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April 16, 2021

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:

Consistent with Section 5.412a of the Commission's regulations, 52 Pa. Code Section 5.412a, which requires the electronic submission of pre-served testimony, enclosed for electronic filing please find the following testimony and exhibits on behalf of the Office of Consumer Advocate ("OCA"). These documents were admitted into the record via Joint Stipulation of the parties by Order entered March 9, 2021.

OCA Statement No. 1 – Direct Testimony of Serhan Ogur and Appendix A
OCA Statement No. 1-R – Rebuttal Testimony of Serhan Ogur

The OCA's submission also addresses the requirements of the Commission's January 10, 2013 Implementation Order at Docket M-2012-2331973, which requires electronic access to pre-served testimony.

All parties and the presiding officer have been served previously with the testimony and exhibits and copies have been served per the attached Certificate of Service.

Respectfully submitted,

/s/ David T. Evrard
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Enclosures:
cc: The Honorable Eranda Vero **(email only)**
Certificate of Service
*307216

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 Tunc* Treatment for the Period June 1, 2021 through May 31, 2024	:	Docket No. P-2020-3022988

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate's § 5.412a filing of Admitted Evidence, 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 16th day of April 2021.

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*307217

OCA STATEMENT NO. 1

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PIKE COUNTY LIGHT & POWER COMPANY FOR APPROVAL OF EXTENSION OF DEFAULT SERVICE PLAN AND WAIVER OF COMMISSION REGULATIONS *AND NUNC PRO TUNC* TREATMENT	**)))))**	**DOCKET NO. P-2020-3022988**

DIRECT TESTIMONY

OF

SERHAN OGUR, Ph.D.

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

January 25, 2021

EXETER
ASSOCIATES, INC.
10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

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DIRECT TESTIMONY OF SERHAN OGUR

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Serhan Ogur. I am a Principal and Senior Economist at Exeter Associates, Inc. ("Exeter"). Our offices are located at 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland, 21044.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND.

A. I received a B.A. degree in Economics from Bogazici University (Istanbul, Turkey) in 1996 and a Ph.D. in Economics from Northwestern University (Evanston, IL) in 2007.

Q. WHAT IS YOUR PROFESSIONAL BACKGROUND?

A. I have 19 years of experience in the energy industry specializing in organized wholesale and retail electricity markets. My diverse background comprises energy management and consulting; analysis, design, and reporting of Regional Transmission Organization ("RTO") electricity markets and products; and state and federal regulation of electric utilities. I was employed as an Economic Analyst at the Illinois Commerce Commission ("ICC") between 2001 and 2005; a Senior Economist at PJM Interconnection, LLC ("PJM") between 2005 and 2014; and a Senior System Operator at Fellon-McCord & Associates, LLC ("Fellon-McCord") between 2014 and 2015. I came to Exeter as a Senior Analyst in 2015 and became a Principal in the firm in 2020. A detailed statement of my qualifications is included in Appendix A.

Q. HAVE YOU TESTIFIED AS AN EXPERT WITNESS IN OTHER REGULATORY PROCEEDINGS?

A. Yes, I testified in Docket Nos. 05-160, 05-161, and 05-162 before the ICC. These dockets established a descending-price clock, auction-based generation service procurement for default service customers of major Illinois utilities, Commonwealth

Edison Company, and the Ameren companies (AmerenCILCO, AmerenCIPS, and AmerenIP) in 2005.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, I testified in Docket No. P-2016-2534980 in PECO Energy Company's ("PECO's") Default Service Program IV proceeding; in Docket Nos. P-2020-3019383 and P-2020-3019384 in the joint Default Service Plan VI of Citizens' Electric Company of Lewisburg, Pennsylvania ("Citizens") and Wellsboro Electric Company ("Wellsboro"); in Docket No. P-2020-3019522 in Duquesne Light Company's ("Duquesne Light's") Default Service Plan IX proceeding; and in Docket No. P-2020-3019907 in UGI Utilities, Inc. – Electric Division's ("UGI Electric's") Default Service Plan IV proceeding.

Q. ON WHOSE BEHALF ARE YOU OFFERING THIS TESTIMONY?

A. I am offering this testimony on behalf of the Pennsylvania Office of Consumer Advocate ("OCA"). My testimony is intended to address the issues related to residential customers only. However, my recommendations incidentally may also impact commercial and lighting customers since Pike County Light and Power Company ("Pike" or "Company") procures default service supplies jointly for residential, commercial, and lighting customers.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony addresses certain elements of the proposed Default Service Plan ("2021-2024 DSP" or "Plan") of Pike for providing default service to its residential, commercial, and lighting customers for the 36-month period from June 1, 2021 through May 31, 2024. The specific issues I address include the Company's financial hedging strategy, the use of "overhanging contracts," and the structure of the Company's proposed reconciliation adjustment.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. Section I is an introduction. Section II presents a summary of the Company's proposed Plan as it affects the residential class. Section III, the final section of my Direct Testimony, provides my recommendations concerning the Company's proposed 2021-2024 DSP, and addresses the proposed financial hedging strategy, the use of overhanging contracts, and the operation of the reconciliation charge.

Q. ARE YOU RECOMMENDING CHANGES TO THE COMPANY'S PROPOSED FINANCIAL HEDGING STRATEGY FOR PIKE'S DEFAULT SERVICE CUSTOMERS?

