



Thomas J. Sniscak
(717) 236-1300 x224
tjsniscak@hmslegal.com

Whitney E. Snyder
(717) 236-1300 x260
wesnyder@hmslegal.com

100 North Tenth Street, Harrisburg, PA 17101 Phone: 717.236.1300 Fax: 717.236.4841 www.hmslegal.com

February 19, 2021

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

RE: Petition of Pike County Light & Power for Approval of Its Default Service Plan 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; **JOINT PETITION OF ALL PARTIES FOR SETTLEMENT (PUBLIC VERSION)**

Dear Secretary Chiavetta:

Enclosed you will find the Joint Petition of All Parties for Settlement (Public Version) in the above-referenced matter. Copies have been served in accordance with the attached Certificate of Service.

This Joint Petition is served electronically pursuant to the COVID-19 Suspension Emergency Order dated March 20, 2020 and ratified March 26, 2020.

If you have any questions regarding this filing, please do not hesitate to contact me.

Very truly yours,

/s/ Whitney E. Snyder

Thomas J. Sniscak
Whitney E. Snyder
Counsel to Pike County Light & Power Company

WES/das
Enclosure

cc: Honorable Eranda Vero (via email)
Per Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

BY ELECTRONIC MAIL ONLY

Aaron J. Beatty
David T. Evrard
Office of Consumer Advocate
555 Walnut Street
5th Floor Forum Place
Harrisburg, PA 17101
abeatty@paoca.org
devrard@paoca.org

Sharon Webb, Esquire
Office of Small Business Advocate
555 Walnut Street
1st Floor Forum Place
Harrisburg, PA 17101
swebb@pa.gov

Mr. Robert D. Knecht
Industrial Economics Incorporated
2067 Massachusetts Avenue
Cambridge, MA 02140
rdk@indecon.com

/s/ Whitney E. Snyder
Thomas J. Sniscak
Whitney E. Snyder

Dated this 19th day of February, 2021

PUBLIC VERSION

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of Pike County Light & Power for :
Approval of Its Default Service Plan and : P-2020-3022988
Waiver of Commission Regulations and :
Nunc Pro Tunc Treatment for the Period :
June 1, 2021 through May 31, 2024 :

JOINT PETITION OF ALL PARTIES FOR SETTLEMENT

TO ADMINISTRATIVE LAW JUDGE ERANDA VERO:

I. INTRODUCTION

Pike County Light & Power Company (“Pike” or “PCL&P”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”) (collectively “Joint Petitioners”), join in this Joint Petition for Settlement (“Settlement”) and respectfully request that Administrative Law Judge Eranda Vero (“ALJ Vero” or the “ALJ”) and the Commission expeditiously approve the Settlement as set forth below. The Settlement has been agreed to by all parties in this proceeding and resolves all issues between the parties raised in this proceeding.

As fully set forth and explained below, Joint Petitioners have agreed to a settlement of all issues in the above-captioned Petition for Approval of Pike’s Default Service Implementation Plan (“DSP” or “Plan”). Among other provisions, the Settlement provides for Pike to again implement a financial hedging strategy for a portion of its default service load to promote price stability and more closely align Pike’s DSP procurement strategy with those utilized by other Pennsylvania EDCs. In support of the Settlement, Joint Petitioners state the following:

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II. BACKGROUND

1. PCL&P is a jurisdictional electric distribution company (EDC) and a public utility as those terms are defined in Sections 102 of the Public Utility Code, 66 Pa.C.S. § 102. PCL&P provides electricity to approximately 4,851 retail customers in its service territory in Pike County, Pennsylvania.

2. On November 23, 2020, Pike County Light & Power filed a Petition for Approval of its Default Service Plan at Docket No. P-2020-3022988. The Petition was filed pursuant to Section 2807(e) of the Public Utility Code and 52 Pa. Code 54.181-54.190.

3. The Petition was published in the *Pennsylvania Bulletin* on December 12, 2020, with an Answer/Protest date of December 29, 2020.

4. In its Petition, Pike admits that it should have filed this Petition by June 1, 2020, and that the nine-month time frame for Commission decision in this proceeding would run after the date of expiration of Pike's current DSP Plan. Consequently, Pike requested *nunc pro tunc* treatment of its filing as well as an expedited proceeding to allow the Commission to decide this matter at its May 20, 2021 public meeting.

5. The proceeding was assigned to Administrative Law Judge Eranda Vero ("ALJ Vero") for hearings and issuance of a Recommended Decision.

6. On December 15, 2020, ALJ Vero issued an Order at the above referenced docket requiring Pike to file a written explanation of the reasons that led to the late filing, as well as the grounds on which the filing should be granted *nunc pro tunc* and expedited treatment with the Secretary's Bureau by no later than December 21, 2020. In compliance with this order, Pike filed the required written explanation of the late filing on December 21, 2020.

7. ALJ Vero's December 15, 2020 Order also required Pike to file its pre-filed written Direct Testimony by no later than December 24, 2020, at 11:00 am.

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8. On December 24, 2020, Pike served its direct testimony in compliance with ALJ Vero's order.

9. On December 29, 2020 the OSBA filed a petition to intervene. Also, on December 29, 2020, the OCA filed a petition to intervene.

10. A prehearing conference was held on January 5, 2021. A litigation schedule was established along with discovery rules which, pursuant to the Joint Petitioners' agreement, included shorter response times than those provided in the Commission's regulations. *See* 52 Pa. Code §§ 5.341 *et seq.*

11. On January 8, 2021, ALJ Vero issued a Prehearing Order memorializing the schedule and other rules for the proceeding established at the prehearing conference.

12. The Joint Petitioners conducted substantial formal and informal discovery in this proceeding. In accordance with the litigation schedule, various parties filed direct and rebuttal testimony.

13. On February 5, 2021, Pike informed ALJ Vero that the parties had reached a settlement in full and requested that the parties submit the joint petition for settlement with statements in support by February 19, 2021. As a result of the settlement, ALJ Vero suspended the litigation schedule and canceled the evidentiary hearing scheduled for February 10, 2021 by the cancellation notice issued on February 9, 2021.

14. By Joint Stipulation filed contemporaneously with this Joint Petition, all parties stipulated to the admission of the pre-served testimony and exhibits in this case and request that ALJ Vero admit the testimony into the record by separate order or by the inclusion of a provision in the Recommended Decision.

