

# FirstEnergy's Perspective on PJM's Wholesale Electricity Markets: 2019

## ADDENDUM: Q2 2019 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

This reporting period included the filing of PJM's energy and reserve market pricing proposals, a FERC order on PJM's fast-start pricing proposal, and a new PJM task force to evaluate how carbon pricing policies may be developed and implemented into PJM's markets.

PJM filed its expected energy market reform proposals at FERC and subsequently shared simulations with stakeholders which showed that the proposals would result in \$0.46/MWh increase in energy prices. The *de minimis* positive impact on PJM energy and reserve market pricing resulting from the energy market reform proposal will not produce significant progress towards PJM's stated goal of more efficient market outcomes. In comments filed at FERC on May 15, 2019, the FirstEnergy Utilities requested that the Commission approve the PJM Reserve Pricing Proposal as filed as a modest incremental step towards valuing key resource attributes. The FirstEnergy Utilities also requested that FERC direct PJM to conduct a holistic review of all of PJM's wholesale markets to ensure that resources that provide key attributes, such as fuel security, fuel diversity and resilience, receive appropriate compensation for the benefits they provide to the grid~~PJM~~ and ~~its~~ customers.

### Capacity Market Initiatives

Fuel Security: On March 21, 2019, PJM stakeholders approved a new Fuel Security Senior Task Force ("FSSTF"), which will determine what it means to be fuel/energy/resource secure and compare potential mechanisms to ensure and value fuel/energy/resource security in PJM. The scope of the FSSTF will include consideration of the market responses to conditions that could lead to fuel insecurity and removing any defined end date for action. Early meetings of the FSSTF have focused on educating PJM stakeholders on the relevant issues and the process that PJM will use for gap analysis and risk identification. PJM intends to identify the top six fuel security scenarios that could challenge system reliability and focus near-term efforts on addressing those scenarios.

Quadrennial Review: On April 15, 2019, FERC issued an order approving PJM's Quadrennial Review/Variable Resource Requirement ("VRR") curve proposal. In October 2018, PJM filed its required updates to the capacity market demand curve and evaluated its methodologies for calculating Cost of New Entry ("CONE") figures. PJM proposed shifting the VRR curve to the left by 1% and significantly revising its CONE methodologies. The collective impact of these changes would be reduced PJM capacity prices. The Commission Order found the PJM proposal was just and reasonable and not unduly discriminatory or preferential, and that the elements were consistent with Commission-precedent,

publicly available data, and industry trends. Several parties have filed requests for rehearing of the Commission's April 15, 2019 Order. PJM expects to conduct the next Base Residual Auction ("BRA") that is scheduled to take place in August 2019, using these FERC-approved parameters.

[Market Seller Offer Cap \("MSOC"\) Complaints:](#) On February 21, 2019, the PJM Independent Market Monitor ("IMM") filed a complaint under Section 206 of the Federal Power Act against PJM alleging that the current default MSOC methodology is not just and reasonable because it utilizes a number of expected Performance Assessment Intervals ("PAIs") under the PJM Capacity Performance construct that is overstated. The IMM proposes to decrease the default MSOC methodology to one-sixth of the current value. This would reduce the expected PAI from 360 intervals (30 hours) per year to 30 intervals (5 hours) per year. Units with an avoidable cost rate higher than the Market Seller Offer Cap would have to go through the unit specific review process with the IMM in order to offer above the new MSOC. The potential impact of the Market Monitor's complaint is significant as it could reduce PJM capacity market revenues and trigger the unit-specific review for many more resources.

On April 15, 2019, a group of Consumer Advocates ("JCA") filed a separate Section 206 complaint regarding the default MSOC methodology and moved to consolidate its new complaint into one proceeding with the Market Monitor's complaint. The JCA Complaint does not propose a specific PAI-metric, but requests that FERC direct PJM to conduct a stakeholder process to develop a revised default MSOC methodology. Parties filed responses to the IMM complaint and the JCA Complaint on April 15, 2019 and May 6, 2019, respectively.

[Minimum Offer Price Rule / Capacity Auction Timing:](#) On April 10, 2019, PJM filed a Motion for Supplemental Clarification with FERC in the PJM Minimum Offer Price Rule ("MOPR") proceeding. The motion signals PJM's intent to conduct the 2019 BRA in August 2019 under the existing PJM tariff market rules given the Commission's lack of action on the pending MOPR reforms. The motion also requests clarification by the Commission that if PJM conducts the 2019 BRA under the existing market rules, and FERC has not established the replacement tariff rate, that the results of the 2019 BRA should stand and not be subject to refund or re-administered. Any FERC order establishing a replacement MOPR scheme would be applied prospectively for auctions for future delivery years. On April 25, 2019, the FirstEnergy Utilities joined a coalition of PJM Market Participants in requesting a delay to the August BRA until April 2020, unless FERC grants PJM's request to run the BRA without being subject to potential refund. FERC has not responded to either request at this time.

## **Energy Market Issues**

[Energy and Reserve Market Reforms:](#) On March 29, 2019, PJM filed its expected energy market reform proposals at FERC. PJM's proposed energy market reforms include: (i) consolidation of Tier 1 and Tier 2 Synchronized Reserves into one Synchronized Reserve product; (ii) modification of its Operating Reserve Demand Curves ("ORDCs") by increasing the Reserve Penalty Factors used in the ORDCs and modifying the shape to add a downward sloping tail; and (iii) aligning its day-ahead and real-time reserve markets to ensure adequate forward procurement of reserves and related market efficiencies. On April 10, 2019, PJM shared a simulation with PJM stakeholders that estimated that the implementation of the 30-minute reserve product and the revised ORDC would result in a \$0.46/MWh increase in energy prices, which pales in comparison to the \$3.50/MWh impact estimated in a November 2017 report to stakeholders. On May 15, 2019, parties filed comments in response to PJM's proposals.