A. Yes, I am. I recommend that Pike target a 75 percent financial hedge position for its projected default service loads. Because of practical constraints to avoid disincentives to market participation in the Pike solicitations for the financial hedging product, precisely achieving the 75 percent target is not possible. These constraints include restricting the hedging quantities to whole megawatts ("MWs") and avoiding complexities that could emerge with monthly or diurnal variations in the quantities of hedges procured.

Q. ARE YOU MAKING ANY ADDITIONAL RECOMMENDATIONS?

A. Yes, my testimony includes recommendations on: (1) procuring overhanging contracts (financial hedges with delivery periods that extend beyond May 31, 2024); and (2) modifying the Company's proposed reconciliation mechanism to calculate the reconciliation amounts (either over- or under-collections) over six months and amortizing those amounts over a subsequent 12-month period.

II. SUMMARY OF THE COMPANY'S PROPOSED DSP

Q. HAVE YOU REVIEWED THE COMPANY'S PETITION FOR APPROVAL ("PETITION") IN THIS PROCEEDING?

A. Yes. I have reviewed the Company's Petition of the 2021-2024 DSP. I have also reviewed the Direct Testimony and exhibits submitted by Pike in support of its Petition.

Q. WHAT IS THE TIME PERIOD COVERED BY PIKE'S PROPOSED PLAN?

A. Pike has proposed a 36-month plan to cover the period from June 1, 2021 through May 31, 2024.

Q. HOW DOES THE COMPANY PROPOSE TO PROVIDE DEFAULT SERVICE TO RESIDENTIAL CUSTOMERS DURING THE JUNE 1, 2021 THROUGH MAY 31, 2024 PLAN PERIOD?

A. Pike proposes to purchase energy for residential (as well as commercial and lighting) default service on the New York Independent System Operator ("NYISO") spot energy market (day-ahead and real-time energy prices in NYISO Zone G). The Company must also purchase, in addition to spot market energy, capacity and ancillary services from NYISO as well as the required Pennsylvania Alternative Energy Credits ("AECs") under bilateral arrangements to provide default service to its residential customers. The Company 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 effect for the portion of the supply that was hedged.

Q. HOW DOES THE COMPANY PROPOSE TO SET DEFAULT SERVICE RATES FOR RESIDENTIAL CUSTOMERS?

A. The Company will develop a quarterly default service rate (for the upcoming quarter), referred to as the Market Price of Electricity Supply ("MPES"), using a combination of the cost of the financial hedges it has entered into (for the hedged energy) and a forecast of the NYISO spot price that it believes will prevail over the upcoming three-month period (for the unhedged energy). Discrepancies between the incurred default service supply costs and the default service revenues that Pike receives (by customer class) will be reconciled through the Electric Supply Adjustment Charge ("ESAC"), which is capped at two cents per kilowatt hours ("kWh"). In other words, if the Company's projections under- or over-estimate the actual cost of purchasing energy on the NYISO spot market (as well as capacity and ancillary services costs), the Company either collects or refunds the difference through the ESAC. The ESAC can be either positive or negative, that is, either a charge or a credit. The primary reason for a cost/revenue discrepancy is due to the differences between the Company's spot market price projections and realized spot market prices for the quarter.

Q. PLEASE DESCRIBE THE FINANCIAL HEDGING ARRANGEMENT BEING PROPOSED BY THE COMPANY.

A. The Company is proposing to enter into financial hedges for a portion of its default service load, with a target of 50 percent hedge coverage, using a laddered procurement approach. This implies that 50 percent of the default service load would continue to be priced based on the NYISO spot market prices.

Q. PLEASE EXPLAIN THE LADDERED APPROACH THAT PIKE IS PROPOSING.

A. Pike is proposing to ladder its hedges such that the entire hedge for a given timeframe is not being procured at one time. The Company is proposing to hedge 25 percent of the projected default service load 13 to 14 months prior to the beginning of the Plan

Year (which starts on June 1 and ends on May 31 of the subsequent year), and an additional 25 percent 7 to 8 months prior to the beginning of the Plan Year. However, due to the timing of the Company's Plan filing and the expected date of Commission approval, Pike is proposing not to buy any hedges for the first three months of the 2021-2024 DSP period while procuring hedges for the remaining nine months of Plan Year 2022 one month and two months prior to the start of the delivery period of those hedges.

III. ISSUES AND RECOMMENDATIONS

Q. WHAT ISSUES DO YOU ADDRESS IN THE REMAINDER OF YOUR DIRECT TESTIMONY?

A. In this final section of my testimony, I address: (1) the Company's proposed hedging strategy; (2) procurement of overhanging contracts (financial hedges with delivery periods that extend beyond May 31, 2024); and (3) the Company's proposed reconciliation mechanism.

A. Hedging Strategy

Q. DO YOU AGREE WITH THE FINANCIAL HEDGING STRATEGY PROPOSED BY THE COMPANY THAT TARGETS A 50 PERCENT HEDGE COVERAGE OF THE PROJECTED DEFAULT SERVICE LOAD ON AN ANNUAL BASIS?

A. I believe pricing 50 percent of the projected default service load based on the NYISO spot market prices would expose residential customers to too much rate volatility and would not provide them with a reasonable level of rate stability. I also note that a 50 percent average hedge coverage would correspond to more than 50 percent hedge coverage during lower load hours and less than 50 percent hedge coverage during higher load hours. Given the fact that hours with higher default service loads typically coincide with hours with higher spot energy prices, an annual average hedge coverage target of 50 percent would leave default service customers with inadequate (significantly below 50 percent) hedge coverage on a cost-weighted basis and expose them to price spikes, particularly during very cold winter and very hot summer periods. I recommend that the Company set a target of 75 percent hedge coverage.