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15. Joint Petitioners held settlement discussions over the course of this proceeding. As a result of those discussions and the efforts of Joint Petitioners to examine the issues in the proceeding, Joint Petitioners have been able to agree to a Settlement covering all issues in the proceeding.

III. SETTLEMENT

16. The following terms of this Settlement reflect a carefully balanced compromise of the interests of all the Joint Petitioners in this proceeding. The Joint Petitioners unanimously agree that the Settlement, which resolves all issues between the parties regarding PCL&P's June 2021 – May 2024 Default Service Plan while also being in the public interest. The Joint Petitioners respectfully request that the PCL&P's Default Service Plan be approved subject to the terms and conditions of this Settlement specified below:

A. PIKE'S DEFAULT SERVICE PLAN FOR YEARS JUNE 2021 TO MAY 2024

17. Pike will continue to procure its default supply from the NYISO spot market pursuant to the terms of the Electric Supply Agreement with O&R, which expires August 2022 (ESA I). Pike is currently negotiating a new Electric Supply Agreement with O&R (ESA II). ESA II will have substantially similar terms to ESA I. Pike will submit ESA II for Commission review no later than April 1, 2022 via petition that includes supporting reasons for approval of ESA II. The Petition will be served on the OSBA and OCA. To the extent either OSBA or OCA objects to ESA II within 60 days of service, the matter will be set for hearing and decision so that decision can be reached prior to August 2022. To the extent no party objects to ESA II, the matter will be decided directly by the Commission.

18. Pike will implement the following hedging procurement strategy:

- a. For plan year one (June 2021 – May 2022), Pike will hedge a portion of the year's delivery period (September 1, 2021 – May 31, 2022)

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[BEGIN HIGHLY CONFIDENTIAL] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] **[END HIGHLY**

CONFIDENTIAL] Pike will attempt to procure half of this hedge in July 2021.
Pike will attempt to procure the subsequent half of this hedge in August 2021.

b. For plan year two (June 2022 – May 2023), Pike will hedge

[BEGIN HIGHLY CONFIDENTIAL] [REDACTED]
[REDACTED]
[REDACTED]

[REDACTED] **[END HIGHLY CONFIDENTIAL]** Pike will attempt to procure half of this hedge 7 to 8 months prior to the beginning of the plan year. Pike will attempt to procure the subsequent half of this hedge 2 to 3 months prior to the beginning of the plan year.

c. For plan year three (June 2023 – May 2024), Pike will hedge

[BEGIN HIGHLY CONFIDENTIAL] [REDACTED]
[REDACTED]
[REDACTED]

[REDACTED] **[END HIGHLY CONFIDENTIAL]** Pike will attempt to procure half of this hedge 7 to 8 months prior to the beginning of the plan year. Pike will attempt to procure the subsequent half of this hedge 2 to 3 months prior to the beginning of the plan year.

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d. Pike will also attempt to hedge using overhanging contracts. For the delivery period June 1, 2024 – May 31, 2025 Pike will hedge [BEGIN

HIGHLY CONFIDENTIAL] [REDACTED]

[REDACTED] [END **HIGHLY CONFIDENTIAL]** Pike will attempt to procure half of this hedge in April 2023. Pike will attempt to procure the subsequent half of this hedge in October 2023.

e. Pike will not accept any hedging contract if the refreshed bid price (the executable price) [BEGIN **HIGHLY CONFIDENTIAL]** [REDACTED]

[REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [END **HIGHLY CONFIDENTIAL]**

f. If a specific procurement effort pursuant to Paragraph 18.a. – 18.d., does not result in a hedging product purchase, Pike will re-attempt to purchase the product in the following month.

g. If the second procurement effort does not result in a procurement being made, the next scheduled procurement for the relevant plan year will be modified to include the open position for which the hedging purchase was not successful.

h. [BEGIN **HIGHLY CONFIDENTIAL]** [REDACTED]

[REDACTED]

[REDACTED]

PUBLIC VERSION

■ ■■■■■ ■■■ ■■■■■ ■■■■■ ■■■■■ [END HIGHLY
CONFIDENTIAL]

i. Pike will be permitted to recover up to \$48,000 per plan year for outside consulting costs related to the hedging program in its default service tariff charges.

j. Pike will adhere to the timing and magnitude of hedging contracts set forth above except in the event of major market disruptions.

19. Within ten days of completing each procurement in Paragraph 18, Pike will provide a detailed report to the Commission, the Office of Consumer Advocate, and the Office of Small Business Advocate regarding the results of the procurement, the number of counterparty bids received, and the forward market prices against which the bids were evaluated.

20. If no bids were found to be acceptable after the procurement in Paragraph 18, that is, no bids were found to be within the parameters in Paragraph 18, Pike will submit a report to the Commission, the OCA, and the OSBA within ten days that explains, to the extent known, the circumstances of why no acceptable bids were offered, and what plans the Company has for redoing the procurement.

21. Pike will modify its current default supply rate design to incorporate a reconciliation mechanism where cost recovery of over- or under-collections occurring over a six-month period would be collected over the subsequent 12-month period instead of the quarterly reconciliation Pike now uses. Pike will provide tariff pages implementing this change as an attachment to the Joint Petition for Settlement. **See Appendix D.**

22. Pike's proposed Alternative Energy Portfolio Standard (AEPS) credit procurement as described in its testimony is approved, which states:

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Pike proposes to continue its current practice and solicit various brokers and counterparties to procure credits. It will compare prices offered for credits and purchase sufficient credits to meet the AEPS requirements from the supplier with the lower offer price. Pike notes that it has obtained AEPS credits directly from brokers in the past (2017), and for 2018, AEPS credits were procured with the help of Enel X. Pike utilized Enel X for procurement assistance in 2019 and 2020. Pike may utilize either strategy for 2021-2024.

PCLP Statement No. 1.

23. Pike's proposed waivers are approved:

a. 52 Pa. Code § 54.185(e)(2) (plan identifying the schedules and technical requirements of competitive bid solicitations and spot market energy purchases).

b. 52 Pa. Code § 54.185(e)(6) (copies of agreements or forms to be used in the procurement of electric generation supply for default service customers).

c. Partial waiver of 52 Pa. Code 69.1805, 69.1805(1), 69.1805(2) and 69.1805(3) (inclusion of short and long-term contracts in procurement mix and tailoring procurement to customer classes).

d. 52 Pa. Code §69.1807(3) (competitive bid solicitation process guidelines).

