

FirstEnergy's Perspective on PJM's Wholesale Electricity Markets: 2023

Q3 2023 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

PJM and stakeholders continue to focus on necessary capacity market reforms through the Critical Issue Fast Path (CIFP) process, completing stages 3 and 4 this reporting period. Stage 3 includes finalization of PJM's proposal and the development of stakeholder alternatives. PJM initially proposed a seasonal capacity design with separate clearing prices in the summer and winter periods. Following stakeholder feedback, PJM offered a second annual option which has all of the features of the seasonal proposal, but retains an annual Base Residual Auction (BRA). The CIFP concluded with a Stage 4 meeting on August 23, 2023, followed by an advisory stakeholder vote at a Special Session of the Members Committee on 18 proposals, including two proposals put forth by PJM Staff. While the vote was advisory only, it is worth noting that none of the proposals would have garnered enough votes to meet the sector-weighted vote threshold to pass under the normal stakeholder process. The PJM Board has the sole discretion to determine how to proceed, including what reforms to file and when. The PJM Board has indicated it intends to file the reforms at FERC for consideration on October 1, 2023.

As a result of that accelerated capacity market reform effort, PJM deemed it necessary to concurrently seek delays of all forthcoming Base Residual Auctions, including the 2025/2026 BRA. On June 9, 2023, FERC accepted the BRA delays sought by PJM effective June 10, 2023, on condition that PJM make a compliance filing revising its Tariff to include the illustrative auction schedule for delivery years 2025/2026 through 2028/2029. As currently scheduled, the 2025/2026 BRA would be held in June 2024, followed by the 2026/2027 BRA in December 2024.

Capacity Market Issues

[PJM Capacity Reforms](#): On February 24, 2023, the PJM Board issued a letter to stakeholders asserting that near-term changes are needed to the RPM, and therefore they have decided to initiate the CIFP process. The Board indicated that they hope to reach consensus in key capacity market design areas, with a targeted October 1, 2023, FERC filing date. PJM offered two proposals for consideration by the PJM Board: a two season market design construct and one that maintains the annual construct while making the other recommended improvements included in its seasonal design around risk modeling enhancements, moving to a marginal Effective Load Carrying Capability accreditation construct, bolstering winterization requirements, changes to market power mitigation rules and

performance assessments and testing. Buckeye, Vistra, LS Power and the Consumer Advocates of PJM States provided variants of PJM's proposal. Monitoring Analytics proposed a complete redesign of the Capacity Performance construct, known as the Sustainable Capacity Model, with variants proposed by Daymark/East Kentucky Power Cooperative and American Municipal Power/J Power. Leeward Energy and American Electric Power's proposal features an annual market with two capacity products. In addition to PJM's respective proposals, a total of 18 packages were developed for stakeholders to consider. On August 23, 2023, at a Special Session of the Members Committee, PJM stakeholders voted on each of the individual proposals. While the vote was advisory only, it is worth noting that none of the proposals would have garnered enough votes to meet the sector-weighted vote threshold to pass under the normal stakeholder process. The PJM Board has the sole discretion to determine how to proceed, including what reforms to file and when. The PJM Board has indicated it intends to file the reforms at FERC for consideration on October 1, 2023.

[Base Residual Auction \(BRA\) Delays](#): On April 11, 2023, PJM submitted a Section 205 filing to delay RPM Auctions through the 2028/2029 Delivery Year, along with a request for waiver to delay associated pre-auction activities through the 2028/2029 Delivery Year. On June 9, 2023, FERC accepted the BRA delays sought by PJM effective June 10, 2023, on condition that PJM make a compliance filing revising its Tariff to include the illustrative auction schedule for delivery years 2025/2026 through 2028/2029. On June 26, 2023, PJM submitted the compliance filing in accordance with FERC's Order. As currently scheduled, the 2025/2026 BRA would be held in June 2024, followed by the 2026/2027 BRA in December 2024.

[Market Seller Offer Cap](#): On August 15, 2023, the D.C. Circuit Court of Appeals upheld FERC's order replacing the default Market Seller Offer Cap with a unit-specific review process. Vistra joined with other generation owners to petition the court, arguing that FERC discarded the default offer cap without explanation or addressing reasonable alternatives, FERC failed to meaningfully account for concerns that capacity offers must adequately reflect the risks of taking on capacity obligations, and the rules are against the Section 205 rights of suppliers to set their own rates. The court did not agree with the petitioners' arguments, and reaffirmed FERC's previous order.

[Smoothing Demand Curves](#): On August 9, 2023, PJM submitted revisions to the PJM Open Access Transmission Tariff, Attachment DD, section 5.11(e) to clarify that PJM will be required to only post smooth supply curves after each BRA, and not for any Incremental Auction. PJM requests that the revisions to Attachment DD become effective as of October 9, 2023.

[Capacity Performance Penalty Rate](#): On May 30, 2023, PJM submitted proposed revisions to the PJM Tariff to refine the definition of Emergency Action for purposes of determining Performance Assessment Intervals. PJM requested a shortened 10 day comment period and requested that the Commission accept the proposed revisions no later than July 14, 2023, and to become effective as of June 1, 2023. On July 28, 2023, FERC accepted the proposed Tariff revisions, to become effective July 30, 2023, subject to the condition that PJM submit a compliance filing within 30 days of the date of this order that corrects the clerical errors and clarifies that the phrase "Primary Reserve requirement" refers to the "Primary Reserve Requirement," as PJM consents to in its July 7 Answer.

[Energy Market Issues](#)

No updates at this time.

Ancillary Services Market Issues

No updates at this time.

Emerging Technologies

[FERC Order 2222 Update](#): On June 14, 2023, PJM submitted a compliance filing in the Order No. 2222 compliance proceeding, in accordance with the Commission's May 30, 2023, Order in this proceeding. In the May 30, 2023, Order, the Commission, among other things, directed PJM to modify its proposed language related to capacity market mitigation and address issues related to the effective date for such provisions. PJM also clarifies that the capacity market mitigation rules would apply when Distributed Energy Resources and Capacity Aggregation Resources can first participate in PJM's capacity market, and PJM proposes to defer setting an effective date for the capacity market revisions. PJM requests Commission action by November 30, 2023, on this filing. PJM is expected to make an additional compliance filing on September 1.

Other

[Winter Storm Elliott Event Analysis & Recommendations Report](#): On July 17, 2023, PJM published its Winter Storm Elliott Event Analysis & Recommendation Report. The purpose of this analysis and subsequent report is to review the events up to and during Winter Storm Elliott, assess the actions of PJM and its members during those times, and look for lessons learned and associated recommendations to help improve grid reliability. On July 24, 2023, PJM held a high level workshop to discuss the report and its recommendations with stakeholders.

[Comments of Joint ISOs/RTOs on USEPA Proposed Greenhouse Gas Rule](#): On August 8, 2023, the Joint ISOs/RTOs (ERCOT, MISO, PJM, and SPP) provided comments to the US Environmental Protection Agency regarding their proposed rule establishing new source performance standards and emissions guidelines for electric generating units.

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