Q. PLEASE DEMONSTRATE HOW YOUR RECOMMENDED HEDGING STRATEGY WOULD OPERATE USING THE DEFAULT SERVICE LOAD DATA PROVIDED BY THE COMPANY FOR THE MOST RECENT 12-MONTH PERIOD.

A. The third and fourth columns of Table 1 depict the monthly and annual implied hedge coverages for a 4-MW around-the-clock ("ATC") financial hedge and a 5-MW ATC hedge, respectively, based on the average monthly default service loads derived from the data provided by the Company (November 2019 through October 2020). The second column in Table 1 shows the average hourly usage (MW) by all default service customers (residential, commercial, lighting), varying between 4.8 MWs in May and 7.8 MWs in July.[1] The flat (same MW quantity in each month) ATC annual financial hedge required for 75 percent hedge coverage is 4.4 MWs. To ensure that my recommended hedge is a whole MW value, I assessed the pros and cons of a 4-MW hedge and a 5-MW hedge. A 4-MW hedge provides 68 percent hedge coverage on an annual average basis while a 5-MW hedge results in 85 percent hedge coverage on an annual average basis. The disadvantage of a 4-MW hedge is that its implied hedge coverage is significantly below my recommended target of 75 percent in the winter (December, January) and summer (July, August) months when the NYISO spot market

[1] The Company's response to OSBA Interrogatory Set I, No. 1.

prices have the potential to be high and volatile. The drawback of a 5-MW hedge is that the implied hedge coverage during the fall and spring months is above 90 percent on a monthly average basis, which means that the financial hedge would be greater than the default service load in a significant number of hours. My recommendation is that the Company procure a 4-MW ATC annual financial hedge.

Table 1. Hedge Coverage Analysis

Month/Period	Average ATC Hourly Default Service Load (MW)	Implied Hedge Coverage (4-MW ATC)	(5-MW ATC)
June	6.0	66%	83%
July	7.8	51%	64%
August	7.1	57%	71%
September	5.9	67%	84%
October	5.2	77%	97%
November	5.3	76%	95%
December	6.5	61%	77%
January	6.2	65%	81%
February	5.4	74%	93%
March	5.4	74%	92%
April	5.1	78%	98%
May	4.8	83%	104%
Annual	**5.9**	**68%**	**85%**

Q. PLEASE EXPLAIN WHY YOU RECOMMEND A 4-MW HEDGE RATHER THAN A 5-MW HEDGE.

A. I am recommending a 4-MW hedge for two reasons. First, it represents a more gradual approach in increasing the hedge coverage from zero percent prior to the 2019-2021 DSP, to 50 percent in the 2019-2021 DSP, to 68 percent in the 2021-2024 DSP. This allows all stakeholders to review and analyze the risks and benefits of various hedge coverage levels, and take a more informed position for the subsequent DSP. Second, it allows for some degree of decline in the percentage of Pike's total load on default service without raising the implied hedge coverage to unintended levels. The percentage of the Company's load on default service made a large jump, from approximately 60 percent to 71 percent, in the last 1.5 years. While it is possible that the shopping preferences or options of the customer base changed permanently and the percentage of the load opting for default service will remain at current levels, it is also conceivable that some customers have temporarily switched to default service to take advantage of the large (-2 cents per kWh) reconciliation adjustment in the default service rates, prevailing during seven of the last eight quarters since March 2019.

Q. CAN THE COMPANY ACHIEVE AN ANNUAL AVERAGE HEDGE COVERAGE CLOSER TO YOUR RECOMMENDED TARGET OF 75 PERCENT WITHOUT BUYING FINANCIAL HEDGES THAT EXCEED THE DEFAULT SERVICE LOAD IN A LARGE NUMBER OF HOURS?

A. Yes. This can be accomplished in at least two ways. First, Pike can buy an annual financial hedge with different MW quantities for different months (e.g., 5-MW ATC in July, August, December, and January; 4-MW ATC in other months), which would allow Pike to more precisely target the 75 percent hedge coverage ratio for each month. The drawback of this approach is that, combined with the small size of the procurements, it may reduce the interest of some wholesale suppliers in providing an offer. Therefore, I view this approach as entailing a higher degree of risk than is necessary at this time. Alternatively, Pike can procure an annual financial hedge with different on-peak and off-peak quantities (e.g., 5-MW on-peak and 3-MW off-peak in all months).[2] It is my understanding that the on-peak/off-peak breakdown of monthly default service load data is not available to the Company, therefore we cannot test the

[2] On-peak hours are 7 am to 11 pm on non-holiday weekdays; off-peak hours are all remaining hours. On-peak and off-peak hedges are standard products in wholesale forward power markets.

desirability of this approach. For the reasons discussed, I am not recommending either of these options and instead, I am recommending the purchase of a 4-MW financial hedge for both on-peak and off-peak hours in each month.

Q. ARE YOU RECOMMENDING A PROCUREMENT TIMELINE DIFFERENT THAN THE TIMELINE PROPOSED BY THE COMPANY?

A. No, I recommend that Pike adhere to its proposed schedule, i.e., the purchase of half of my recommended hedge quantities being undertaken 13 to 14 months prior to the beginning of the Plan Year; and the purchase of the remaining half being undertaken 7 to 8 months prior to the beginning of the Plan Year.

