


COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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December 29, 2020

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

Re: Petition of Pike County Light and Power Company  
for Approval of Default Service Plan (DSP) and  
Waiver of Commission Regulations and *Nunc Pro  
Tunc* Treatment for the Period June 1, 2021 through  
May 31, 2024  
Docket No. P-2020-3022988

Dear Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Answer to the Petition of Pike County Light and Power Company in the above-referenced proceeding.

Copies have been served as indicated on the enclosed Certificate of Service.

Respectfully submitted,

/s/ David T. Evrard

David T. Evrard  
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Enclosures:

cc: The Honorable Eranda Vero (**email only**)  
Certificate of Service

\*301320

CERTIFICATE OF SERVICE

Re: Petition of Pike County Light and Power Company :  
for Approval of Default Service Plan (DSP) and :  
Waiver of Commission Regulations and *Nunc Pro* : Docket No. P-2020-3022988  
*Tunc* Treatment for the Period June 1, 2021 through :  
May 31, 2024 :

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate's Answer to the Petition of Pike County Light and Power Company, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 29<sup>th</sup> day of December 2020.

**SERVICE BY E-MAIL ONLY**

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Dated: December 29, 2020  
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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Pike County Light & Power Company :  
For Approval of Default Service Plan : Docket No. P-2020-3022988  
And Waiver Of Commission Regulations and :  
Nunc Pro Tunc Treatment :

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ANSWER OF THE  
OFFICE OF CONSUMER ADVOCATE

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I. INTRODUCTION

On November 23, 2020, Pike County Light & Power Company (Pike or Company) filed a Petition for Approval of a Default Service Plan (DSP) with the Pennsylvania Public Utility Commission (Commission) designed to provide generation service to the Company's default service customers for period beginning June 1, 2021 through May 31, 2024. Petition at 2. According to the Company, Pike has 4,851 customers, of which more than seventy percent take default electric supply service from Pike. Petition at 4.

Pursuant to Pennsylvania law, Pike must acquire generation resources for customers who do not receive service from an Electric Generation Supplier or whose generation supplier fails to deliver supply. 66 Pa.C.S. § 2807(e). Historically, Pike procured energy for its default service customers from the New York Independent System Operator's (NYISO) wholesale "spot" market. Petition at 4. Beginning with its current DSP, which took effect on June 1, 2019 and ends on May 31, 2021, Pike, for the first time, implemented a financial hedge as a means of dampening the volatility of the NYISO spot market purchases. It did this for a portion of its default service supply. As explained by the Company, Pike entered into one financial hedge (an energy

swap) with one counterparty under which Pike paid the counterparty a fixed price for the energy covered by the hedge. Under such an arrangement, as spot market prices fluctuate, Pike pays a fixed price (which is based on forward market prices) for that portion of its default service supply that is hedged. In this way, it reduces the effect of spot market volatility on default service rates. Petition at 5. For its part, the OCA has been a strong proponent of the inclusion of fixed-price hedges in Pike's default supply portfolio and has supported the Company's efforts to bring a reliable and stable default service price to consumers.

Pike is again proposing to employ a financial hedging strategy for a portion of its default service supply in its proposed DSP. Its Petition states that it will establish counterparty agreements with wholesale energy providers for fixed rate energy swaps which will convert hourly priced energy to fixed price energy. Petition at 11.

Pike also states its intention to retain other features of its existing DSP as part of the proposed DSP. For instance, Pike will continue use of its default service rate mechanism that is a fixed quarterly rate per kWh that consists of two components – the Market Price of Electric Supply and the Electric Supply Adjustment Charge. Petition at 5-6. Pike also proposes to continue to meet its Alternative Energy Portfolio Standards (AEPS) Act requirements through a competitive solicitation process either directly or with the help of a consultant. The timing of the AEPS solicitations are dictated by market conditions. Cost of compliance are recovered through the default service rate mechanism. Petition at 7.

