

COMMONWEALTH OF PENNSYLVANIA



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May 19, 2023

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 and Waiver  
of Commission Regulations for the Period June 1,  
2024 through May 31, 2027  
Docket No. P-2023-3039927

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Answer to the Petition of Pike County Light and Power Company in the above-referenced proceeding. As required under the Commission's regulations, the Office of Consumer Advocate's Answer is accompanied by a verification in accordance with 52 Pa. Code Section 1.36.

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

Respectfully submitted,

/s/ Gina L. Miller  
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Assistant Consumer Advocate  
PA Attorney I.D. # 313863  
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Enclosures:

cc: The Honorable Mark A. Hoyer (**email only**)  
Certificate of Service

\*346368

CERTIFICATE OF SERVICE

Petition of Pike County Light and Power Company :  
for Approval of Default Service Plan and Waiver : Docket No. P-2023-3039927  
of Commission Regulations for the Period June 1, :  
2024 through May 31, 2027 :

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

Dated this 19<sup>th</sup> day of May 2023.

**SERVICE BY E-MAIL ONLY**

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Dated: May 19, 2023  
\*346407

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Pike County Light and Power Company :  
for Approval of Default Service Plan (DSP) and : Docket No. P-2023-3039927  
Waiver of Commission Regulations for the Period :  
June 1, 2024 through May 31, 2027 :

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ANSWER OF THE  
OFFICE OF CONSUMER ADVOCATE

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I. INTRODUCTION

On April 13, 2023, Pike County Light & Power Company (Pike or Company) filed a Petition for Approval of a Default Service Plan (Pike DSP Petition) with the Pennsylvania Public Utility Commission (Commission) designed to provide generation service to the Company’s default service customers for period beginning June 1, 2024 through May 31, 2027.<sup>1</sup> Pike serves 5,243 customers in Pike County, Pennsylvania. The Company states that almost eighty percent of these customers take default electric supply service from Pike.<sup>2</sup>

Pursuant to Pennsylvania law, Pike must acquire generation resources for customers who do not receive service from an Electric Generation Supplier or whose generation supplier fails to deliver supply. 66 Pa.C.S. § 2807(e). Prior to 2018, Pike procured energy for its default service customers solely from the New York Independent System Operator’s (NYISO) wholesale “spot” market at spot market prices. However, in 2018, after working cooperatively with the OCA, Pike first proposed a financial hedging strategy through which a portion of the Company’s default supply would be fixed through swap hedges. With the benefit of continued study and consultation,

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<sup>1</sup> Pike DSP Petition, p. 1.

<sup>2</sup> Id. at 4.

Pike's hedging strategy evolved, culminating in the Commission's approval of its current procurement practices, whereby Pike purchased financial hedges as a means of mitigating the volatility of the NYISO spot market purchases. Pike did this for a portion of its default service supply, and OCA both recommended and supported Pike's implementation of a financial hedging strategy as part of its current DSP, which is operative for the period of June 1, 2021 through May 31, 2024.

Since 2021, Pike has executed four hedges. In executing each of those four hedges, which are an energy swap, Pike paid a counterparty a set price based on forward market pricing for a set quantity of energy. In exchange, the counterparty then paid Pike the spot price of the energy. Through this arrangement, if the spot market price of energy is lower than forward market prices, then Pike pays more for its energy than spot market prices. Conversely, if spot market prices are greater than the contract price, Pike only pays the contract price instead of the higher spot market prices. The net result of this hedge is that a portion of Pike's default energy supply is fixed at a set price, agreed to at the time the contract is entered into. The hedged portion of Pike's supply, unlike the Company's spot purchases, helps mitigate volatility that could otherwise result from price fluctuations.<sup>3</sup>

For its part, the OCA has been a strong proponent of the inclusion of fixed-price hedges in Pike's default supply portfolio. To be sure, the OCA has supported, and it continues to support, the Company's efforts to bring a reliable and stable default service price to consumers. In this case, Pike is again proposing to employ a financial hedging strategy for a portion of its default service supply for its proposed DSP. According to Pike, it is proposing the same DSP that is currently in

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<sup>3</sup> Id at 5.

place, which resulted from prior settlements with OCA that have been approved by the Commission in Pike's two previous DSP cases.<sup>4</sup>

Pike also intends to retain other features of its existing DSP as part of the proposed DSP. More specifically, Pike states that it will continue use of its default service rate mechanism consisting of two components the Market Price of Electric Supply and the Electric Supply Adjustment Charge.<sup>5</sup> Additionally, consistent with its existing DSP, Pike proposes to continue to meet its Alternative Energy Portfolio Standards (AEPS) Act requirements through a competitive solicitation process either directly or with the help of a consultant. The timing of the AEPS solicitations is dictated by market conditions. Costs of compliance are recovered through the default service rate mechanism.<sup>6</sup>

With respect to the components of the default service rate mechanism, Pike proposes to continue the mechanism consistent with the Commission-approved modification resulting from a 2021 Settlement.<sup>7</sup> The first of the two components of the default service rate mechanism, the Market Price of Electric Supply, is based on the Company's forecast of wholesale supply costs, including the Company's expected procurement costs from the NYISO. On an annual basis, Pike proposes to develop service class-specific factors to reflect each service class' load characteristics, capacity obligation, forecast sales and applicable losses. These factors are applied to the forecast of the Company's default service cost per kWh to determine a class-specific Market Price of Electric Supply. Finally, each Market Price of Electricity Supply is then increased to permit the recovery of the Pennsylvania Gross Receipt Tax.

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<sup>4</sup> Id at 1.

<sup>5</sup> Id. at 6.

<sup>6</sup> Id. at 8.

<sup>7</sup> Id at 6.