Q. WOULD YOU RECOMMEND BUYING THE DESIRED HEDGE POSITION IN THREE, RATHER THAN TWO, PROCUREMENTS, OR BUYING SOME HEDGES MORE THAN 13 MONTHS PRIOR TO THE PLAN YEAR?

A. While accumulating the target hedge position at three (or more) different points in time would be desirable in general, it would not be practical for Pike given the small size of the Company's default service load. Making each procurement quantity even smaller would negatively impact wholesale suppliers' interest in Pike's solicitations. Additionally, I would not recommend that Pike buy any hedges more than 13 months (e.g., two years) prior to the Plan Year because forward contract prices beyond one or two years in NYISO have a carbon price premium built into them. Once NYISO implements carbon pricing, or sets an implementation date, other hedging strategies such as buying financial hedges more than 13 months prior to the Plan Year or procuring multi-year hedges can be considered for Pike's default service customers in subsequent DSPs.

Q. HAVE YOU REVIEWED THE RESIDENTIAL DEFAULT SERVICE SUPPLY PORTFOLIOS OF OTHER PENNSYLVANIA ELECTRIC DISTRIBUTION COMPANIES WITH REGARD TO EXPOSURE TO SPOT MARKET PRICING?

A. Yes, I have. Duquesne Light's residential portfolio consists of 50 percent 12-month fixed-price full-requirements ("FPFR") contracts and 50 percent 24-month FPFR contracts.[3] First Energy Companies (Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company) rely 50 percent on 12-month FPFR contracts and 50 percent on 24-month FPFR contracts, where 5 percent of each FPFR contract is priced at the hourly PJM spot market Locational Marginal Prices ("LMPs") and the remaining 95 percent is priced at the suppliers' respective accepted offer prices. PECO's residential portfolio comprises 38 percent 12-month FPFR contracts, 61 percent 24-month FPFR contracts, and 1 percent spot market purchases. PPL Electric's current residential portfolio features a 50-MW, ATC energy block and the remaining default service load is provided through 20 percent 6-month FPFR contracts and 80 percent 12-month FPFR contracts. For its next DSP period, PPL Electric proposed to increase the size of the energy block to 100-MW, which would correspond approximately to 10 percent of the residential default service energy consumption. Citizens' and Wellsboro currently rely 100 percent on a 36-month FPFR contract with indexed energy pricing. Both electric distribution companies ("EDCs") proposed to use a 48-month FPFR contract with indexed energy pricing to supply their residential default service loads in their next DSPs. Finally,

[3] An FPFR contract entails the supplier providing a fixed, specified percentage of energy requirements in each hour of the contract period at the contract price. Each supplier under this arrangement will therefore follow the hourly load shape of the customer class for which the default service energy is being provided. This type of contract mechanism has become the predominant contract arrangement for wholesale default service supply in Pennsylvania and other retail open access states in the PJM area.

starting on June 1, 2021 UGI Electric will be relying on a portfolio composed of 75 percent of FPFR contracts and 25 percent blocks.

In short, other Pennsylvania EDCs have either minimal exposure (5 percent for First Energy companies, 1 percent for PECO) or no exposure (Duquesne Light, PPL, Citizens', Wellsboro, UGI Electric) to pure spot market pricing as part of their residential default service wholesale supply product portfolios. Even at my recommended hedge coverage level of 75 percent, Pike will be the only company among Pennsylvania's EDCs to significantly rely on the spot market for supply of the residential default service load, which strongly supports the reasonableness of my hedge coverage recommendation.

Q. DO YOU AGREE WITH THE ACCEPTABLE PRICING PARAMETERS PROPOSED BY THE COMPANY REGARDING FINANCIAL HEDGE PURCHASE SOLICITATIONS?

A. Yes, I agree with the pricing parameters proposed in the confidential Exhibit NPC-2, Section V. In the absence of competition that yields at least three independent bids, a market price index-based screening mechanism is necessary to avoid making a costly procurement error and significantly overpaying for the hedges.

B. <u>Overhanging Contracts</u>

Q. WHAT IS AN OVERHANGING CONTRACT? DOES THE COMPANY PROPOSE TO PROCURE OVERHANGING CONTRACTS?

A. An overhanging contract in the context of Pike's proposed 2021-2024 DSP is 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 to be an overhanging contract. The

Company's proposed 2021-2024 DSP does not entail the procurement of an overhanging contract, as the hedge timeline proposed by Mr. Chesser in Exhibit NPC-2, Section III does not include any contracts with delivery periods that extend beyond May 31, 2024.

Q. WHAT IS THE PURPOSE OF OVERHANGING CONTRACTS?

A. 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 the 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. Rather, the use of overhanging contracts extends the price stability benefits of the financial hedging approach into the beginning part of the Company's subsequent DSP period.

For example, because the Company's current (2019-2021) DSP does not provide for the procurement of overhanging contracts, Pike's default service customers will not have any hedge protection for the period from June 1, 2021 to August 31, 2021. Furthermore, the hedges covering the period between September 1, 2021 and May 31, 2022 will be purchased in July 2021 and August 2021 respectively, exposing default service customers to market price risk by not conducting the first financial hedge purchase at least a few months before the second hedge purchase. Reliance on overhanging contracts would have mitigated the risk to default service customers.

