FirstEnergy's Perspective on PJM's Wholesale Electricity Markets: 2020

Q1 2020 Issues

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

Executive Summary

The primary focus around the past reporting period has been on FERC's December 19, 2019 Minimum Offer Price Rule (MOPR) Order, which is meant to address the capacity market impacts of certain subsidies to address state policy concerns (Zero Emission Credits, Renewable Energy Credits, etc.). The Order built upon PJM's previous Expanded MOPR concept in which the MOPR would be applied to both new and existing resources receiving state subsidies, with certain exceptions. FERC did not adopt its previous proposal to allow for a resource-specific carve out, but retained the existing Fixed Resource Requirement option. Numerous parties have filed Requests for Rehearing and/or Clarification.

The capacity auctions for the 2022/2023 and 2023/2024 delivery years have already been delayed indefinitely due to uncertainty around the market rules. FERC directed PJM to submit a compliance filing by March 18, 2020 describing how it will implement the MOPR Order, which will include calculations of the MOPR floor price for each resource type as well as a timeline for the next two auctions. PJM has stated it will not proceed with the auction until the compliance filing is approved. PJM estimates that under a compressed schedule an auction could be completed 6 months after an order.

Notwithstanding the uncertainty associated with the pending market reforms, the FirstEnergy Utilities continue to advocate for holistic market reforms that will serve the long-term best interests of our Ohio customers rather than a series of piecemeal changes to PJM's markets.

Capacity Market Initiatives

Minimum Offer Price Rule Requests for Rehearing: On January 21, 2020, 48 parties, including the FirstEnergy Utilities, filed requests for rehearing and/or clarification of FERC's December 19 MOPR order. Few filings expressed general support of FERC's order from a policy standpoint. The states were heavily critical, arguing that the order usurps state authority, frustrates state policy, and is a departure from past orders and precedent. Others objected to FERC abandoning the resource-specific Fixed Resource Requirement (FRR) alternative without any explanation, the overly broad subsidy definition, and leaving alternative proposals unaddressed. Many parties opined on which resource types should be exempt or not, with the majority advocating for expansion of the renewable and self-supply exemptions. Many public power entities strongly opposed being subject to the MOPR, describing it as an attack on their business model. The FirstEnergy Utilities requested rehearing because FERC failed to address comments raised regarding the need for holistic market reform. FEU requested clarification that there would be

sufficient time needed for an FRR election and whether an existing resource would be considered new (and therefore subject to the MOPR) if purchased by a self-supply entity.

Fuel Security: On December 19, 2019, stakeholders held a vote as to whether market, operational, or planning changes are needed to ensure current or future fuel/energy/resource security. Stakeholders decided to have PJM monitor parameters considered in the fuel security analysis and revisit with stakeholders as necessary. PJM will report to stakeholders on the issue no less than every 18 months. The group decided to take no action in the short term and voted to sunset the Fuel Security Senior Task Force.

Energy Market Issues

Fast Start Pricing: On January 23, 2020, FERC issued an order holding PJM's fast-start (*i.e.,* units able to ramp and start quickly) pricing proceeding in abeyance. The Commission issued an order in April 2019 finding that PJM's fast-start pricing practices are unjust and unreasonable and directed PJM to revise its tariff to allow fast-start unit offers to reflect the full marginal cost of dispatching the unit into the market. The order finds that PJM may not be able to implement the directives from the April 2019 order given pricing and dispatch misalignment. Therefore, the order holds PJM's fast-start pricing proceeding in abeyance until July 31, 2020 to allow PJM and its stakeholders to address PJM's pricing and dispatch misalignment issue in conjunction with the compliance directives of the April 2019 order.

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. FERC has yet to act on this filing.

Ancillary Services Market Initiatives

No major changes this reporting period.

Emerging Technologies

Electric Storage Participation: On October 17, 2019, FERC issued an order approving PJM's proposed Energy Storage market participation model. In 2018 FERC issued a rulemaking that required each RTO/ISO in the United States to develop a participation model for energy storage resources ("ESRs") that will remove barriers to their participation in the wholesale markets. In December 2018, PJM filed its proposed participation model for ESRs. FERC's October 17 Order found that PJM's proposal, subject to certain modifications, complied with FERC Order 841. PJM's Energy Storage Participation Model became effective December 3, 2019. FERC deferred a controversial aspect of the PJM proposal; specifically, FERC's order found that the record was unclear on what was the appropriate minimum run time for ESRs and, therefore, FERC instituted a new proceeding under Section 206 of the FPA (Docket No. EL19-100) for Parties to further evaluate the appropriate minimum run time metric. PJM has requested additional time to engage with stakeholders on the topic, and is currently evaluating replacing the minimum duration concept with effective load carrying capability (ELCC), a tool that works by evaluating reliability each hour of a simulated year.

Other

GreenHat: On October 9, 2019, PJM and numerous parties filed a settlement offer to resolve all issues concerning liquidation of the GreenHat Energy, LLC's Financial Transmission Rights (FTRs) as a result of GreenHat's default, and the July 2018 FTR auction. The settlement provides that an aggregate of $12.5 million would be paid to two-specific FTR market participants and creates a separate $5 million fund to provide compensation to other FTR market participants that can demonstrate financial harm as a result of PJM's actions. On December 30, 2019, FERC staff issued a delegated letter approving the uncontested Settlement Agreement between all of the parties in the GreenHat default proceeding. There is a separate related matter that is still being litigated at the appellate level. Specifically, on October 24, 2019, Shell Energy filed a Petition for Review with the DC Circuit regarding FERC's order and order denying rehearing that rejected Shell Energy's out-of-time motion to intervene in the proceeding. The matter is pending before the DC Circuit.

PURPA: On December 3, 2019, parties filed comments regarding the PURPA Notice of Proposed Rulemaking (NOPR). The FirstEnergy Utilities strongly support the NOPR and generally agree with the Edison Electric Institute's (EEI's) comments. Specifically, the FirstEnergy Utilities support the rationale in both the NOPR and EEI's comments to reduce the utilities' obligation to purchase electricity at the incremental cost of alternative electric energy from qualifying small power producers from qualifying facilities that are 20 MW or less to 1 MW or less. In addition, the FirstEnergy Utilities asserted that the threshold should also be lowered for cogeneration facilities.

Financial Risk Mitigation: The Financial Risk Mitigation Senior Task Force (FRMSTF) was formed to evaluate the recommendations in the Report of the Independent Consultants on the GreenHat Default. Stakeholders have approved revisions developed by the task force to hold five long-term FTR auctions a year, instead of three, to increase visibility into portfolio conditions so that more collateral can be collected if necessary. The revisions also would alter the structure of Balancing of Planning Period auctions so that participants can buy and sell in any month of the year, rather than being limited to a specific quarter. Revisions that would update the RTO's market participant risk profiles and expand updated credit rules to apply to all markets are on hold temporarily as stakeholders continue reviewing the proposed language.

Summary: Report Report - Quarterly Update Pursuant to Section V.C.2. of the Third Supplemental Stipulation and Recommendation electronically filed by Ms. Emily V Danford on behalf of Ohio Edison Company and The Cleveland Electric Illuminating Company and The Toledo Edison Company