With respect to the components of the default service rate mechanism, the Market Price of Electric Supply is determined quarterly based on the Company's forecast of wholesale supply costs for the quarter, including the Company's expected procurement costs from the NYISO. On an annual basis, service class-specific factors are developed to reflect each service class' load

characteristics, capacity obligation, forecast sales and applicable losses. These factors are applied to the quarterly forecast of the Company's default service cost per kWh to determine a class-specific Market Price of Electric Supply. The Electric Supply Adjustment Charge is calculated quarterly and is designed to reconcile the monthly over and undercollections of the three preceding months. This too is calculated on a class-specific basis. Petition at 6-7.

Other features from the existing DSP that Pike proposes to incorporate in the proposed DSP are: (1) that the Company be permitted to recover \$48,000 per plan year for outside consulting costs related to the hedging program through its default service tariff charges; and (2) that its rate design include the monthly settlement costs on hedge transactions in its quarterly default service rates, which will be accomplished by replacing the forecasted spot market rates for the hedged quantities within the fixed rate hedge price and allocating hedged quantities to the rate classes based on each class' pro-rata load share. Petition at 6.

It should be noted that unlike the existing DSP, which is two years in length, the proposed DSP is for three years. The Company states that extending the plan for an additional year will reduce consulting and legal fees, lower costs for customers and create efficiency for all parties involved, including the Commission. Petition at 11.

Pike currently procures its default supply from Orange and Rockland Utilities under a Commission-approved Energy Supply Agreement (ESA). The ESA's initial term ended in August 2019, with an option to extend for three additional one-year periods. Pike has renewed the ESA through 2022 and is currently negotiating with Orange and Rockland for another ESA on substantially the same terms. Under the ESA, energy prices are passed through to Pike based on hourly rates, which are subject to market conditions. Pike indicates that over the last three years, hourly rates have generally been lower than forward market rates. Nevertheless, Pike submits that

its residential customers in particular will benefit from the price volatility dampening that will result from its hedging activity. Petition at 12-13.

Pike indicates that it expects to file additional detail concerning its proposed financial hedge and any modifications that may be required to its rate design within four weeks of filing the instant Petition. Petition at 14.

## II. ANSWER/COMMENTS

A Prehearing Conference has been scheduled for January 5, 2021 and the OCA intends to fully participate. The OCA has preliminarily identified the following areas in Pike's DSP for further review by the Commission. The OCA anticipates that it may raise additional issues as the proceeding progresses.

### Supply Procurement

Although the details of the Company's financial hedging strategy have yet to be submitted, the OCA intends to examine those details to determine whether what is proposed is reasonable, in accord with the hedging strategies employed by other Pennsylvania EDCs, and suited to provide the price stability the Company seeks.

The OCA further intends to review the supply contract with Orange and Rockland Utilities to better understand the structure of the contract and the rates Pike is paying for its wholesale supply, and to assess whether continuation of that contract is in the best interest of customers.

### Rate Design

As previously noted, Pike proposes to continue using the default service rate mechanism currently in place. The OCA submits that this mechanism should be reviewed to ensure that it provides a reasonable degree of stability for default service customers and that it

collects only those costs reasonably attributed to default service. In particular, the mechanism must be examined to ascertain whether it is properly accounting for the costs and revenues associated with its hedging program.

#### Alternative Energy Portfolio Standards Act (AEPSA) Compliance

Pike proposes to continue to meet its AEPSA requirements by utilizing a competitive solicitation process dictated by market conditions. The OCA submits that the AEPSA procurement process should be reviewed to ensure that it is meeting all compliance standards at reasonable prices.

### III. CONCLUSION

For the reasons set forth above, the Office of Consumer Advocate submits that Pike County Light & Power Company's Petition concerning default service commencing June 1, 2021, must be thoroughly reviewed to ensure that it meets the needs of default service customers and is consistent with Pennsylvania law. To that end, the OCA stands ready to work with Pike and other interested parties to establish a default service methodology that will best serve the needs of Pike's customers.

Respectfully Submitted,

/s/ David T. Evrard

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Dated: December 29, 2020

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