



17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
717-731-1970 Main
717-731-1985 Fax
www.postschell.com

Anthony D. Kanagy

akanagy@postschell.com
717-612-6034 Direct
717-731-1985 Fax
File #: 2507/134433

February 23, 2009

E-FILE & BY HAND

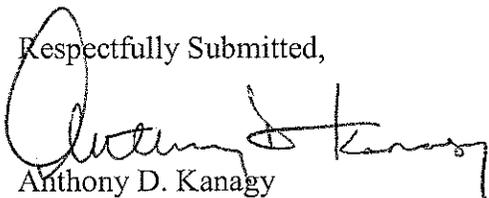
James J. McNulty
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
PO Box 3265
Harrisburg, PA 17105-3265

RE: Petition of PPL Electric Utilities Corporation for Authority to Defer for Accounting and Financial Reporting Purposes Certain Default Service, Conservation Program and Smart Meter Technology Costs
Docket No. P-

Dear Secretary McNulty:

Enclosed, for filing, is the Petition of PPL Electric Utilities Corporation for Authority to Defer for Accounting and Financial Reporting Purposes Certain Default Service, Conservation Program and Smart Meter Technology Costs in the above-referenced proceeding. Copies have been served as indicated on the enclosed certificate of service.

Respectfully Submitted,



Anthony D. Kanagy

ADK/jl
Enclosures
cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant).

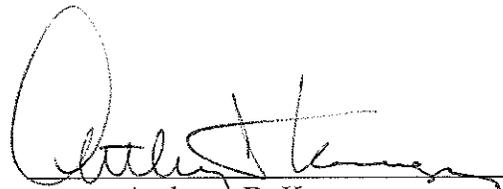
VIA FIRST CLASS MAIL

Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Office of Trial Staff
PO Box 3265
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265

Office of Small Business Advocate
Commerce Building
300 North Second Street, Suite 1102
Harrisburg, PA 17101

Date: February 23, 2009



Anthony D. Kanagy

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities :
Corporation for Authority to Defer for :
Accounting and Financial Reporting : Docket No. P-
Purposes Certain Default Service, :
Conservation Program and Smart Meter :
Technology Costs :

PETITION OF PPL ELECTRIC UTILITIES CORPORATION

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

I. INTRODUCTION

PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) hereby petitions the Pennsylvania Public Utility Commission (“Commission”), pursuant to 52 Pa. Code § 5.41, for authority to defer for accounting and financial reporting purposes: (1) certain default service costs associated with PPL Electric’s default service plan for the period January 1, 2011 through May 31, 2013 (“POLR II Plan”) filed on August 28, 2008; (2) certain energy efficiency and conservation program (“EE&C Program”) costs; and (3) certain smart meter technology costs that the Company has incurred and/or will incur prior to recovering these costs in rates.

PPL Electric is not seeking Commission approval to recover these costs through this Petition; however, PPL Electric’s right to recover these costs is clear. As explained below, PPL Electric is authorized to recover its: (1) costs of implementing its 2011-2013 default service plan pursuant to Section 2807 of the Public Utility Code, 66 Pa.C.S. § 2807; (2) costs of implementing its EE&C Program pursuant to Section 2806.1 of the Public Utility Code, 66 Pa.C.S. § 2806.1, as enacted through Act 129; and (3) costs of deploying smart meter technology pursuant to Section 2807(F)(7) of the Public Utility Code, 66 Pa.C.S. § 2807(F)(7), as enacted through Act 129.

On October 15, 2008, Act 129 of 2008 was enacted with an effective date of November 14, 2008 (“Act 129”). Among other things, Act 129 requires Electric Distribution Companies (“EDCs”) in Pennsylvania to undertake three activities: (1) reduce customer consumption and demand, (2) procure POLR supply, and (3) deploy smart meter technology. PPL Electric began incurring a portion of the costs required to begin compliance with Act 129 in 2008. However, PPL Electric will not be able to begin recovering its default service costs for its POLR II Plan until it begins providing service under that plan in 2011, and will not be able to begin recovering its EE&C Program costs, or its smart meter technology costs, until these programs are approved by the Commission and implemented by the Company, including implementation of automatic adjustment clauses to recover program costs. Therefore, PPL Electric seeks Commission authorization to defer for accounting and reporting purposes the costs incurred since January 1, 2009, and to record them as a regulatory asset so that PPL Electric can avoid recording these costs as current costs on its books prior to implementation of cost recovery mechanisms.¹ Approval of this Petition is important for PPL Electric to be able to defer such costs under generally accepted accounting principles in order to match cost recognition on its books with cost recovery.

