

FirstEnergy's Perspective on PJM's Wholesale Electricity Markets: 2021

Q1 2021 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 recent additions of new Commissioners Allison Clements (D) and Mark Christie (R) returned FERC to its full complement of five commissioners. The Republicans retain the majority until at least June 30, 2021 when Commissioner Neil Chatterjee's term expires. On his first day in office, President Biden selected Richard Glick to become FERC Chairman effective January 21, 2021; James Danly reverted to Commissioner for the remainder of his term. Chairman Glick is expected to promote an agenda consistent with the Biden administration's clean energy goals and indicated that he wants FERC to address eliminating market barriers, revisiting the Minimum Offer Price Rule (MOPR), increasing long-distance transmission development, and overhauling interconnection queue processes.

At Chairman Glick's first Open Meeting in his new role, FERC announced a series of technical conferences focused on modernizing electricity market design. The first conference will address the role of capacity constructs (specifically PJM's). These efforts will run in parallel with PJM's efforts to discuss changes to its capacity market design (see below). Later this year, FERC plans to hold additional conferences around how energy and ancillary services markets will need to evolve to meet challenges posed to the grid of the future.

Capacity Market Initiatives

Minimum Offer Price Rule Compliance Filings: On January 19, 2021, FERC partially accepted PJM's November 13, 2020 MOPR compliance filing that included amendments to the market rules concerning resource specific offer price floors. The Commission rejected part of the provision regarding the Market Seller Offer Cap, finding the language was beyond the scope of the October 2020 compliance order and directed PJM to submit a new compliance filing within 15 days. PJM complied with the Commission's directive by submitting their latest compliance filing on February 3, 2021 to remove the sentence from the tariff language. Additionally, the Commission issued a separate order on February 18, 2021 regarding the PJM MOPR construct that vacated a footnote within a past MOPR order that caused confusion around whether state default service auctions could potentially trigger application of the MOPR.

PJM Capacity Market Workshops: PJM has announced a series of workshops to discuss potential capacity market enhancements. Through these workshop sessions, PJM will share its thoughts on the capacity market, gather robust stakeholder feedback, and determine a path forward for advancing potential market enhancements. During the first meeting on February 12, 2021, PJM indicated its top priorities are MOPR reforms (to better accommodate state policies), competitive auctions for policy resources, addressing over procurement of capacity, and considering additional reliability attribute products. PJM

plans to do this work while moving forward with the scheduled capacity auctions. The auction window for the 2022/2023 planning year commences May 19 and ends May 25, 2021. The results will be posted June 2, 2021.

Energy Market Issues

Five Minute Dispatch: On December 17, 2020, FERC issued an order finding that PJM has adequately addressed the concerns about resources dispatched in a given market interval being compensated with a price from a different market interval. PJM will better align pricing and dispatch intervals by assigning prices to the same interval for which dispatch instructions are intended (*i.e.*, roughly 10 minutes in the future). FERC encouraged PJM to continue to work with stakeholders on their long-term reforms and directed PJM to submit a one-time informational report within five months of the date of this order with an update on its progress on its long-term, and any related outstanding, pricing and dispatch reforms. On February 16, 2021, PJM submitted its filing in compliance with the December Order. PJM requested an effective date of May 1, 2021, or the first day of the first month following a Commission order accepting the enclosed revisions, pending system conditions. Because PJM requires at least 15 days' lead time from the date of the order to ensure the software changes are in place, for a May 1, 2021 effective date, PJM requests that the Commission issue an order no later than April 16, 2021.

Ancillary Services Market Initiatives

No major changes this reporting period.

Emerging Technologies

Electric Storage Participation: On July 16, 2020, FERC issued an order accepting certain PJM Electric Storage Resource (ESR) compliance proposals to remove barriers from the participation of ESRs in wholesale markets. The Commission then further directed PJM to make an additional compliance filing by October 30, 2020 to clarify how its proposed tariff provisions prevent all distribution-connected ESRs from paying twice for the same charging energy or submit a new proposal to ensure such an outcome. PJM filed its stakeholder approved Effective Load Carrying Capability (ELCC) proposal on October 30, 2020 that included variable resources such as wind and solar, in addition to electric storage. The ELCC construct determines the relative amount of capacity that variable, limited duration, and combination resources may offer into PJM's capacity market or provide in a Fixed Resource Requirement (FRR) capacity plan. On December 22, 2020, FERC issued a Deficiency Letter in response to the filing. On January 12, 2021 PJM submitted a motion to delay responding until March 1, 2021.

Distributed Energy Resource (DER) Aggregation: On September 17, 2020, FERC issued Order 2222 to remove market barriers to enable aggregated DERs to compete in wholesale markets. The order allows multiple DERs to aggregate to satisfy size or performance requirements that they would not meet individually. The order requires Regional Transmission Organizations (RTOs) to revise their tariffs to establish DER aggregators as a specific type of participant. The final rule is in effect December 21, 2020, and RTO compliance filings are due July 19, 2021. PJM is holding a series of stakeholder meetings and EDC coordination workshops to discuss the order and gather feedback on its proposal. Due to the complexity of the issues, PJM is considering requesting an extension from FERC, such that PJM's compliance filing would not be due until December 2021 or later.

Other

Credit Risk Management Technical Conference: On February 25 and 26, 2021, FERC held a technical conference to discuss principles and best practices for credit risk management in organized wholesale electric markets. The conference addressed the following aspects of credit policy: (i) credit and risk management infrastructure of RTOs and Independent System Operators (ISOs); (ii) best practices and principles underlying capitalization and financial security requirements and unsecured credit allowances; (iii) the applicability of Know Your Customer protocols and other counterparty risk management tools; (iv) considerations for implementing Financial Transmission Right-specific credit policies, such as a mark-to-auction mechanism; and (v) the relationship between credit policy and wholesale electric market design.

Resilience: On February 18, 2021, FERC issued an order terminating the proceeding to evaluate the resilience of the bulk power system in the regions operated by RTOs and ISOs. A January 2018 order directed each RTO and ISO to submit information to FERC on certain resilience issues and concerns. Based on FERC's review of the record, FERC does not believe any generic action is appropriate, and instead intends to address resilience issues on a case-by-case and region-by-region basis.

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