Q. DO OTHER PENNSYLVANIA ELECTRIC DEFAULT SERVICE PROVIDERS PROCURE OVERHANGING CONTRACTS AS PART OF THEIR DSPS?

A. The Pennsylvania default service providers, or EDCs, that procure overhanging contracts (mostly in the form of FPFR contracts) as part of their DSPs include

Duquesne Light, PECO Energy Company, PPL Electric Utilities, and UGI Electric. Citizens' and Wellsboro do not procure overhanging contracts due to their wholesale product portfolio design. Therefore, it is standard practice among Pennsylvania EDCs to procure overhanging contracts for residential default service portfolios.

Q. PLEASE DESCRIBE YOUR RECOMMENDATION REGARDING OVERHANGING CONTRACTS FOR THE COMPANY'S 2021-2024 DSP.

A. I recommend 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; first in April 2023 and 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 laid out for Plan Years 2023 and 2024, regardless of the status of the Commission proceedings for the subsequent DSP. As a result, Pike's default service customers will avoid the hard stop problem and the associated price spike risk that they currently face in the beginning part of the 2021-2024 DSP.

C. <u>Reconciliation Mechanism</u>

Q. PLEASE EXPLAIN PIKE'S PROPOSED MECHANISM TO RECONCILE ACTUAL DEFAULT SERVICE COSTS AND DEFAULT SERVICE REVENUES FOR THE RESIDENTIAL CLASS.

A. Pike is proposing a quarterly reconciliation mechanism, where cost recovery of over- or under-collections occurring over a three-month period would be collected over the subsequent three-month period. However, the ESAC is 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 is carried over to the subsequent quarter. The ESAC is calculated and applied separately for each service classification.[4]

Q. HAVE YOU EXAMINED THE MAGNITUDE OF THE ESAC RELATIVE TO THE MARKET PRICE OF ELECTRIC SUPPLY HISTORICALLY?

A. Yes, I have. Table 2 presents Pike's quarterly ESAC and MPES for residential customers since December 2016.[5] My conclusion from Table 2 is that the absolute level of ESAC is consistently high, hitting the 2 cents/kWh cap in nine of the last 17 quarters and exceeding 1.4 cents/kWh in a total of 13 of those quarters. Consequently, 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.

[4] Pike Statement No. 1, p. 13, line 1 to p. 14 line 3.

[5] The Company's response to OSBA Interrogatory Set I, No. 2.

Table 2: Reconciliation Charge History

Delivery Period	Electric Supply Adjustment Charge (cents/kWh)	Market Price of Electric Supply (cents/kWh)	ESAC/MPES
December 2016 - February 2017	(1.4231)	8.0950	(18%)
March 2017 - May 2017	2.0000	7.4920	27%
June 2017 - August 2017	0.5690	9.2740	6%
September 2017 - November 2017	(0.5791)	7.5450	(8%)
December 2017 - February 2018	(2.0000)	8.5840	(23%)
March 2018 - May 2018	(0.0389)	6.1570	(1%)
June 2018 - August 2018	1.7670	7.5460	23%
September 2018 - November 2018	1.6757	8.2610	20%
December 2018 - February 2019	(0.3173)	10.4060	(3%)
March 2019 - May 2019	(2.0000)	6.2060	(32%)
June 2019 - August 2019	(2.0000)	6.2840	(32%)
September 2019 - November 2019	(2.0000)	5.0110	(40%)
December 2019 - February 2020	(2.0000)	5.0110	(40%)
March 2020 - May 2020	(2.0000)	3.6910	(54%)
June 2020 - August 2020	(2.0000)	5.3030	(38%)
September 2020 - November 2020	1.5689	5.2010	30%
December 2020 - February 2021	(2.0000)	4.8950	(41%)

Q. WHAT ARE THE DRAWBACKS OF A LARGE AND VOLATILE QUARTERLY ESAC?

A. While most of Pike's recent reconciliation adjustments were negative (lowering the default service rates) for residential default service customers, there are three drawbacks to large and volatile reconciliation adjustment rates. First, it creates large swings in residential default service customers' rates and monthly bills. As the Company's "Alternate Gas & Electric Supply Study" concluded, this is undesirable for residential and small commercial customers "who generally seek stable prices."[6] Second, since the MPES reflects the projected wholesale market costs to serve default service customers, a large difference between the default service rate and the MPES

[6] Pike Statement No. 1, p. 7, lines 14-19.

leads to inefficient retail pricing of electricity and thus inefficient usage levels. Third, large differences between MPES and 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.

For example, if the ESAC is -2 cents/kWh in a given quarter, customers on competitive supply will have a strong incentive to switch to default service to take advantage of the -2 cents/kWh ESAC that lowers the default service rate. Similarly, if the ESAC is 2 cents/kWh in a given quarter, customers on default service will have a strong incentive to switch to competitive supply to avoid the 2 cents/kWh ESAC that raises the default service rate. This cycle will exacerbate the Company's under- and over-collections while making it harder for Pike to forecast default service sales and to 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 because they are unwilling to shop and rely on their utility for fair rates.

Q. ARE YOU RECOMMENDING A DIFFERENT RECONCILIATION MECHANISM?

A. Yes, I am. While the current reconciliation mechanism was appropriate when most customers were on default service and 100 percent of supply was spot market-based, an additional design element is warranted to provide additional stability to ESAC and default service rates given the consistently high ESAC rates in both directions (charge and credit). While retaining the 2 cents/kWh cap on the ESAC, I recommend a "six-month/12-month" 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 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 a three-month period. For the default service rates to be market-reflective as the Commission prefers, 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 prevailing 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. I note that more market-reflective default service rates will reduce the incentive for opportunistic switching between default service and competitive supply. I also note that my recommended reconciliation mechanism, when coupled with the Company's financial hedging approach and products (12-month hedges), will obviate the need for the Company to change the default service rates quarterly and Pike will be able to limit default service rate changes to twice per year (e.g., June 1 and December 1 of each year).

