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File #: 2507/140056

November 1, 2011

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

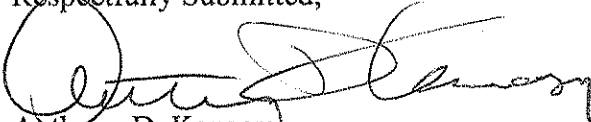
RE: Petition of PPL Electric Utilities Corporation For Authorization To Defer, For Accounting Purposes, Certain Unanticipated Expenses Relating to Storm Damage Docket No. P-2011-

Dear Secretary Chiavetta:

Enclosed please find the Petition of PPL Electric Utilities Corporation ("PPL Electric") For Authorization To Defer, For Accounting Purposes, Certain Unanticipated Expenses Relating to Storm Damage ("Petition"). Copies will be provided as indicated on the certificate of service.

PPL Electric respectfully requests that the Pennsylvania Public Utilities Commission act on this Petition on or before its last Public Meeting in 2011, which is currently scheduled for December 15, 2011. The Company is requesting that the Commission act before the end of the year to enable PPL Electric to reflect the results of the Commission's decision on its books of account for 2011.

Respectfully Submitted,



Anthony D. Kanagy

ADK/skr
Enclosure
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 52 Pa. Code § 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

Bureau of Investigation & Enforcement
Commonwealth Keystone Building
400 North Street, 2nd Floor West
PO Box 3265
Harrisburg, PA 17105-3265

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

Date: November 1, 2011



Anthony D. Kanagy

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities	:	
Corporation For Authorization To Defer,	:	Docket No. P-2011-
For Accounting Purposes, Certain	:	
Unanticipated Expenses Relating to Storm	:	
Damage	:	

PETITION FOR STORM DEFERRAL ACCOUNTING

I. INTRODUCTION

PPL Electric Utilities Corporation (“PPL Electric”) hereby petitions the Pennsylvania Public Utility Commission (“Commission”), pursuant to Section 1701 of the Public Utility Code, 66 Pa.C.S. § 1701, for authority to defer, for accounting and financial reporting purposes, extraordinary distribution system expenses that PPL Electric incurred due to storm damage from Hurricane Irene, which occurred in late August of 2011. PPL Electric will seek to recover such expenses in its next general base rate proceeding, pursuant to Section 1308(d) of the Public Utility Code, 66 Pa.C.S. § 1308(d). The expenses that PPL Electric will claim, through an operating expense amortization adjustment, will be the actual distribution system expenses (excluding straight time wages and benefits) incurred as a result of Hurricane Irene, net of any recoveries under the Company’s storm insurance policy. PPL Electric is not seeking authority to defer its capital costs incurred as a result of the storm, but will include such capital costs in rate base in its next base rate proceeding.

PPL Electric is not requesting that the Commission decide the ratemaking treatment of such losses through this Petition. The Company seeks only Commission authority to defer these costs for accounting and reporting purposes until it can present a claim for recovery in its next base rate proceeding. In addition, if the Commission, as part of its determination of this Petition,

requires that amortization commence immediately, PPL Electric respectfully requests that the Commission clarify that the Company may have the opportunity to recover all net storm damage expenses, including any portion of those expenses that may be amortized prior to PPL Electric's next base rate proceeding.

In support of this request, PPL Electric states as follows:

II. BACKGROUND

1. PPL Electric is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania. PPL Electric furnishes electric service to approximately 1.4 million customers throughout its certificated service territory, which includes all or portions of twenty-nine counties and encompasses approximately 10,000 square miles in eastern and central Pennsylvania. PPL Electric is a "public utility" and an "electric distribution company" as defined in Sections 102 and 2803 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 102, 2803. PPL Electric owns approximately 5,000 miles of transmission lines operating at 69 kV (kilovolts) or higher, approximately 330 substations with a capacity of 10 MVA (megavolt amperes) or more, and approximately 43,000 miles of distribution lines operating at less than 69 kV.