24. Pike will continue to follow the communication access provisions for electric generation suppliers in paragraphs 20 through 24 of the Joint Petition for Settlement at Docket No. P-2018-3002709 that the Commission approved by Order dated January 17, 2019.

IV. SETTLEMENT IS IN THE PUBLIC INTEREST

25. This Settlement was achieved by the Joint Petitioners after an extensive investigation of PCL&P's filing, including informal and formal discovery and the submission of

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direct and rebuttal by a number of the Joint Petitioners that are requested to be admitted into the record by Joint Stipulation filed contemporaneous with this Joint Petition.

26. “It is the policy of the Commission to encourage settlements.” 52 Pa. Code § 5.231(a). Acceptance of the Settlement follows the intent of this policy and will avoid the necessity of further administrative and possibly appellate proceedings regarding the settled issues at what would have been a substantial cost to the Joint Petitioners and PCL&P’s customers.

27. Joint Petitioners have submitted, along with this Settlement, their respective Statements in Support setting forth the basis upon which each believes the Settlement to be fair, just and reasonable and therefore in the public interest. The Joint Petitioners’ Statements in Support are attached hereto as **Appendices A through C**.

V. CONDITIONS OF SETTLEMENT

28. This Settlement is conditioned upon the Commission’s approval of the terms and conditions contained herein without modification. If the Commission modifies the Settlement, then any Joint Petitioner may elect to withdraw from this Settlement and may proceed with litigation and, in such event, this Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Joint Petitioners within five (5) business days after the entry of any Order modifying the Settlement.

29. The Joint Petitioners acknowledge and agree that this Settlement, if approved, shall have the same force and effect as if the Joint Petitioners had fully litigated these proceedings on PCL&P’s Petition.

30. This Settlement and its terms and conditions may not be cited as precedent in any future proceeding, except to the extent required to implement this Settlement.

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31. The Commission's approval of the Settlement shall not be construed to represent approval of any Joint Petitioner's position on any issue, except to the extent required to effectuate the terms and agreements of the Settlement in these and future proceedings involving PCL&P.

32. It is understood and agreed among the Joint Petitioners that the Settlement is the result of compromise, and does not necessarily represent the position(s) that would be advanced by any Joint Petitioner in these proceedings if they were fully litigated.

33. This Settlement is being presented only in the context of these proceedings in an effort to resolve the proceedings in a manner which is fair and reasonable. The Settlement is the product of compromise between and among the Joint Petitioners. This Settlement is presented without prejudice to any position that any of the Joint Petitioners may have advanced and without prejudice to the position any of the Joint Petitioners may advance in the future on the merits of the issues in future proceedings except to the extent necessary to effectuate the terms and conditions of this Settlement. This Settlement does not preclude the Joint Petitioners from taking other positions in proceedings involving other public utilities under any other proceeding.

34. If the ALJ adopts the Settlement without modification, the Joint Petitioners waive their individual rights to file exceptions with regard to the Settlement. Joint Petitioners retain their rights to file briefs, exceptions and replies to exceptions with respect to the issue reserved for litigation.

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request as follows:

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1. That the Honorable Administrative Law Judge Eranda Vero and the Commission approve this Settlement including all terms and conditions thereof, without modification;

2. That the PCL&P's Petition at the Commission's Docket P-2020-3022988 be marked closed and the Interventions be marked closed and satisfied and that such marking should not preclude the Petitioner or any Intervenor from any compliance matter to enforce this settlement.

PUBLIC VERSION

Respectfully submitted,

/s/ Whitney E. Snyder
Thomas J. Sniscak, Esq., I.D. #33891
Whitney E. Snyder, Esq., I.D. #316625
Hawke McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
Phone: 717-236-1300
tjsniscak@hmslegal.com
wesnyder@hmslegal.com

*Counsel for
Pike County Light and Power Company*

(Dated) February 19, 2021

David Evard, Esquire
Aaron J. Beatty, Esquire
Office of Consumer Advocate
555 Walnut Street
5th Floor Forum Place
Harrisburg, PA 17101
devard@paoca.org
abeatty@paoca.org

(Dated) _____

Sharon Webb, Esquire
Office of Small Business Advocate
555 Walnut Street
1st Floor Forum Place
Harrisburg, PA 17101
swebb@pa.gov

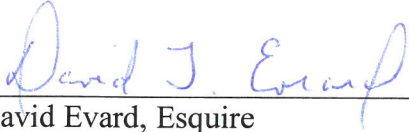
(Dated) _____

HIGHLY CONFIDENTIAL VERSION

Respectfully submitted,

Thomas J. Sniscak, Esq., I.D. #33891
Whitney E. Snyder, Esq., I.D. #316625
Hawke McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
Phone: 717-236-1300
tjsniscak@hmslegal.com
wesnyder@hmslegal.com

*Counsel for
Pike County Light and Power Company*



David Evard, Esquire
Aaron J. Beatty, Esquire
Office of Consumer Advocate
555 Walnut Street
5th Floor Forum Place
Harrisburg, PA 17101
devard@paoca.org
abeatty@paoca.org

(Dated) _____

(Dated) FEB. 19, 2021

Sharon Webb, Esquire
Office of Small Business Advocate
555 Walnut Street
1st Floor Forum Place
Harrisburg, PA 17101
swebb@pa.gov

(Dated) _____

HIGHLY CONFIDENTIAL VERSION

Respectfully submitted,

Thomas J. Sniscak, Esq., I.D. #33891
Whitney E. Snyder, Esq., I.D. #316625
Hawke McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
Phone: 717-236-1300
tjsniscak@hmslegal.com
wesnyder@hmslegal.com

*Counsel for
Pike County Light and Power Company*

(Dated) _____

David Evard, Esquire
Aaron J. Beatty, Esquire
Office of Consumer Advocate
555 Walnut Street
5th Floor Forum Place
Harrisburg, PA 17101
devard@paoca.org
abeatty@paoca.org

(Dated) _____

/s/ Sharon E. Webb

Sharon Webb, Esquire
Office of Small Business Advocate
555 Walnut Street
1st Floor Forum Place
Harrisburg, PA 17101
swebb@pa.gov

(Dated) February 19, 2021

Appendix A

Pike County Light and Power Statement in Support

APPENDIX A

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of Pike County Light & Power for :
Approval of Its Default Service Plan and : P-2020-3022988
Waiver of Commission Regulations and :
Nunc Pro Tunc Treatment for the Period :
June 1, 2021 through May 31, 2024 :

**PIKE COUNTY LIGHT & POWER COMPANY'S
STATEMENT IN SUPPORT OF JOINT PETITION OF ALL PARTIES FOR
SETTLEMENT**

I. INTRODUCTION

Pike County Light & Power Company (“Pike” or “PCLP”) submits this Statement in Support of the Joint Petition of All Parties for Settlement (“Joint Petition”). Pike, the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”) are the parties to the above-captioned proceedings (collectively “Joint Petitioners” or “Parties”). The Settlement resolves all issues in this proceeding regarding Pike’s Default Service Procurement Plan, including: default supply procurement, continuation and increase of financial hedging, rate design, Alternative Energy Portfolio Standards credit procurement, and various requested waivers of related regulations. Accordingly, and as discussed more fully below, Pike offers its support for the Settlement and requests that the Presiding Administrative Law Judge and the Commission grant the Joint Petition and approve the Settlement as submitted and without modification.