Finally, in this Petition, PPL Electric is not seeking permission to recover any of the costs it has incurred to begin compliance with Act 129, and is not seeking approval of any cost recovery mechanism. Therefore, no party will be prejudiced by the granting of this Petition.

¹ PPL Electric has incurred certain costs prior to January 1, 2009, and will claim recovery of these costs in the appropriate proceeding. However, PPL Electric is not seeking Commission authority to defer costs incurred prior to January 1, 2009 for accounting and reporting purposes.

II. DISCUSSION

A. Cost Deferral

1. PPL Electric is an EDC, as that term is defined in Section 2803 of the Electricity Generation Customer Choice and Competition Act, (“Competition Act”) 66 Pa.C.S. § 2803. PPL Electric furnishes electric distribution, transmission and provider of last resort services to approximately 1.4 million customers in a certificated service territory which includes approximately 10,000 square miles covering all or portions of 29 counties in eastern and central Pennsylvania.

2. Under the Commission’s regulations, PPL Electric is a Class A utility and is required to keep its accounts in conformity with the “Uniform System of Accounts Prescribed for Public Utilities and Licensees (Class A and B)” of the Federal Energy Regulatory Commission. 52 Pa. Code § 57.42.

3. The costs, described in more detail below, relate to new regulatory programs established by Act 129. These programs will require PPL Electric to incur substantial new costs that are not reflected in its current rates.² Act 129, inter alia, provides for full, reconcilable recovery of the costs associated with these new programs, but certain costs must be incurred before cost recovery mechanisms will become effective. In fact, PPL Electric began incurring these costs in 2008. Under normal accounting practices, PPL Electric must record these costs on its income statement as they are incurred and before they will be recovered in rates.

4. PPL Electric wishes to defer income statement recognition of these costs incurred since January 1, 2009, until they are recovered in rates. To do this, PPL Electric would record these costs as a regulatory asset on its balance sheet and record them on its income statement as

² PPL Electric does not anticipate that its deferred costs will constitute 5% of income.

they are recovered in rates. Commission approval for deferral accounting is important for PPL Electric to be able to defer such costs under generally accepted accounting principles.³

5. Upon Commission approval of this Petition, PPL Electric will record the costs described below on its balance sheet in Account 182. Thereafter, PPL Electric will reduce the regulatory asset account and charge the applicable expense account as costs are recovered in rates.

6. In the past, the Commission has, on numerous occasions, allowed public utilities to defer costs for accounting and financial reporting purposes. Examples of such deferrals include: *Petition of Columbia Gas of Pennsylvania, Inc.*, Docket No. P-00930734 (October 28, 1996) (The Commission approved deferral of temporary conversion to alternative energy sources); *Petition of Pennsylvania Power & Light Co.*,⁴ Docket No. P-820367 (July 29, 1982) and *Petition of Pennsylvania Power & Light Co.*, Docket No. P-830461 (November 9, 1983) (The Commission approved deferral of operation and maintenance expenses incurred between the dates that its Susquehanna 1 and Susquehanna 2 nuclear generating units went into service and the date when such expenses were recognized in rates.); *Petition of Mechanicsburg Water Co.*, Docket No. P-910500 (September 25, 1991) (The Commission granted authority to defer for accounting purposes capital and other costs associated with the Yellow Breeches Water Treatment Plant expansion; the Commission approved Mechanicsburg's deferral petition, but explained that cost recovery would be decided in the first rate case filed after the Yellow

³ PPL Electric notes that Statement of Financial Accounting Standards No. 71 ("SFAS No. 71") provides that regulated enterprises may, under certain circumstances, defer recognition of specific expenses on their income statements and record the deferred costs as a "regulatory asset" on their balance sheets.

⁴ Pennsylvania Power & Light Company's name has been changed to PPL Electric Utilities Corporation; it is the same legal entity. For convenience, the corporation will be referred to herein as "PPL Electric," except in case citations.