The second component of Pike's default service rate mechanism, the Electric Supply Adjustment Charge, is calculated every June 1st and December 1<sup>st</sup>. The Electric Supply Adjustment is determined by comparing default service costs incurred for the month with default service revenues. By way of further explanation, the default service costs include actual capacity, energy and ancillary service costs, and prior period electric supply adjustments. Default service revenues include revenues billed through the Market Price of Electric Supply and the Electric Supply Adjustment Charge.<sup>8</sup>

Consistent with its existing DSP, Pike explains that 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. Next, the resulting average rate will then be used 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 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. As a result, over or under-collections occurring over a six-month period will be collected over the subsequent 12-month period in which the Electric Supply Adjustment Charges will be billed. Finally, the resulting service classification-specific Electric Supply Adjustment Charges will be increased to permit Pike's recovery of Gross Receipts Tax.

Other features from the existing DSP that Pike proposes to incorporate in the proposed DSP are: (1) that the Company be permitted to recover outside consulting costs related to the hedging program through its default service tariff charges, but now in the increased amount of

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<sup>8</sup> Id. at 7-8.

\$84,000 per year; and (2) that its rate design include the monthly settlement costs on hedge transactions in its default service rates, which will be accomplished by replacing the forecasted spot market rates for the hedged quantities within the fixed rate hedge price and allocating hedged quantities to the rate classes based on each class's pro-rata load share.<sup>9</sup>

Regarding the term of its proposed DSP, and consistent with its existing DSP, Pike again proposes a three-year term. The Company states that a three-year term reduces consulting and legal fees, lowers costs for customers, and creates efficiency for all parties involved.<sup>10</sup> Additionally, Pike is again requesting the waiver of the following Public Utility Code Sections, which the Commission has previously granted in 2019 and 2021:

- 52 Pa. Code § 54.185(e)(2) (plan identifying the schedules and technical requirements of competitive bid solicitations and spot market energy purchases);
- 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);
- 52 Pa. Code §69.1805(1)- 52 Pa. Code §69.1805(3) (policy statement on inclusion of short term and long term contracts in procurement mix and tailoring procurement to customer classes); and
- 52 Pa. Code §69.1807(3) (competitive bid solicitation process guidelines).

OCA notes that Pike is no longer requesting a waiver of Public Utility Code provisions regarding customer switching, as it had done in past DSP cases, because the Commission has already granted a waiver of those provisions in other proceedings.<sup>11</sup>

Pike currently procures its default supply from Orange and Rockland Utilities under a Commission-approved Energy Supply Agreement (ESA II). The ESA II was approved by the Commission on August 26, 2021, and it became effective on August 31, 2022 and through August

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<sup>9</sup>Id. at 6.

<sup>10</sup> Id. at 12.

<sup>11</sup> Id. at 8, footnote 14.

31, 2023, and it can be extended annually through August 2026.<sup>12</sup> As the ESA II will expire before the conclusion of Pike's 2024-2027 DSP Plan, Pike intends to file any subsequent electric supply agreements or agreement extensions with the Commission by no later than March 1, 2026.<sup>13</sup> Under the ESA II, energy prices are passed through to Pike based on hourly NYISO spot market prices. Pike avers that as the bulk of its default service customers are residential, stable prices are better suited for household budgeting. According to Pike, hourly pricing over time is inconsistent with price stability; nevertheless, Pike also recognizes that with its proposed plan to implement a hedge of a portion of its supply acquisition, it can limit some of that volatility.<sup>14</sup>

## II. ANSWER/COMMENTS

A telephonic Prehearing Conference has been scheduled for 10 a.m. on June 15, 2023, and the OCA will fully participate. The OCA has preliminarily identified the following areas in Pike's DSP for further review by the Commission. The OCA anticipates that it may raise additional issues as the proceeding progresses.

### Supply Procurement

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

The OCA further intends to review the supply contract with Orange and Rockland Utilities (ESA II) to continue to evaluate the contract and the rates Pike is paying for its wholesale supply, and to assess whether any continuation of that contract is in the best interest of customers.

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<sup>12</sup> Id. at 3.

<sup>13</sup> Id.

<sup>14</sup> Id. at 14.



### Rate Design

As previously noted, Pike proposes to continue using the default service rate mechanism currently in place. The OCA submits that this mechanism should be reviewed to ensure that it provides a reasonable degree of stability for default service customers and that it collects only those costs attributed to default service. In particular, the mechanism must be examined to ascertain whether it is properly accounting for the costs and revenues associated with its hedging program.

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

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

### III. CONCLUSION

For the reasons set forth above, the Office of Consumer Advocate submits that Pike County Light & Power Company's Default Service Petition, as proposed to commence on June 1, 2024, must be thoroughly reviewed to ensure that it meets the needs of default service customers and is consistent with Pennsylvania law. To that end, the OCA stands ready to work with Pike and other stakeholders to establish a default service methodology that will best serve the needs of Pike's customers and comply with all applicable standards.

Respectfully Submitted,

*/s/ Gina L. Miller*

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Dated: May 19, 2023

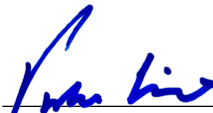
BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Pike County Light and Power Company :  
for Approval of Default Service Plan and Waiver :       Docket No. P-2023-3039927  
of Commission Regulations for the Period June 1, :  
2024 through May 31, 2027 :

VERIFICATION

I, Patrick M. Cicero, hereby state that the facts set forth in the Office of Consumer Advocate's Answer to the Petition of Pike County Light and Power Company, are true and correct (or 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: May 19, 2023  
\*346377

Signature:   
Patrick M. Cicero  
Consumer Advocate

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