Q. HAVE YOU EXAMINED THE RECONCILIATION MECHANISMS EMPLOYED BY OTHER PENNSYLVANIA EDCs FOR RESIDENTIAL DEFAULT SERVICE CUSTOMERS?

A. Yes, I have. The FirstEnergy companies and UGI Electric are the only EDCs that use a quarterly reconciliation mechanism for residential default service customers. Duquesne Light, PECO, PPL Electric, Citizens', and Wellsboro employ semi-annual reconciliation where cost recovery of over- or under-collections occurring over a six-month period would be collected over the subsequent six-month period, typically with a lag of a few months. I would like to note that, unlike Pike, all of the aforementioned EDCs rely exclusively (or nearly exclusively) on FPFR contracts in their residential default service supply product portfolios, which minimizes the sums subject to reconciliation.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

APPENDIX A

SUMMARY OF QUALIFICATIONS

for

SERHAN OGUR, Ph.D.

SERHAN OGUR

Dr. Ogur is a Principal of Exeter Associates, Inc. with over 18 years of experience in the energy industry specializing in organized wholesale (Regional Transmission Organization/Independent System Operator) and retail electricity markets. Dr. Ogur's diverse background comprises energy management and consulting; analysis, design, and reporting of RTO electricity markets and products; and state and federal regulation of electric utilities.

Dr. Ogur's coursework in graduate school focused on Microeconomic Theory, Game Theory, and Industrial Organization. His doctoral dissertation investigates imperfect competition in deregulated wholesale electricity markets and oligopolistic competition between private and public generators.

Education

B.A. (Economics) – Bogazici University, Istanbul, Turkey, 1996

Ph.D. (Economics) – Northwestern University, Evanston, IL, 2007

Previous Employment

2014-2015 Senior System Operator
Fellon-McCord & Associates, LLC
Louisville, KY

2005-2014 Senior Economist
PJM Interconnection, LLC
Audubon, PA

2001-2005 Economic Analyst
Illinois Commerce Commission
Springfield, IL

Professional Experience

Dr. Ogur's work at Exeter includes analysis of electricity supply contracts; utility rates and tariffs; energy markets and prices; power procurement; default electric service design; project evaluation; demand response opportunities; congestion hedging strategies; and price forecasting.

Prior to joining Exeter, Dr. Ogur's responsibilities at Fellon-McCord encompassed overseeing and performing the daily tasks of the "24/7" wholesale electricity desk, including all aspects of scheduling, managing, and monitoring direct market participant load and generation assets (mostly in ISO/RTO markets) as well as their settlements and custom reporting. He was also in charge of developing strategies and making recommendations, through analytical, financial, and market research, for longer-term management of clients' load obligations and generation assets such as Auction Revenue Rights (ARR) nominations; participation in energy, ancillary services, and capacity markets; load forecasting; energy, basis, and capacity price forecasting; hedging; and peak load management. Dr. Ogur also served as the company's lead analyst in various special consulting projects.

In PJM Interconnection's Market Strategy and Market Analysis departments, Dr. Ogur was responsible for analyzing and reporting on all PJM-administered electricity market products, including day-ahead and real-time energy, operating reserve, regulation, synchronized reserve, virtual transactions, financial transmission rights, capacity, demand response, energy efficiency, and renewables. He was part of the team that developed the protocols and business rules for participation of energy efficiency in PJM markets as well as a lead reviewer for energy efficiency plans and post-installation measurement and verification (M&V) reports for PJM's capacity market auctions. He also has training and experience in PJM's stakeholder management process.

Dr. Ogur's responsibilities at the Illinois Commerce Commission (ICC) included monitoring all Illinois-related developments under federal jurisdiction, mostly Federal Energy Regulatory Commission (FERC) filings and rulings concerning major Illinois electric public utilities. In addition, Dr. Ogur reviewed all actions concerning Illinois public utilities at the FERC level (applications to join RTOs, market-based rate authority filings, merger applications, transmission rate cases, etc.), and developed positions and official comments for the consideration of the ICC to file in the related FERC dockets. Dr. Ogur also filed written testimony and served as staff witness (including standing cross-examination) in the ICC dockets establishing auction-based competitive wholesale energy procurement mechanisms for major Illinois electric public utilities.

Expert Testimony

Before the Pennsylvania Public Utility Commission, Docket No. P-2020-3019907, UGI Utilities, Inc. – Electric Division, 2020, on behalf of the Pennsylvania Office of Consumer Advocate. Testimony addressed default service issues.

Before the Pennsylvania Public Utility Commission, Docket No. P-2020-3019522, Duquesne Light Company, 2020, on behalf of the Pennsylvania Office of Consumer Advocate. Testimony addressed default service issues.

Before the Pennsylvania Public Utility Commission, Docket Nos. P-2020-3019383 and P-2020-3019384, Citizens' Electric Company of Lewisburg, PA and Wellsboro Electric Company, 2020, on behalf of the Pennsylvania Office of Consumer Advocate. Testimony addressed default service issues.

Before the Pennsylvania Public Utility Commission, Docket No. P-2016-2534980, PECO Energy Company, 2016, on behalf of the Pennsylvania Office of Consumer Advocate. Testimony addressed default service issues.

