

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

**Re: Joint Petition of Citizens'
Electric Company of Lewisburg,
PA and Wellsboro Electric
Company for their Default Service
Program For the Period June 1,
2015 Through May 31, 2018**

**Public Meeting: February 12, 2015
2425024-OSA
Docket No. P-2014-2425024 & P-2014-
2425245**

MOTION OF COMMISSIONER JAMES H. CAWLEY

Before us is the petition for a Joint Default Service Program (Petition) of Citizens' Electric Company of Lewisburg, PA (Citizens') and Wellsboro Electric Company (Wellsboro) (collectively referred to as "the Companies") filed with the Pennsylvania Public Utility Commission (Commission) for the Period June 1, 2015 through May 31, 2018. Under this Petition, the Companies propose to replace the existing Stratified Procurement Plan and instead procure a full requirements contract for a three year period for each of the Companies. Pricing for the energy component of this wholesale contract for Residential and Small C&I Default Service will be adjusted every six months based on PJM West Hub on-peak monthly forward pricing on predetermined Trigger Dates. The wholesale rate formula will assume a straight pass through of the mathematical average of the monthly on-peak per MWh strip pricing for all MWhs sold to customers during the six-month pricing period.

OCA argued that, as a result, customers will be exposed for 100% of their energy consumption at the price experienced in the market on a single day and that the proposal does not feature any of the pricing-diversity benefits envisioned by the Competition Act when it called for a prudent mix of different products in a supply portfolio. In the event the Commission chooses to terminate the existing Stratified Procurement Plan, OCA recommended a "layering and laddering approach for the Residential and Small C&I customer class." We should be sympathetic to these concerns, given the volatility we experienced in bidding out the Pike County Light & Power full requirements contract.

In order to assuage these valid concerns, the pricing for the energy component of this wholesale contract for Residential and Small C&I Default Service should be adjusted every six months based on PJM West Hub on-peak monthly forward pricing on the same predetermined Trigger Dates, using a formula based on the mathematical average of the monthly on-peak MWh strip pricing for a MWh sold to customers during a 12-month pricing period, accounting for half the portfolio. The other half should be composed of another 12-month period reflecting PJM West Hub on-peak monthly forward pricing of another 12-month period, six months hence. In order to achieve this laddered pricing, the first six months and last six months of the three year contract should reflect a blend of six-month and 12-month strip pricing. For all other contract periods, the energy component should reflect a blend or laddering of the 12-month forward pricing obtained from the two Trigger Dates six months apart.

Adopting this one modification ensures adherence to the "prudent mix" standard of default service plans. The plan results in energy cost hedges of two to 14 months into the future, while the Supplier Adder price component fully hedges congestion, marginal losses, Alternative Energy Portfolio Standards (AEPS) Act compliance costs, transmission losses, and transmission charges other than NITS for a period of 3 years.

This will allow for hedges for ancillary and congestion costs which have played a significant role in past volatility in the Companies' default service rates.

The Office of Consumer Advocate's argument that the Commission does not need to clarify that energy rates resulting from flexible trigger dates would constitute Commission-made rates carrying a presumption of reasonableness is also correct. Section 2807 of the Code provides statutory guidance for when approved DSP costs can be recovered. Specifically, § 2807(e)(3.8) addresses when costs of an approved DSP should not be recovered (i.e., noncompliance with Commission-approved plan, or the commission of fraud, collusion, or market manipulation). Therefore, the ALJ's recommendation that the Companies should have some flexibility to select different trigger dates if market conditions appear unfavorable should be adopted.

I also commend the Companies for advancing an innovative proposal that reflects the unique characteristics of their smaller service territory. The proposal offers an opportunity for Electric Generation Suppliers (EGSs) or wholesale suppliers to serve the entire default service load of either company – in excess of 5,000 customers each – through a competitive process that provides indexed energy prices that can provide a reasonable level of security and lower volatility, yet also is reasonably market price reflective. Suppliers are likely to be interested in such a product, given the three-year duration and attractive tranche size.

While it may have been more optimal to include capacity costs in the Supply Adder, the recent PJM Reliability Pricing Model tariff changes proposed by PJM render this proposal just and reasonable given the great uncertainty of capacity prices three years into the future. This proposal also effectively deals with many of the challenges faced by a smaller company in providing default service, mainly higher per kilowatt hour administrative costs, and high potential migration risk.

I encourage EGSs to step up to the plate here and bid, so as to demonstrate that they can effectively serve a constructive role in facilitating the provision of default service under more innovative default service designs.

As a final note, as part of their contingency plan, the companies proposed during any period where the Companies continue the Stratified Procurement Plan due to lack of wholesale supplier responses to the proposed RFPs, the Companies will provide Hourly Priced Service (HPS) to any shopping customers desiring to return to default service. This is in violation of our existing regulations.* The Companies should continue to treat any returning customers the same as any other new or existing customer as it relates to the provision of default service. Further, as a practical matter, this proposed provision would serve as a very significant barrier to customer participation in retail choice.

THEREFORE, I MOVE THAT the Office of Special Assistants prepare an Order consistent with this motion.

DATE: February 12, 2015


James H. Cawley, Commissioner

* 52 Pa. Code § 54.188(g) provides: If a customer chooses an alternative supplier and subsequently desires to return to the local distribution company for generation service, the local distribution company shall treat that customer exactly as it would any new applicant for energy. *See also* 52 Pa. Code § 54.189(c).