The Settlement was achieved only after a comprehensive investigation of Pike’s Default Service Plan. Pike responded to numerous formal and informal discovery requests. Parties filed three rounds of testimony, including Pike’s direct testimony, other parties’ direct testimony, and rebuttal testimony. Moreover, numerous settlement discussions and negotiations occurred that ultimately led to the Settlement.

The Settlement reflects a carefully balanced compromise of the interests of the Parties. For these reasons and the reasons set forth below, the Settlement is in the public interest, just and reasonable, supported by substantial evidence and should be approved without modification.

II. SPECIFIC SETTLEMENT TERMS

A. Default Supply Procurement and Hedging

Pike's default supply procurement has been a contentious issue in its past DSP proceedings. Pike is unique among Pennsylvania EDCs because of its modest size, significant EGS penetration rate, as well as the fact that Pike is affiliated with NYISO and not PJM. Pike serves approximately 4,851 residential and commercial customers. The Commission has recognized that these unique circumstances "make it difficult for the Company to negotiate favorable, long-term contracts in a manner that would allow the Company to satisfy its default service obligations of providing service to customers at 'least cost to consumers over time,' as is required by Act 129."¹ Thus, the Commission has in Pike's prior default service proceedings approved Pike's acquisition of default supply from solely the NYISO spot market. These circumstances have not changed. Pike still has a significant supplier penetration rate, modest load, and now acquires all of its supply from Orange and Rockland from the NYISO spot market pursuant to an Electric Supply Agreement that the Commission approved as part of Corning Natural Gas Holding Corporations' acquisition of Pike from Orange and Rockland.²

As part of the Commission-approved settlement with OCA and OSBA in the Acquisition proceeding, Pike agreed to complete and alternative supply study ("Study"). One of the options

¹ *Petition of Pike County Light & Power Company for Approval of its Default Service Implementation Plan*, Docket No. P-2015-2490141 at 11, 17 (Order entered Mar. 10, 2016).

² *Joint Application of Pike County Light & Power Co., et al. for a Certificate of Public Convenience*, Docket No. A-2015-25 17036 et al. (Order entered Aug. 11, 2016).

the options that the Study explained was engaging in a financial hedge for a portion of Pike's load to decrease price volatility. Price volatility was a major concern of the OCA in past Pike DSP Proceedings.

As explained in Pike's testimony, Pike's last DSP proceeding produced a settlement where Pike would undertake a financial hedging strategy as part of its default service procurement. In the instant proceeding, Pike again proposed to engage in a financial hedge for a portion of its default supply load. The Parties have reached a settlement that allows Pike to continue to engage in such hedges, but also include safeguards on the amount, timing, and pricing of hedges that will give rate payers price protections. Allowing Pike to engage in a financial hedge also allows Pike to essentially engage in a longer-term contract for portions of its default supply. Thus, the financial hedging is a way Pike may be able to satisfy the more common understanding of the "prudent mix" standard applied to other utilities. 66 Pa. C.S. § 2807. The effects as to consumers will be the same – bringing a level of price stability that is not present with spot market only purchases.

Certain pricing protections in the Highly Confidential Settlement protect consumers from paying too much for the benefit of price stability. Pursuant to the Settlement, if bids are not within a certain threshold, Pike will not accept them and will try to procure the hedge again within those parameters. If the market is such that price stability cannot be provided at a reasonable cost, no hedge will occur and Pike's DSP procurement will essentially be the same as it has been in the past.

B. Rate Design and Alternative Energy Portfolio Standards (AEPS) Credit Procurement

The parties have agreed to a settlement regarding Pike's proposed Rate Design. The Settlement provides that Pike will modify its current default supply rate design to incorporate a

reconciliation mechanism where cost recovery of over- or under-collections occurring over a six-month period would be collected over the subsequent 12-month period. This provision will provide additional price stability in rates for residential default service customers and extends the reconciliation adjustment from Pike's current quarterly reconciliation rate design.

No Parties challenged Pike's AEPS credit procurement proposals. Regarding AEPS credit procurement:

Pike proposes to continue its current practice and solicit various brokers and counterparties to procure credits. It will compare prices offered for credits and purchase sufficient credits to meet the AEPS requirements from the supplier with the lower offer price. Pike notes that it has obtained AEPS credits directly from brokers in the past (2017), and for 2018, AEPS credits were procured with the help of Enel X. Pike utilized Enel X for procurement assistance in 2019 and 2020. Pike may utilize either strategy for 2021-2024.

PCLP Statement No. 1.

C. Waivers of Regulations

The Commission has granted each of the waivers Pike requested in past DSP proceedings, and Pike has requested similar waivers in the instant proceeding. The parties have agreed to the following waivers of regulations:

- a. 52 Pa. Code § 54.185(e)(2) (plan identifying the schedules and technical requirements of competitive bid solicitations and spot market energy purchases).
- b. 52 Pa. Code § 54.185(e)(6) (copies of agreements or forms to be used in the procurement of electric generation supply for default service customers).
- c. Partial waiver of 52 Pa. Code 69.1805, 69.1805(1), 69.1805(2) and 69.1805(3) (inclusion of short and long-term contracts in procurement mix and tailoring procurement to customer classes).
- d. 52 Pa. Code §69.1807(3) (competitive bid solicitation process guidelines).