Breeches Plant expansion became operational.); *Petition of Pennsylvania Gas & Water Co.*, Docket No. P-900353 (September 5, 1990) (The Commission approved Pennsylvania Gas & Water Co.'s ("PG&W") petition to defer costs of four water treatment plants that were nearing completion.);⁵ and *Petition of Pennsylvania Gas & Water Co.*, Docket No. P-920586, 1992 Pa. PUC LEXIS 126 (October 21, 1992) (The Commission approved for accounting purposes deferral of the costs of PG&W's Crystal Lake Water Treatment Plant). See also, *Petition of Philadelphia Electric Co.*, 58 Pa. PUC 522, Docket No. P-840514 (September 28, 1983) (Deferral of the costs of Limerick 1 Generating Station); *Petition of Philadelphia Electric Co.*, 69 Pa. PUC 481, 103 P.U.R. 4th 430 (May 3, 1989) (Deferral of costs of the Limerick 2 Generating Station); *Pa. P.U.C. v. Consumers Pennsylvania Water Co. – Roaring Creek Division*, Docket No. R-932655 (February 3, 1994) (Deferral of SFAS 106 costs); *Petition of Citizens Utilities Water Company of Pa.*, Docket No. P-00930746 (February 25, 1994) (Deferral of SFAS 106 costs).

B. Default Service Costs

7. On August 28, 2008, PPL Electric filed its POLR II Petition with the Commission at Docket No. P-2008-2060309. In the POLR II Petition, PPL Electric requests approval of its plan to provide default service to customers after its Competitive Bridge Plan ("CBP") expires on December 31, 2010. PPL Electric will incur legal and administrative expenses associated with the POLR II Plan before PPL Electric begins to provide service under that plan. For example, PPL Electric will incur costs associated with designing the plan, obtaining approval of the plan, conducting Requests for Proposals ("RFPs"), hiring an independent third party monitor and paying legal expenses prior to providing service under the POLR II Plan. However, PPL

⁵ In PG&W's next base rate case, the Commission allowed PG&W to recover these costs. *Pa. P.U.C. v. Pennsylvania Gas & Water Co.*, 1993 Pa. PUC LEXIS 61 (June 23, 1993).

Electric does not propose to recover these costs until the POLR II service term begins in order to match default service costs with the term of service. POLR II Petition, ¶ 23. Therefore, PPL Electric currently is recording POLR II costs as a current operation and maintenance (“O&M”) expense on its income statement.

8. PPL Electric seeks Commission authority to defer these costs and record them on its balance sheet as a regulatory asset until PPL Electric begins providing service under the POLR II plan so that PPL Electric does not have to record these costs as current costs on its income statement. The deferral of these costs and expensing them when charged through future default service rates will permit the proper matching of revenue and expenses in future periods. Absent this deferral, PPL Electric’s earnings will be artificially understated when the costs are incurred and artificially overstated when they are recovered in rates.

C. Conservation Program Costs

9. Act 129 requires EDCs with 100,000 or more customers to file EE&C Programs with the Commission by July 1, 2009 for its approval. See 66 Pa.C.S. § 2806.1(B)(1)(I)

10. Pursuant to Section 2806.1, 66 Pa.C.S. § 2806.1, the EE&C Program must, among other requirements, include specific proposals to implement energy efficiency and conservation measures, proposals to reduce consumption by federal, state and local government units, details regarding quality assurance measurements and a contract with one or more conservation service providers to implement the plan or a portion of the plan.

11. In addition, pursuant to Section 2806.1(H), the plan must include a proposed cost recovery tariff mechanism in accordance with Section 1307 of the Public Utility Code, 66 Pa.C.S. § 1307, to fund the energy efficiency and conservation measures and to ensure full and current recovery of the prudent and reasonable costs of the plan, including administrative costs, as approved by the Commission.

12. PPL Electric will incur certain legal and administrative costs in preparing its EE&C Program. For example, PPL Electric will hire a consultant and employ legal counsel to assist in preparing its EE&C Program prior to implementing the Program. However, PPL Electric will not be able to recover these costs prior to Commission approval of its EE&C Program, including an appropriate cost recovery mechanism. Therefore, PPL Electric currently is recording its Conservation Program costs as current costs on its income statement.

