.

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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. James F Lang on behalf of Ohio Edison Company and The Cleveland Electric Illuminating Company and The Toledo Edison Company