D. Electric Generation Supplier Communication

As a result of Pike's last DSP Proceeding, Pike agreed to specific provisions regarding the provision of data, customer information, and other matters that Pike will provide to EGSs. Pike will continue to follow the communication access provisions for electric generation suppliers as previously approved in the Joint Petition for Settlement at Docket No. P-2018-3002709. Pike also notes that it was granted a waiver of the Commission's EDI requirements at Docket No. P-2018-3005165. Pike fully supports competition in its territory, and the provisions Pike has in place will continue to encourage and promote electric generation suppliers access in Pike's territory.

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST

"It is the policy of the Commission to encourage settlements." 52 Pa. Code § 5.231(a). Acceptance of the Settlement follows the intent of this policy and will avoid the necessity of further administrative and possibly appellate proceedings regarding the settled issues at what would have been a substantial cost to the Joint Petitioners and Pike's customers. This is particularly true here. In the past, Pike's DSP proceedings have been fully litigated, including some cases being appealed to the Commonwealth Court. Approval of the settlement is a just and reasonable outcome of this proceeding.

IV. CONCLUSION

The Settlement is the result of a detailed examination of Pike's proposed DSP Plan, extensive discovery by multiple parties, multiple rounds of testimony and reasonable compromise by the Parties. Pike fully supports the Settlement and requests that Administrative Law Judge Eranda Vero recommend that the Pennsylvania Public Utility Commission approve the Joint Petition without modification.

Respectfully submitted,

/s/ Whitney E. Snyder

Thomas J. Sniscak, Esquire
Whitney E. Snyder, Esquire
Hawke McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
Phone: 717-236-1300
tjsniscak@hmslegal.com
wesnyder@hmslegal.com

Date: February 19, 2021

Attorneys for Pike County Light & Power Co.

Appendix B
**The Office of Consumer
Advocate**
Statement in Support

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of Pike County Light & Power for	:	
Approval of Its Default Service Plan and	:	P-2020-3022988
Waiver of Commission Regulations and	:	
<i>Nunc Pro Tunc</i> Treatment for the Period	:	
June 1, 2021 through May 31, 2024	:	

STATEMENT OF THE
OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF THE
JOINT PETITION FOR SETTLEMENT

(PUBLIC VERSION)

The Office of Consumer Advocate (OCA), a signatory party to the Joint Petition for Settlement (Settlement) in the above-captioned proceeding, respectfully requests that the terms and conditions of the Settlement be approved by Administrative Law Judge Eranda Vero and the Pennsylvania Public Utility Commission (Commission). It is the position of the OCA that the proposed Settlement is in the public interest and in the interests of the residential customers of Pike County Light & Power Company (Pike or Company).

I. INTRODUCTION

On November 23, 2020, Pike filed with the Commission a Petition for Approval of Extension of its Default Service Plan and Waiver of Commission Regulations. In its Petition, Pike proposed extending its Default Service Plan (DSP) for three years beginning on June 1, 2021 and ending on May 31, 2024.

The Office of Consumer Advocate filed an Answer and Notice of Intervention in the proceeding on December 29, 2020. As reflected in its Answer, the OCA’s objective was to ensure that the various aspects of the Company’s proposed DSP, including the methods of procurement

of energy (including its proposal for utilizing a financial hedging strategy in connection with procurement of a portion of its energy supply requirements) and Alternative Energy Credits (AECs) and the design of its residential Default Service rates were compliant with all applicable statutes, regulations and Commission Orders and designed to produce default service rates for the Pike's residential customers that represent the least cost over time, as required by 66 Pa.C.S. Section 2807(e)(3,4). To assist with its analysis of proposed DSP VI, the OCA retained the services of Dr. Serhan Ogur.¹ The OCA submitted Dr. Ogur's Direct Testimony in this proceeding on January 25, 2021 in accordance with the procedural schedule established for this case. The OCA submitted the Rebuttal Testimony of Dr. Ogur on February 1, 2021. The Office of Small Business Advocate (OSBA) also submitted Direct Testimony on January 25, 2020. After the OCA and OSBA Direct Testimony was submitted, the parties engaged in settlement discussions which resulted in a settlement of all issues in the case and led to the filing of the accompanying Settlement petition.

II. BACKGROUND

The OCA adopts the background set forth in Paragraphs 1-15 of the Joint Petition for Settlement.

By way of further background, OCA witness Ogur, in his Direct Testimony, addressed three aspects of Pike's proposed DSP: (1) its financial hedging strategy; (2) whether to employ any procurement contracts that would remain in effect into the subsequent DSP period (so-called

¹ Dr. Serhan Ogur is a Principal with Exeter Associates, Inc.. Dr. Ogur received a B.A. degree in Economics from Bogazici University (Istanbul, Turkey) in 1996 and a Ph.D. in Economics from Northwestern University in 2007. Dr. Ogur has 19 years of experience in the energy industry specializing in organized wholesale and retail electricity markets. He was previously employed as an Economic Analyst at the Illinois Commerce Commission; a Senior Economist at PJM Interconnection LLC; and a Senior System Operator at Fellon-McCord & Associates. OCA St. 1 at 1, Appendix A.

“overhanging contracts”); and (3) the structure of Pike’s proposed reconciliation mechanism for collecting or refunding differences between default service costs and revenues.

A. Financial Hedging Strategy

In its proposed DSP, Pike plans to purchase energy for residential default service customers through the New York Independent System Operator (NYISO) spot energy market. In an effort to dampen the potential price volatility inherent in purchasing on the spot market, Pike also proposes to purchase financial hedges in the form of contracts for differences that would have the effect of fixing the spot market price for the period of time over which the hedge would be in place for the portion of the supply that was hedged. The result is that a portion of the supply will effectively have been purchased at a fixed price and a portion will have been purchased at prices that vary in accordance with spot market prices. In its proposal, Pike plans to utilize a target of 50 percent hedge coverage, using a laddered procurement approach. Hence, the Company would be targeting that 50 percent of its default service procurements would be hedged and the remaining 50 percent would be based on the NYISO spot prices.

Dr. Ogur testified that basing 50 percent of default service supply on spot market prices would expose residential customers to too much rate volatility. Instead, he recommended that Pike

[BEGIN CONFIDENTIAL] [REDACTED]

[REDACTED] [END

CONFIDENTIAL] Dr. Ogur agreed with Pike’s proposal for laddering their hedge purchases and for dividing the purchases into two procurements. He also supported the proposed timing of the purchases for each plan year and supported the pricing parameters the Company proposed for the hedge purchases.