13. As with the default service costs described above, PPL Electric requests Commission approval to defer its EE&C Program costs and record them on its balance sheet as a regulatory asset so that PPL Electric does not have to record these costs as current costs on its income statement. The deferral of these costs and expensing them when charged through future rates will permit the proper matching of revenues and expenses in future periods. Absent this deferral, PPL Electric's earnings will be artificially understated when the costs are incurred and artificially overstated when they are recovered in rates.

D. Smart Meter Technology Costs

14. Act 129 also requires EDCs with over 100,000 customers to file smart meter technology procurement and installation plans with the Commission for approval. See 66 Pa.C.S. § 2807(F).

15. EDCs are allowed to recover their smart meter technology costs through base rates, including a deferral for future base rate recovery, or through an automatic adjustment clause under Section 1307, 66 Pa.C.S. § 1307.

16. As with its EE&C Program, PPL Electric will incur administrative and legal costs associated with preparing the smart meter technology plan. However, PPL Electric will not be able to begin to recover these costs prior to Commission approval of the plan, including an appropriate cost recovery mechanism.

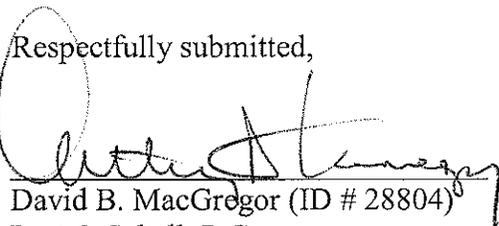
17. As with the default service and EE&C Program costs described above, PPL Electric requests Commission approval to defer these costs and record them as a regulatory asset on its balance sheet so that PPL Electric does not have to record these costs as current costs on its income statement. As with the other costs described above, the deferral of these costs and expensing them when charged through future rates will permit the proper matching of revenues and expenses in future periods. Absent this deferral, PPL Electric's earnings will be artificially understated when the costs are incurred and artificially overstated when they are recovered in rates.

E. Cost Recovery

18. As explained above, PPL Electric is not seeking Commission approval to recover its default service, EE&C Program and smart meter technology costs in this proceeding. PPL Electric believes that its right to recover these costs is clear by statute. However, cost recovery issues, if any, will be addressed in the respective default service, EE&C Program and smart meter technology proceedings prior to any recovery in rates. Therefore, no party will be prejudiced by the granting of this Petition.

19. PPL Electric notes that when an EDC requests deferred accounting treatment, it is the Commission's practice to limit approval to deferred accounting treatment and not to address cost recovery issues. *Petition of PPL Electric Utilities Corporation for Authority to Defer for Accounting and Financial Reporting Purposes Certain Losses from Extraordinary Storm Damage and to Amortize Such Losses*, Docket No. P-00032069, Order entered January 16, 2004, p. 5.

WHEREFORE, for all the foregoing reasons, PPL Electric Utilities Corporation respectfully requests that the Pennsylvania Public Utility Commission authorize PPL Electric Utilities Corporation to defer for accounting and financial reporting purposes as of January 1, 2009, its: (1) POLR II default service costs incurred prior to January 1, 2011, (2) Energy Efficiency and Conservation Program costs incurred prior to Pennsylvania Public Utility Commission approval of PPL Electric Utilities Corporation's Conservation Program, and (3) smart meter technology costs incurred prior to Pennsylvania Public Utility Commission approval of PPL Electric Utilities Corporation's smart meter technology program.

Respectfully submitted,


Paul E. Russell (ID # 21643)
Associate General Counsel
PPL Services Corporation
Office of General Counsel
Two North Ninth Street
Allentown, PA 18106
Phone: 610-774-4254
Fax: 610-774-6726
E-mail: perussell@pplweb.com

David B. MacGregor (ID # 28804)
Post & Schell, P.C.
Four Penn Center
1600 John F. Kennedy Boulevard
Philadelphia, PA 19103-2808
Phone: 215-587-1197
Fax: 215-320-4879
E-mail: dmacgregor@postschell.com

Anthony D. Kanagy (ID # 85522)
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
Phone: 717-612-6034
Fax: 717-731-1985
E-mail: akanagy@postschell.com

Of Counsel:

Post & Schell, P.C.

Date: February 23, 2009

Attorneys for PPL Electric Utilities Corporation