Before the Illinois Commerce Commission, Docket No. 05-0159, Commonwealth Edison Company, 2005, on behalf of the Staff of Illinois Commerce Commission. Testimony addressed default service design and competitive procurement issues.

Before the Illinois Commerce Commission, Docket Nos. 05-0160, 05-0161, and 05-0162 (Consolidated), Central Illinois Light Company d/b/a AmerenCILCO, 2005, on behalf of the Staff of Illinois Commerce Commission. Testimony addressed default service design and competitive procurement issues.

Before the Illinois Commerce Commission, Docket No. 02-0428, Central Illinois Light Company and Ameren Corporation, 2002, on behalf of the Staff of Illinois Commerce Commission. Testimony addressed competition issues in a utility merger case.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

VERIFICATION

I, Serhan Ogur, hereby state that the facts set forth in my Direct Testimony, OCA Statement 1, are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: January 25, 2021
*302940

Signature: Serhan Ogur
Serhan Ogur

Consultant Address: Exeter Associates, Inc.
10480 Little Patuxent Parkway
Suite 300
Columbia, MD 21044-2690

OCA STATEMENT NO. 1-R

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PIKE COUNTY LIGHT & POWER COMPANY FOR APPROVAL OF EXTENSION OF DEFAULT SERVICE PLAN AND WAIVER OF COMMISSION REGULATIONS *AND NUNC PRO TUNC* TREATMENT	**)))))**	**DOCKET NO. P-2020-3022988**

REBUTTAL TESTIMONY

OF

SERHAN OGUR, Ph.D.

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

February 1, 2021

EXETER
ASSOCIATES, INC.
10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Serhan Ogur. I am a Principal and Senior Economist at Exeter Associates, Inc. ("Exeter"). Our offices are located at 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland, 21044.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of the Pennsylvania Office of Consumer Advocate ("OCA").

Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?

A. Yes. I submitted direct testimony in this proceeding on January 25, 2021, on behalf of the OCA.

Q. WHAT ISSUES ARE YOU ADDRESSING IN YOUR REBUTTAL TESTIMONY?

A. I am addressing issues raised in the direct testimony of Mr. Robert D. Knecht, witness for the Pennsylvania Office of Small Business Advocate ("OSBA"), as those issues relate to the Default Service Plan ("DSP" or "Plan") submitted by Pike County Light and Power Company ("Pike" or "Company"). Those issues relate to the timing of the purchase of financial hedges, the quantity of hedges that are proposed to be procured, and the volatility of Pike's Market Price of Electricity Supply ("MPES") and Electric Supply Adjustment Charge ("ESAC") rates.

II. TIMING OF FINANCIAL HEDGE PURCHASES

Q. WHAT HAS THE COMPANY PROPOSED REGARDING THE TIMING OF PROPOSED HEDGE PURCHASES?

A. The Company proposed to hedge 25 percent of the projected default service load 13 to 14 months prior to the beginning of the Plan Year (which starts on June 1 and ends on May

31 of the subsequent year), and an additional 25 percent 7 to 8 months prior to the beginning of the Plan Year. However, due to the timing of the Company's Plan filing and the expected date of Commission approval, Pike is proposing not to buy any hedges for the first three months of the proposed DSP covering the period from June 1, 2021 through May 31, 2024 ("2021-2024 DSP") while procuring hedges for the remaining nine months of Plan Year 2022 one month and two months prior to the start of the delivery period of those hedges.[1]

Q. DID YOU OPPOSE THE COMPANY'S HEDGE PROCUREMENT TIMING PROPOSAL IN YOUR DIRECT TESTIMONY?

A. No, I did not.

Q. WHAT IS MR. KNECHT'S RECOMMENDATION CONCERNING THE COMPANY'S HEDGE PROCUREMENT TIMING PROPOSAL?

A. Mr. Knecht recommends that the Company shorten the time between the hedge procurement dates and the start of the delivery period for those hedges, claiming that a longer lead time results in a higher risk premium being built into the price.[2]

Q. PLEASE STATE AND EXPLAIN YOUR POSITION ON MR. KNECHT'S RECOMMENDATION AFTER REVIEWING HIS DIRECT TESTIMONY.

A. I acknowledge that there are advantages and drawbacks associated with a shorter lead time for the procurement of financial hedges. On the one hand, forward prices become more volatile as the delivery period approaches due mostly to near-term weather forecasts, which makes price discovery and acceptance of offers within the Company's price limits more challenging. On the other hand, a shorter lead time likely results in higher supplier participation in Pike's financial hedge solicitations (driven by higher liquidity for forward products with delivery periods closer to the transaction date) as well as a more accurate

[1] Pike confidential Exhibit NPC-2, Section III.
[2] OSBA Statement No. 1, p. 8, lines 13-14.

forecast of Pike's default service load by the Company. A more accurate default service load forecast mitigates the possibility of over-procurement or under-procurement of financial hedges compared to the targeted level. Shorter lead times may also lower the risk premium built into NYISO forward prices associated with the uncertainty surrounding the implementation date of carbon pricing in the NYISO-administered wholesale power markets. Given these advantages and drawbacks for a shorter lead time, I am not opposed to the hedge procurement timing recommended by Mr. Knecht.