In its Direct Testimony, the OSBA recommended shortening the lead time for hedge purchases for the 2022 and 2023 plan years. As proposed by the Company, procurements for those plan years are to be split, with half of the hedges purchased 14 to 15 months prior to the beginning of the plan year and half purchased 8 to 9 months prior. The OSBA proposed changing the two procurement periods to 7 to 8 months prior and 2 to 3 months prior to the beginning of plan years 2022 and 2023. In Rebuttal Testimony, OCA witness Ogur stated that he did not oppose the OSBA's proposal for shortening the lead times for the hedge purchases.

B. Overhanging Contracts

An overhanging contract in the context of Pike's proposed DSP would be a financial hedge with a delivery period that extends into the subsequent DSP period. For example, if Pike would procure a financial hedge as part of its 2021-2024 DSP during the 2021-2024 DSP period with a delivery period that extends beyond May 31, 2024, that financial hedge would be considered an overhanging contract. The Company's proposed DSP does not include procurement of any overhanging contracts as the hedge timeline proposed by Pike does not include any contracts with delivery periods that extend beyond May 31, 2024.

As OCA witness Ogur explained in testimony, overhanging contracts are used to avoid the problem of a "hard stop," which occurs when 100 percent of a new portfolio must be procured at the beginning of a subsequent DSP period because all of the power purchase agreements ("PPAs") or financial hedges expire at the conclusion of the prior plan period. A hard stop unnecessarily exposes default service customers to a price shock risk. Using overhanging contracts, however, extends the price stability benefits of the financial hedging approach into the initial part of the subsequent DSP period.

Accordingly, Dr. Ogur recommended that, as part of its 2021-2024 DSP, Pike procure financial hedges for Plan Year 2025 (June 1, 2024 – May 31, 2025 delivery period) in two separate transactions -- the first in April 2023 and a second in October 2023. When combined, these two financial hedge purchases should correspond to 100 percent of Pike's financial hedge target for Plan Year 2025. This will ensure that the Company procures financial hedges for default service customers for the beginning part of the subsequent DSP period on the same schedule it utilized for Plan Years 2023 and 2024. This will result in Pike's default service customers avoiding the hard stop problem together with the associated price spike risks.

C. Reconciliation Mechanism

Under the proposed DSP, Pike plans to employ a quarterly reconciliation mechanism, where recovery of over- or under-collections of default service costs and revenues occurring over a three-month period would be collected over the subsequent three-month period. Pike's mechanism is referred to as the Energy Supply Adjustment Charge (ESAC). Pike proposes that the ESAC be capped at 2 cents/kWh in either direction (charge or credit). If the 2 cents/kWh cap is reached, the remaining over- or under-collection balance would be carried forward to the subsequent quarter.

OCA witness Ogur analyzed the level of the ESAC going back to 2016. That analysis revealed that the reconciliation adjustment has consistently and materially impacted the price of default service by at least 30 percent in each of the last eight quarters. He offered three reasons for why large and volatile reconciliation adjustment rates are not beneficial. First, such rates create large swings in residential default service customers' rates and monthly bills. Second, since the energy component of Pike's default service rate reflects the projected wholesale market costs to serve default service customers, a large difference between the overall default service rate and the

energy component leads to inefficient retail pricing of electricity and thus inefficient usage levels. Third, large differences between the energy component and overall default service rates create incentives for customers to switch between default service and third-party supply to take advantage of the ESAC-driven difference between the rates offered by default service and competitive suppliers. Such switching exacerbates the level of under- and over-collections and makes it harder for Pike to forecast default service sales and set accurate targets for its financial hedges. This dynamic also creates cost shifts between customers who opportunistically switch into and out of default service and customers who remain on default service.

To counter the effects of Pike’s proposed reconciliation mechanism, Dr. Ogur recommended a “six-month/12-month” reconciliation mechanism under which cost recovery of over- or under-collections occurring over a six-month period would be recovered over the subsequent 12-month period. Dr. Ogur explained that this would provide additional stability in rates for residential default service customers, and also permit the default service rates to be more reflective of market prices since the reconciliation adjustment can be expected to be smaller than if amortization of the amounts were made over Pike’s proposed three-month period. For default service rates to be market-reflective, the rate components that are independent of wholesale market prices should be as small as possible in either direction. Since the reconciliation adjustment reflects past market outcomes rather than current market conditions, amortizing the reconciliation adjustment over 12 months will result in more market-reflective residential default service rates compared to a three-month amortization. More market-reflective default service rates will also reduce the incentive for opportunistic switching between default service and competitive supply.

III. TERMS AND CONDITIONS OF SETTLEMENT

A. Pike’s Financial Hedging Strategy Including Use of Overhanging Contracts (Settlement ¶ 18)

Paragraph 18 of the Settlement reflects Pike's acceptance of two of OCA witness Ogur's key recommendations with respect to its financial hedging activity. Subparagraphs 18 a. through 18 d. indicate Pike's acceptance of [BEGIN CONFIDENTIAL] [REDACTED]. [END CONFIDENTIAL] Subparagraph 18 d. further indicates Pike's acceptance of Dr. Ogur's recommendation to make use of contracts that will "overhang" into the first year of the subsequent DSP period. In Subparagraph 18 d., Pike commits to attempting to purchase a hedge for the period June 1, 2024 through May 31, 2025, at the target hedge percentage. Pike proposes to purchase half of the hedge for that year in April of 2023 and the other half in October of 2023, as recommended by Dr. Ogur.

Subparagraphs 18 b. and 18 c. also reflect Pike's acceptance of the OSBA's recommendation for shortening the lead time for the Company's hedge purchases for the 2022 and 2023 plan years. The hedge purchases for those years will be made in two transactions, one occurring 7 to 8 months before the plan year and the second occurring 2 to 3 months prior to the plan year. As noted previously, the OCA did not oppose the OSBA's recommendation.

Subparagraphs 18 a. through 18 e. also indicate the pricing parameters Pike will apply for determining the acceptability of bids for hedge products. The OCA supports these pricing parameters.

B. Reconciliation Mechanism (Settlement ¶ 21)

Paragraph 21 of the Settlement indicates the Company's acceptance of Dr. Ogur's "6 month/12 month" reconciliation proposal. In Paragraph 21, Pike states that it will modify its current default supply rate design to incorporate a reconciliation mechanism under which over- or under-collections occurring over a six-month period would be recovered over the subsequent 12-month period rather than the quarterly reconciliation Pike now uses.

