

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

## Q2 2021 ISSUES

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*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

PJM and its stakeholders continue to grapple with many initiatives, including developing a compliance filing for FERC Order 2222, revising the Market Seller Offer Cap calculation, and further defining Effective Load Carrying Capability. Significant time has been dedicated to matters related to PJM's capacity markets, with FERC and PJM each pursuing parallel paths to address PJM's Minimum Offer Price Rule ("MOPR"). FERC opened an administrative docket on Resource Adequacy, focusing the discussion on the MOPR. FERC has indicated that if the RTOs do not propose changes to their respective MOPRs, FERC will step in. PJM has initiated the Critical Issue Fast Path ("CIFP") process to develop a proposal with stakeholder input and plans to file changes at FERC by July 16, 2021. FERC Chairman Richard Glick and PJM CEO Manu Asthana each indicated the current MOPR is not sustainable and many PJM stakeholders agree this an urgent issue for FERC and PJM to address. PJM is targeting MOPR reform via the CIFP process by mid-July.

### Capacity Market Initiatives

[PJM Capacity Market Workshops and Critical Issue Fast Path Process](#): PJM held a series of workshops in February and March of 2021 to discuss potential capacity market enhancements. Through these workshop sessions, PJM indicated its top priorities are (1) Minimum Offer Price Rule ("MOPR") reforms (to better accommodate state policies), (2) competitive auctions for policy resources, (3) addressing over procurement of capacity, and (4) considering additional reliability attribute products. Stakeholders highlighted the MOPR as being the most important area to address, but not at the exclusion of other core issues (over procurement, how far out and how much to procure, demand-side participation). Stakeholder proposals included enhancing the capacity performance construct, a voluntary residual capacity market, a competitive carve out approach, and an integrated clean capacity market. PJM plans to file a stakeholder compromise plan at FERC by July 16, 2021. This timetable would enable FERC to issue an order by mid-September and PJM to implement the replacement MOPR before the December Reliability Pricing Model Base Residual Auction. Following the workshops, the PJM Board directed PJM to initiate the Critical Issue Fast Path ("CIFP"), an accelerated stakeholder process, to take the next steps in developing a MOPR reform proposal. CIFP meetings began April 9, 2021 and PJM is targeting a stakeholder vote on the resulting proposals during the June 30, 2021 Members Committee meeting. The PJM Board will then review and provide feedback to members ahead of the proposed July 16, 2021 FERC filing.

[FERC Resource Adequacy Technical Conference](#): On March 23, 2021, FERC held a Technical Conference on Resource Adequacy in the Electric Sector that covered three separate panels including: (i) a Commissioner-led discussion on the role of capacity markets, with representatives from the Eastern

Regional Transmission Organizations and Independent System Operators, state officials, and the relevant market monitors, (ii) consideration of the viability of the current PJM capacity market with the current MOPR rules as state policies continue to increasingly affect resource entry and exit decisions, and (iii) how the PJM capacity market could evolve as state policies increasingly affect resource entry and exit decisions.

[Market Seller Offer Cap](#): On March 18, 2021, FERC issued an order partially granting the Market Monitor complaint. Joined by a group of Consumer Advocates, the Market Monitor asserted that the Market Seller Offer Cap (“MSOC”) calculation in the PJM capacity market did not provide effective market power mitigation. The goal of the Complaints was to reduce the number of Performance Assessment Intervals (“PAIs”) in the calculation of the MSOC based on market power concerns as the PJM region has never gotten close to the 360 PAI metric since the implementation of the Capacity Performance construct. The Market Monitor advocated for reducing the MSOC to include 60 PAI, while the Consumer Advocates thought it more appropriate to develop a new MSOC metric through a stakeholder process. FERC’s order partially granted the complaints, finding the PJM MSOC formula is no longer just and reasonable, and directed interested parties to file comments on an appropriate MSOC replacement rate. Parties filed comments including proposed remedies on May 3, 2021. Reply comments are due June 9, 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 long-term reforms and directed PJM to submit a one-time informational report with an update on its progress on its long-term, and any related outstanding, pricing and dispatch reforms. In compliance with the December Order, PJM submitted its filing on February 16, 2021, detailing additional revisions to effectuate the long-term reforms on May 17, 2021. PJM requested an effective date of November 1, 2021.