III. HEDGE VOLUMES

Q. WHAT DID THE COMPANY PROPOSE REGARDING THE FINANCIAL HEDGE COVERAGE FOR THE PROJECTED DEFAULT SERVICE LOAD?

A. The Company proposed to target a 50 percent financial hedge coverage for its default service loads, except for the first three months of the 2021-2024 DSP period, for which Pike proposed not to procure any hedges due to the timing of the Commission's expected approval of the 2021-2024 DSP.

Q. WHAT DID YOU RECOMMEND IN YOUR DIRECT TESTIMONY?

A. I recommended that the Company target a 75 percent financial hedge coverage for its projected default service load.[3] However, as stated on p. 8, lines 4-5 of my direct testimony, I recommended a 4-MW Around-the-Clock ("ATC") financial hedge, in recognition of the practical constraints of hedging a small load, which corresponds to a 68 percent financial hedge coverage on an annual basis given the Company's current default service load levels.

[3] OCA Statement No. 1, p. 3, lines 12-13.

Q. WHAT IS MR. KNECHT'S RECOMMENDATION AND HIS RATIONALE FOR IT?

A. In his direct testimony Mr. Knecht concurs with the Company's proposal and cites two reasons for his position. First, Mr. Knecht posits that it is "too soon to evaluate the efficacy of the hedging strategy," and therefore he does not "disagree with the Company's proposal to essentially continue the existing strategy."[4] Second, he is concerned about the Company "over-committing to fixed price supplies" due to what he characterizes as "the increase in migration risk associated with the decline in shopping."[5]

Q. ARE YOU CHANGING YOUR RECOMMENDATION AFTER REVIEWING MR KNECHT'S TESTIMONY?

A. No, I am not, for three reasons. First, as I explained in my direct testimony, "given the fact that hours with higher default service loads typically coincide with hours with higher spot energy prices, an annual average hedge coverage target of 50 percent would leave default service customers with inadequate (significantly below 50 percent) hedge coverage on a cost-weighted basis and expose them to price spikes, particularly during very cold winter and very hot summer periods."[6] Second, the adoption of Mr. Knecht's recommendation for the timing of the hedge purchases, to which I am not opposed, would greatly mitigate potential concerns regarding over-committing to fixed-price supplies because the Company can adjust the target hedge coverage at a point of time closer to the start of the delivery period of the financial hedges compared to the Company's proposal. Third, migration risk exists regardless of the percentage of customers that are shopping, that is, the risk of customer migration does not increase with the decline in the percentage of customers taking default service. While shopping may once again increase in Pike's service

[4] OSBA Statement No. 1, p. 7, lines 19-21.
[5] *Id.*, p. 7, lines 26-28.
[6] OCA Statement No. 1, p. 7, lines 1-5.

territory, reliance on default service may also increase and become even more prevalent. Therefore, material under-procurement of financial hedges would leave default service customers excessively exposed to the volatility of the NYISO spot market. For these reasons, I continue to recommend, as I did in my direct testimony, that the Company pursue the higher financial hedge coverage target for its projected default service load.

IV. DEFAULT SERVICE RATE VOLATILITY

Q. PLEASE SUMMARIZE MR. KNECHT'S OBSERVATIONS REGARDING THE VOLATILITY OF PIKE'S DEFAULT SERVICE RATES.

A. In Figure IEc-1 and Figure IEc-2, Mr. Knecht charts the default service rates and C-Factor rates for residential and small commercial (secondary voltage) customers, respectively, for the time period from January 2008 through December 2020.[7] Mr. Knecht states that while Pike's default service rates tend to track the NYISO Zone G spot market prices, both the MPES rate and the ESAC rate exhibit "substantial volatility." He further observes that although default service rates over the past two years have been low relative to historical experience, both the MPES rate and the ESAC rate have continued to be volatile.[8]

Q. DOES MR. KNECHT MAKE ANY RECOMMENDATIONS TO MITIGATE THE VOLATILITY IN DEFAULT SERVICE RATES?

A. No, he does not.

Q. DO YOU AGREE THAT PIKE'S DEFAULT SERVICE RATES EXHIBIT SUBSTANTIALVOLATILITY?

A. Yes, I do.

[7] OSBA Statement No. 1, pp. 5-6. Mr. Knecht refers to MPES as C-Factor, and to ESAC as E-Factor.
[8] *Id.*, p. 5, lines 9-11.

Q. DO YOU HAVE ANY RECOMMENDATIONS TO MITIGATE THE VOLATILITY IN DEFAULT SERVICE RATES?

A. Yes, the volatility in Pike's default service rates can, and should, be mitigated by adopting two recommendations I made in my direct testimony. First, I recommend that the Company target a 75 percent financial hedge coverage for its projected default service load.[9] This will provide more stable MPES rates compared to leaving a larger percentage of the default service energy supplies procured on the NYISO spot market unhedged. Second, I recommend that the Company employ a "six month/12-month" 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.[10] This reconciliation mechanism will provide smaller and less volatile ESAC rates compared to the quarterly reconciliation mechanism proposed by the Company.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

[9] OCA Statement No. 1, p. 3, lines 12-13. As stated on p. 8, lines 4-5, of my direct testimony, I am recommending a 4-MW ATC financial hedge, which corresponds to a 68 percent financial hedge coverage on an annual basis.

[10] *Id.*, p. 17, line 23 to p. 18, line 1.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

VERIFICATION

I, Serhan Ogur, hereby state that the facts set forth in my Rebuttal Testimony, OCA Statement 1-R, are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: February 1, 2021
*303206

Signature: Serhan Ogur
Serhan Ogur

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