IV. CONCLUSION

In this Settlement, the Company adopted all of the OCA's recommendations for improving the proposed Default Service Plan. The OCA submits that adoption of those recommendations should result in less volatile, more stable default service rates for the Company's residential customers. The OCA further submits that this Settlement represents a reasonable and proper resolution of the issues presented by the Company's DSP proposal. In consideration of the various elements of the Settlement that have been described above, the OCA finds the Settlement to be in the public interest and in the interest of Pike County Light and Power Company's customers and, for that reason, submits that the terms and conditions of the Settlement should be approved by the Commission.

Respectfully Submitted,

/s/ David T. Evrard

David T. Evrard

Assistant Consumer Advocate

PA Attorney I.D. # 33870

E-mail: devrard@paoca.org

Aron J. Beatty

Senior Assistant Consumer Advocate

PA Attorney I.D.# 86625

E-mail: abeatty@paoca.org

Counsel for:

Tanya J. McCloskey

Acting Consumer Advocate

Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152
Dated: March 11, 2021
305025

Appendix C

The Office of Small Business Advocate Statement in Support

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**STATEMENT OF THE
OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT**

I. Introduction

The Office of Small Business Advocate (“OSBA”) is an agency of the Commonwealth of Pennsylvania authorized by the Small Business Advocate Act (Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50) to represent the interest of small business consumers as a party in proceedings before the Pennsylvania Public Utility Commission (“Commission”) under the provisions of the Small Business Act, Act 181 of 1988, 73 P.S. §§ 399.41 – 399.50.

II. Procedural History

On November 23, 2020, Pike County Light & Power Company (“Pike” or “the Company”) filed a Petition of Pike County Light & Power Company For Approval of Its Default Service Implementation Plan of June 1, 2021 Through May 31, 2024, (“Petition”) with the Commission pursuant to Section 2807(e) of the Public Utility Code, 66 Pa.C.S. §2807(e). Specifically, the Petition sought the Commission’s approval of Pike’s program to supply its default service customers for the period from June 1, 2021, through May 31, 2024.

Notice of the Petition was published in the December 12, 2020 edition of the *Pennsylvania Bulletin*. The notice required that formal protests, petitions to intervene and answers must be filed in accordance with the Secretary of the Commission on or before December 29, 2020. In accordance with said notice, and also with 52 Pa. Code § 5.61, the OSBA timely filed an Answer to the Petition, a Notice of Intervention and Public Statement, and a Notice of Appearance on December 29, 2020.

This matter was assigned to Administrative Law Judge (“ALJ”) Eranda Vero who held a telephonic prehearing conference on January 5, 2021, at which time a procedural schedule and discovery modifications were established.

Subsequently, the OSBA filed the direct testimony of OSBA witness Robert D. Knecht. *See* OSBA Statement No. 1. The OSBA also actively participated in the negotiations which led to the Joint Petition for Settlement (“Settlement”) in this proceeding. The OSBA submits this statement in support of the Settlement.

III. Reasons for Supporting the Settlement

In its Answer, the OSBA opposed neither the Company’s filed plan to acquire default service electricity for its customers through spot market purchases with financial hedges nor its proposal to continue the current rate design.

Pike’s DSP, as filed, generally proposed to continue the same basic default service plan that has been in effect since January of 2008 with the incorporation of financial price hedging strategy beginning May 31, 2019 through the end of the current plan May 30, 2021, as agreed to in the settlement of its 2018 DSP at Docket No. P-2018-

3002709.¹ The Company proposed to continue to purchase the entirety of its default service electric generation supplies on the NYISO spot energy market along with necessary capacity, ancillary services and alternative energy credits.² The Company also proposed to generally continue the hedging program begun in the last DSP. The hedging program is strictly a financial transaction, in which Pike enters into a fixed-for-floating hedge with a counterparty, wherein Pike would pay the counterparty a fixed per MWh price, and the counterparty would pay Pike the spot price. When combined with the spot purchases, Pike would implicitly pay the fixed price for all the MWh hedged. The amount hedged is a specified MW amount for each hour of the day (i.e., around-the-clock aka ATC). The details of the hedging strategy as proposed by the Company were generally the same as those in the settlement of the 2018 DSP.³

Because Pike's hedging strategy was only recently implemented in May of 2019, and was in its infancy at the start of the COVID 19 pandemic with all the challenges and continuing impacts, Mr. Knecht concluded that it was just too soon to evaluate the efficacy of Pike's hedging strategy and therefore did not object to the Company's proposal to continue the existing strategy, subject only to concerns about the timing for the hedging.⁴

In this proceeding, however, the expert for the Office of Consumer Advocate ("OCA") Dr. Serhan Ogur, proposed that the amount of load targeted to be hedged be materially increased substantially. OCA Statement No. 1 at 6. The Settlement resolves this issue on a confidential basis.

¹ See OSBA Statement No. 1 at 2.

² *Id.*

³ Petition at 3-4.

⁴ OSBA Statement No. 1 at 7.

The OSBA retains its concerns about setting the Company's level of hedging too high. Locking in prices at high rates has a difficult history at Pike, reaching back to the early days of electricity supply deregulation, when the Company locked in default service prices during a period of extreme disruption in natural gas markets following Hurricanes Katrina and Rita, leading to a need for extraordinary action by the Commission, including the implementation of a Commission-sponsored retail aggregation program.

The risk to default service customers with a high hedging level is a scenario in which (a) a hedge contract is locked in at a relatively high price, (b) market prices fall materially, and (c) default service customers switch to EGS supply. This scenario has the problem that the prices for the over-hedged loads are low, increasing losses incurred by the Company and passed on to ratepayers. A larger potential problem is the risk of customer migration. If hedged prices are above market, customers may choose to shop, but the hedges remain in place. While Pike will target a specific percentage of the load to be hedged, if a material percentage of the default service switch to EGS supply, the actual load hedged will be much higher than the target. This would mean that Pike would need to sell more load back into the grid at prices below the hedged price, incurring losses that are passed on to remaining default service ratepayers. Moreover, a significant reduction in default service is not outside of normal range for Pike. As Mr. Knecht indicated, shopping rates at Pike have recently declined materially with the departure of Direct Energy from the market. A shift back to shopping is presumably possible.

In evaluating the Settlement provision, the OSBA's concern about over-hedging is mitigated by a couple of factors.

First, electricity markets are not what they were during Pike's last DSP debacle, when it entered into a full-requirements contract at the peak of the Hurricanes Katrina and Rita episode, when prices were at a peak. Market prices are much lower now, due entirely to lower energy costs. In today's markets, electric supply prices are more heavily influenced by the capacity market, transmission costs and ancillary service, none of which are affected by the hedge.