[Fast Start Pricing](#): On February 16, 2021, PJM submitted its compliance filing in accordance with the December 17, 2020 FERC Order to implement fast-start pricing in the PJM region. This compliance filing revised PJM’s process for determining fast-start pricing eligibility, that is the mechanism which compensates units that are able to ramp up quickly. On May 20, 2021, FERC issued an order accepting PJM’s compliance filing and set an effective date for fast start pricing implementation of July 1, 2021. At the May Markets & Reliability Committee meeting, PJM announced plans to submit a request to FERC to have the implementation date moved to September 1, 2021. Requests for rehearing are due June 21, 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. FERC 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 April 30, 2021, FERC issued an order rejecting PJM’s ELCC filing. FERC was supportive of the ELCC concept but rejected PJM’s filing due to the inclusion of a transition mechanism that could potentially give existing resources a higher capacity value than newer resources. FERC ordered PJM to either file a new plan or begin a paper hearing on June 1, 2021. On May 14, 2021, PJM filed a motion to hold the paper hearing in abeyance and intends to submit a Section 205 filing with a revised ELCC proposal on June 1, 2021. At the May Markets & Reliability Committee, PJM indicated they will refile the prior proposal without the transition mechanism.

[Distributed Energy Resource \(DER\) Aggregation:](#) On March 18, 2021, FERC issued an order on rehearing of its Order 2222, which enables distributed energy resources (“DERs”) to participate alongside traditional resources in the regional organized wholesale markets by allowing them to aggregate to satisfy minimum size and performance requirements that they might not meet individually. The rehearing order largely affirms Order 2222 but sets aside, in part, the finding that the participation of demand response (“DR”) in DER aggregations is subject to an “opt-out” provision. Under a prior order, state regulators could prohibit grid operators from accepting offers from aggregated DR by “opting out.” The rehearing order held that the opt-out will continue to apply to DER aggregations that are composed solely of DR resources, but that it will not apply to DR resources that participate in RTO/ISO markets through an aggregation that includes other non-DR resources. On April 9, 2021, FERC accepted PJM’s request to extend its compliance filing deadline on Order 2222 from July 19, 2021 to February 1, 2022. In a separate but related action, FERC initiated a rulemaking proceeding to determine whether the opt-out provision should be removed completely. FERC issued a Notice of Inquiry (“NOI”) asking whether the circumstances relevant to this DR opt-out provision have changed since the opt-out was established, and what are the potential benefits or burdens of removing it. Comments on the NOI are due 90 days after publication in the Federal Register.

## Other

[FERC and NERC Inquiries into 2021 Cold Weather Grid Operations:](#) FERC and NERC have opened a joint inquiry into the operations of the bulk-power system during the extreme winter weather conditions that shut down power to millions of people in the Midwest and Southern Plains states. FERC and NERC will work with other federal agencies, states, regional entities, and utilities to identify performance problems within the bulk-power system, and, where appropriate, solutions for addressing those issues. In a separate proceeding, FERC’s Office of Enforcement is examining wholesale natural gas and electricity market activity during the recent extreme cold weather event to determine if any market participants engaged in market manipulation or other violations.

[PJM Announces New Board Members:](#) On May 3, 2021, PJM announced the election of two new Board members, Paula Conboy and Jeanine Johnson, to the PJM Board of Managers (“Board”). Conboy and Johnson fill vacancies left by retiring Board Chair Dr. Ake Almgren and Board member John McNeely Foster. Conboy will serve a three-year term, and Johnson will serve a two-year term. On May 6, 2021, PJM announced that its Board selected Mark Takahashi to serve as Chair. Takahashi replaces retiring Chair Dr. Ake Almgren who had served as Board chair since 2018. Takahashi joined the PJM Board in 2016 and previously served as chair of its Competitive Markets Committee.

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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 Ms. Christine E. Watchorn on behalf of Ohio Edison Company and The Cleveland Electric Illuminating Company and The Toledo Edison Company