[Fast Start Pricing:](#) On December 21, 2017, FERC issued an order initiating a proceeding under Section 206 of the Federal Power Act stating that the PJM tariff may not be just and reasonable because it did not

allow fast-start resources to set the energy market clearing price. On February 12, 2018, PJM filed its proposal to allow fast-start resources to set the PJM energy market clearing price. On April 18, 2019, FERC issued an order finding that PJM's current tariff is not just and reasonable, and approved PJM's proposed rules changes that allow fast-start resources to set the PJM energy market clearing price. The Commission Order also directed PJM to make a compliance filing by July 31, 2019 and directed PJM to file a one-time informational report by August 30, 2019 explaining how the revisions do not raise new market power concerns. On May 15, 2019, PJM provided an update to stakeholders on how it plans to comply with the order for transparency and to obtain feedback. PJM does not envision a detailed stakeholder process to discuss implementation of the Order.

**Carbon Pricing:** On April 25, 2019, PJM stakeholders approved the creation of a problem statement and issue charge to evaluate pricing carbon emissions into PJM wholesale market pricing. The new task force is expected to work for 18-24 months on the topic, which would lead to a vote on any potential changes in approximately late 2020 or early 2021. The Carbon Pricing stakeholder process will focus on how to incorporate carbon-pricing policies into PJM's markets while mitigating the policies' impact on surrounding areas not participating in such programs. A significant portion of the new group's education and analysis would address "leakage," a dynamic that occurs when energy produced by higher-emitting generators located in a region where carbon is not priced is imported into an area where it is, displacing lower-emission resources. PJM is not proposing to establish a carbon price and has reiterated that States are ultimately responsible for environmental policy as well as any revenue generated through application of a carbon price. PJM has committed to study the impacts of a carbon price to better inform the stakeholder process on this matter and discussed study assumptions with stakeholders on May 15, 2019. PJM plans to publish a white paper on the topic in late June or July to coincide with the start of PJM's carbon pricing stakeholder process.

### **Ancillary Services Market Initiatives**

No major changes this reporting period beyond the reserves market reforms described above.

### **Emerging Technologies**

**Electric Storage Participation and Distributed Energy Resource (DER) Aggregation:** On April 1, 2019, FERC Staff issued a Data Request for PJM in response to PJM's Order 841 Compliance Filing (Energy Storage Market Participation Model). The data request focused on the technical market aspects/implementation issues associated with the PJM filing, and directs PJM to defend its prior assertions that PJM's existing tariff is sufficient to implement Order 841's directives. The Data Request also requests additional information regarding how the proposal will impact pumped-hydro resources. PJM submitted its response to the Data Request on May 1, 2019.

### **Other**

**GreenHat / Financial Risk Mitigation:** On April 25, 2019, PJM stakeholders voted to create a Financial Risk Mitigation Senior Task Force ("FRMSTF"). The FRMSTF will study potential rule changes to mitigate and manage risk in the Financial Transmission Rights Market in the wake of the June 2018 GreenHat Energy, LLC ("GreenHat") default. The FRMSTF is among a suite of reforms PJM is undertaking following an independent review of the GreenHat default commissioned by the PJM Board of Managers. PJM also announced organizational and process changes. In addition to the creation of a chief risk officer position,

PJM CEO Andy Ott announced the creation of two new departments: Markets Risk Modeling and Market Analytics and Surveillance.

The report on PJM investigation related to the GreenHat default was released on March 26, 2019. The report established the following findings:

- PJM staff did not have the necessary training and credentials to manage the risks posed by participants in the FTR markets; prior to GreenHat, FTR market participants self-regulated their conduct;
- Rather than terminating GreenHat's trading rights when first informed of the potential of default, PJM chose to manage the situation, believing the situation could not get worse. PJM did not effectively manage the situation, which grew materially worse;
- PJM personnel were naïve about GreenHat's assurances of creditworthiness and the future revenue stream pledged to PJM. PJM did not appreciate GreenHat's determined ability to increase its position. If PJM was better prepared to monitor market behavior and measure risk, it would have responded more effectively to GreenHat's empty assurances; and
- PJM was late to recognize GreenHat as a problem. If PJM declared GreenHat in default upon first recognizing the problem, the amount of the loss would have been far less than what has occurred to date.

[State of the Market Report:](#) On March 14, 2019, the PJM IMM released its 2018 State of the Market Report. In the report, the IMM made 36 specific recommendations regarding proposed market design and rule changes on topics including the PJM energy markets, capacity markets, uplift costs, ancillary services, generation and transmission planning and financial transmission rights. The IMM again made the determination that the PJM capacity market structure is "not competitive," due to aggregate market power existing (in almost every RPM auction since its inception in 2007). Additionally, the IMM found the 2018 BRA results were not competitive as the default Market Seller Offer Cap methodology led some resources to submit offers above a competitive level without additional mitigation. On May 6, 2019, PJM released its response to the IMM stating its disagreement that the results of the 2018 BRA were not competitive, though PJM did acknowledge that the capacity market may benefit from new measures to prevent the undue exercise of market power.

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