Second, the risk of a downside scenario within the Settlement is mitigated by staggering the time for entering into the hedges, so that the price is not set based on market conditions in a single day.

Third, when evaluating the Settlement, the OSBA made its own evaluation of the relative risks of the Settlement hedging strategy based on load profile information provided by the Company. While this analysis was not presented in testimony, the OSBA relied upon it to conclude that the hedging risk in the Settlement is relatively low.

Fourth, in his direct testimony, Mr. Knecht expressed a concern that the Company proposed to enter into hedging arrangements far in advance of the date in which power would be hedged. As Mr. Knecht explained, this long lead time increases risk, particularly the risk that actual prices will vary considerably from the hedged price.⁵ The Settlement addresses that issue by substantially shortening the lead time for the hedges.

Finally, the Company retains enough flexibility within the Settlement language that it is not required to enter into financial hedges during periods of market upset, and the OSBA has reasonable confidence that the Company will not do so.

⁵ OSBA Statement No. 1 at 8-9.

Thus, the OSBA concludes that the risks inherent in the hedging strategy adopted in the Settlement are not unreasonable, and they should, at least theoretically, result in a much-needed improvement in default service rate stability at Pike.

IV. Conclusion

By resolving the issues of principal concern to the OSBA, the Settlement will enable the OSBA to conserve its resources and avoid the uncertainties inherent in fully litigating the issues addressed by the Settlement.

Therefore, for the reasons set forth above and in the Settlement itself, the OSBA respectfully requests that the Administrative Law Judge and the Commission approve the Joint Petition for Settlement without modification.

Respectfully submitted,

/s/ Sharon E. Webb

Sharon E. Webb
Assistant Small Business Advocate
Attorney I.D. No. 73995

For: John R. Evans
Small Business Advocate

Date: February 19, 2021

Appendix D
Proposed Tariff Changes

PIKE COUNTY LIGHT & POWER COMPANY

RATES AND RULES
GOVERNING THE
FURNISHING OF
ELECTRIC SERVICE

IN

THE BOROUGHS OF MATAMORAS AND MILFORD

AND VICINITY,

PIKE COUNTY, PENNSYLVANIA

(See Leaf No. 7)

ISSUED: _____, 2021

EFFECTIVE: _____, 2021

ISSUED BY: Michael German
President and CEO
Corning, New York

NOTICE

This supplement changes Rules and Regulations for Default Service by adjusting the Electric Supply Adjustment Charge and Statement of Default Service Charge. (See Leaf No. 2)

PIKE COUNTY LIGHT & POWER COMPANY

SUPPLEMENT NO. ___ TO
ELECTRIC PA. P.U.C NO. 8

___th REVISED LEAF NO. 2
SUPERSEDING ___th REVISED LEAF NO. 2

2. CHANGES MADE BY THIS SUPPLEMENT

Tariff Supplement No. ___ has been filed in accordance with the Settlement entered in P-2020-3022988 and makes changes to Rules and Regulations for Default Service by adjusting the Electric Supply Adjustment Charge and Statement of Default Service Charge. (See _____ revised leaf No. 62A)

ISSUED: _____, 2021

EFFECTIVE: _____, 2021

ISSUED BY: Michael German
President and CEO
Corning, New York

PIKE COUNTY LIGHT & POWER COMPANY

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ISSUED: _____, 2021

EFFECTIVE: _____, 2021

ISSUED BY: Michael German
President and CEO
Corning, New York

PIKE COUNTY LIGHT & POWER COMPANY

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ISSUED: _____, 2020

EFFECTIVE: _____, 2020

ISSUED BY: Michael German
President and CEO
Corning, New York

PIKE COUNTY LIGHT & POWER COMPANY

___th REVISED LEAF NO. 62A
CANCELING ___th REVISED LEAF NO. 62A

RULES AND REGULATIONS

18. DEFAULT SERVICE (Continued)

Electric Supply Adjustment Charge:

(C)

The Electric Supply Adjustment Charge will be calculated every June 1st and December 1st, the Electric Supply Adjustment shall be determined by comparing the Default Service costs incurred for the month with the Default Service revenues. Default Service costs shall include: actual capacity, energy and ancillary service costs; and prior period electric supply adjustments. Default Service revenues shall include revenues billed through the Market Price of Electric Supply and the Electric Supply Adjustment Charge.

Actual Default Service costs will be divided by the total actual Default Service sales for the period being reconciled to determine the overall average rate that would have made the Company whole for the period, on an aggregate basis. The resulting average rate will then be utilized to estimate the over or under collection applicable to each service classification. The resulting monthly service classification-specific over or under collections will be added together for the six months comprising the period being reconciled and then divided by estimated service classification-specific Default Service sales for the subsequent 12-month period such that over or under-collections occurring over a six-month period would be collected over the subsequent 12-month period in which the Electric Supply Adjustment Charges will be billed. The resulting service classification-specific Electric Supply Adjustment Charges will then be increased to permit recovery of Gross Receipts Tax.

Additionally, costs associated with Company's compliance with the Alternative Energy Portfolio Standard shall be included as part of the supply costs and included, as needed, in the Electric Supply Adjustment Charge set each period.

For any given six month period, the Electric Supply Adjustment Charges, including Gross Receipts Tax, shall not exceed a charge or a credit of 2.0 cents per kWh. In the event the 2.0 cents per kWh limit is imposed, any remaining over or under collection balance shall be included in the subsequent period's Electric Supply Adjustment Charges to the extent possible within the 2.0 cents per kWh limitation. Interest on under collections will be determined at the Legal Rate of Interest. Interest on overcollections will be determined at the Legal Rate of Interest plus two percent.

Statement of Default Service Charge:

Default Service Charges shall be determined every six months to be effective for bills to be rendered during the following billing periods. The billing period shall be defined as the six months beginning June and December.

Not less than three business days prior to a proposed change in the Default Service Charge, a "Statement of Default Service Charge" ("Statement") showing the Default Service Charge for each applicable customer class and the effective date of such Statement, will be filed with the Commission, apart from this Tariff. Such Statement shall be available to the public at Company offices and on the Company's internet website.

(C) Indicates Change

ISSUED: _____, 2021

EFFECTIVE: _____, 2021

ISSUED BY: Michael German, President and CEO
Corning, New York