2. The names, addresses and telephone numbers of PPL Electric's attorneys for the purpose of this filing are as follows:

David B. MacGregor
Post & Schell, P.C.
Four Penn Center
1600 John F. Kennedy Blvd.
Philadelphia, PA 19103-2808

Anthony D. Kanagy
Jessica R. Rogers
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601

Paul E. Russell
Associate General Counsel
PPL Services Corporation
Office of General Counsel
Two North Ninth Street
Allentown, PA 18106

PPL Electric's attorneys are authorized to receive all notices and communications regarding this Petition.

3. In late August of 2011, the remnants of Hurricane Irene struck Pennsylvania, including the majority of PPL Electric's certificated service territory. As a result of the storm, these areas experienced severe weather, which included heavy rainfall and extremely high winds, with gusts up to 55 mph.

4. As stated above, the majority of PPL Electric's service territory was impacted by the storm. The operating regions that sustained damage include the Lehigh,¹ Northeast,² Central,³ Susquehanna,⁴ Harrisburg,⁵ and Lancaster Operating Regions.⁶ PPL Electric owns and operates numerous distribution facilities in these counties which were severely impacted. The Lehigh and Northeast Operating Regions experienced the most significant effects.

5. Many of the Company's distribution facilities were badly damaged in the storm. The storm affected service to 428,503 customers. 215 poles had to be replaced as a result of the

¹ The Lehigh operating region includes the following geographic areas: Allentown, Bethlehem, and Buxmont.

² The Northeast operating region includes the following geographic areas: Carbondale, Hamlin, Honesdale, Pocono, and Scranton.

³ The Central operating region includes the following geographic areas: Frackville, Hazleton, Marion Heights, Orwigsburg, Panther Valley, White Haven, and Wilkes-Barre.

⁴ The Susquehanna operating region includes the following geographic areas: Bloomsburg, Lock Haven, Sunbury, and Williamsport.

⁵ The Harrisburg operating region includes the following geographic areas: Elizabethville, Harrisburg, Newport, and the West Shore.

⁶ The Lancaster operating region includes the following geographic areas: Cocalico, Lancaster, Quarryville, and Sinking Spring.

Hurricane, as well as 281 transformers and 458 cross arms. In addition, 47.7 miles of wire had to be repaired or replaced as a result of the storm.

6. PPL Electric's losses associated with the storm damage have not yet been finally determined. To date, the Company anticipates that the total amount will be between \$15 million and \$20 million in distribution related operations and maintenance expenses, exclusive of capital costs and straight time wages. The total cost of the repairs will not be known for several months as PPL Electric finalizes its own accounting, and processes invoices from contractors and other utilities that provided assistance during the storm.

7. PPL Electric has purchased insurance to cover storm related damage. However, PPL Electric has experienced a number of moderate to severe storms in the 2011 calendar year in addition to Hurricane Irene. Most recently, on October 29 – 30, 2011, the Company experienced a severe winter storm event with significant accumulation of wet heavy snow causing numerous service outages. At this time, it appears that PPL Electric's storm damage costs will exceed its total storm damage insurance coverage for 2011. PPL Electric will not know until the end of the 2011 calendar year whether any insurance money will be available to cover the distribution expenses related to the damage caused by Hurricane Irene.

III. DEFERRAL OF EXTRAORDINARY ITEMS

8. For accounting purposes, electric public utilities are classified into four classes. PPL Electric, with annual operating revenue of more than \$2.5 million, is considered a Class A utility. 52 Pa. Code Section 57.41(1). Class A public utilities are required to keep their accounts in conformity with the "Uniform System of Accounts Prescribed for Public Utilities and

Licenseses (Class A and Class B)” of the Federal Energy Regulatory Commission. 52 Pa. Code Section 57.42(a).

9. Commission approval for recording extraordinary items is required under the Uniform System of Accounts if, as specified by General Instruction 7, the amount of the item is less than 5% of income. PPL Electric anticipates that its losses due to the storm will be less than 5% of its income. Therefore, Commission approval is required in order for PPL Electric to take appropriate accounting action.

10. The Commission has approved deferral of extraordinary expenses, including storm related expenses, on numerous occasions. *See Petition of PPL Electric Utilities Corporation for Authority to Defer for Accounting and Financial Reporting Purposes Certain Losses from Extraordinary Winter Storm Damage and to Amortize Such Losses*, Docket No. P-00052148 (August 25, 2005); *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*, 231 P.U.R.4th 521 (2004) (Commission approved deferral of expenses associated with storm related damages). *See also Pa. P.U.C. v. Pennsylvania Power & Light Co.*, Docket No. P-00920635 (May 6,1993) (Approved deferral of transition costs under Financial Accounting Standards Board Statement of Financial Accounting Standards No. 106 (“SFAS 106”));⁷ *Petition of Pennsylvania Power & Light Co.*, Docket No. P-820367 (July 29, 1982) and *Petition of Pennsylvania Power & Light Co.*, Docket No. P-830461 (November 9, 1983) (Approved deferral of expenses incurred between commercial operation and rate recognition of nuclear generating units.); *Petition of Mechanicsburg Water Co.*, Docket No.

⁷ The Office of Consumer Advocate (“OCA”) appealed this decision, and the Commonwealth Court reversed the Commission with regard to the approval of recovery of costs outside of a rate proceeding. The Commonwealth Court did not reverse the decision with regard to the deferral of the SFAS 106 expenses. *Popowsky v. Pa. P.U.C.*, 164 Pa. Cmwlth. 338, 348, 642 A.2d 648, 653 (1994).

P-910500 (September 25, 1991) (Approved deferral for accounting purposes of capital and other costs associated with water treatment plant expansion.); *Petition of Pennsylvania Gas & Water Co.*, Docket No. P-900454 (September 5, 1990) (Approved deferral of costs of four water treatment plants that were nearing completion.); and *Petition of Pennsylvania Gas & Water Co.*, Docket No. P-920586 (October 21, 1992) (Approved deferral for accounting purposes of water treatment plant costs.).

11. The Commission has specifically recognized storm damage as an extraordinary item and has approved amortization of storm damage expense in rates. *See, e.g., Pa. P.U.C. v. The Bell Telephone Co.*, 55 Pa. PUC 97 (1981) (hurricane); *Pa. P.U.C. v. Pennsylvania Gas & Electric Co.*, 55 Pa. PUC 204 (1983) (freezing); *Pa. P.U.C. v. Pennsylvania Gas & Water Co.*, 52 Pa. PUC 77 (1978) (flood); *Pa. P.U.C. v. PPL Electric Utilities Corp.*, Docket No. R-00049255 (December 22, 2004) (hurricane); *Pennsylvania Public Utility Commission Daniel B Ellis, et al. v. Philadelphia Electric Company (Gas Division)*, 48 Pa. PUC 183 (1974) (amortized storm damages approved as an unusual expense). *See also Pa. P.U.C. v. Duquesne Light Company*, 54 Pa. PUC 695 (1981) (Commission has traditionally permitted inclusion of amortized storm related damages as an unusual recorded expense).

12. It must be emphasized that PPL Electric is not requesting the Commission to decide, at this time, whether deferred costs resulting from the storm damage are recoverable through rates charged to customers. Instead, PPL Electric is simply requesting permission to defer those storm damage costs on its books of account pending such determination in the next general base rate proceeding. Although PPL Electric believes that such costs should be recoverable from customers, that issue will be addressed in a general base rate proceeding pursuant to Section 1308(d) of the Public Utility Code, 66 Pa.C.S. §1308(d).

13. In addition, PPL Electric proposes that the length of the amortization of storm damage costs should also be determined by the Commission in the same future general base rate proceeding. No amortization period should be set in this proceeding. Historically, the Commission has approved petitions for deferred accounting, and has addressed the issue of amortization in the utility's next general base rate proceeding. *See P.U.C. v. Pennsylvania Power & Light Co.*, Docket No. P-00920635 (Order entered May 6, 1993) (Approved deferral of transition costs while specifically noting that the amortization period would be set in the next base rate case). *See also Petition of Pennsylvania Gas & Water Co.*, Docket No. P-920586 (Order entered October 21, 1992) (Approved deferral for accounting purposes of water treatment plant costs without setting amortization period); *Petition for Authority to Defer for Accounting and Financial Reporting Purposes Certain Default Service, Conservation Program and Smart Meter Technology Costs*, Docket No. P-2009-2091818 (Order entered May 28, 2009) (Deferred accounting granted without addressing amortization). In fact, the Commission held specifically in *Petition of Pennsylvania Power & Light Company*, Docket No. P-820367 (Order entered July 29, 1982) that the issue of amortization:

[I]s clearly substantive in nature and an approval of this claim [in a petition for deferred accounting] would be dispositive of the issue in the rate case and prejudicial to the parties' due process rights. The parties may address the propriety of recovery, the proper amortization and reasonableness of any deferred costs in the company's rate case which seeks recognition thereof.

14. There is good reason for the Commission to await the filing of an actual claim for recovery before establishing an amortization period. First, determining an appropriate amortization period requires information about PPL Electric's normal and unexpected expenses, which are not required as part of a petition for deferred accounting. Second, there are a limited number of parties that will be involved with the petition for deferred accounting to comment on

the determination of the amortization schedule. Third, the total of the losses is not known at this time. Finally, in determining the recoverability of storm related losses in rates, and the period over which those losses should be recovered, the Commission must look at the larger picture of the Company's overall accounting. The petition for deferred accounting only provides facts relevant to the extraordinary loss, and not the other extensive accounting information necessary to determine an appropriate amortization period.

15. The Commission's recent decision in *Petition of West Penn Power Company for Authority to Defer for Regulatory Accounting and Reporting Purposes Certain Losses from Extraordinary Storm Damage*, Docket No. P-2010-2216111, reconsideration denied, clarification granted (Order entered July 18, 2011) ("*West Penn Petition*"), does not change the rate making treatment long-followed by the Commission with regard to petitions for deferred accounting. In the *West Penn Petition*, the Commission was presented with facts similar to those under consideration here. While the Commission required amortization to commence immediately for book accounting purposes, it made an important clarification in its Order of July 18 that the utility would "have the opportunity to make a claim in a future rate case for recovery of all of its storm damage expenses." Order at 5 (emphasis added). While setting a book amortization period in the *West Penn Petition* was not consistent with Commission precedent, including the cases cited above, the Commission's clarification that West Penn may still recover the full amount of its storm damage expenses is consistent with the practice of making a determination on recoverability in a base rate proceeding.

16. Further, as the Commission held in *Petition of The Newtown Artesian Water Company for Permission to Use Deferred Cost Accounting and Amortization in Respect to Certain Well Development Costs*, Docket No. P-2011-2227509, page 4 (Order entered July 1,

2011), an amortization period set in a proceeding for deferred accounting is not binding on the Commission in making its determination on recoverability in a subsequent base rate proceeding. Given that the Commission does not have all the information in a petition for deferred accounting necessary to determine an appropriate amortization period, and that Commission precedent has noted that any amortization period is non-binding and that all extraordinary costs can be fully recovered, PPL Electric requests that the Commission abstain from implementing an amortization period until the Company files its next general base rate case.

17. PPL Electric is not seeking any determination at this time as to the reasonableness or prudence of any specific costs. Therefore, no party will be prejudiced by the granting of this Petition. PPL Electric understands that other parties will be permitted to challenge the recovery of deferred costs caused by the storm in a general base rate proceeding, except that those parties cannot contend that PPL Electric should have filed a petition to defer those costs on its books of account. PPL Electric will address the reasonableness and prudence of specific costs in the future in an appropriate proceeding before the Commission.

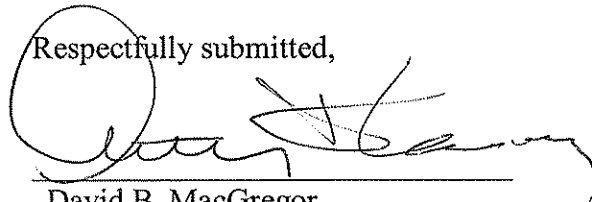
18. PPL Electric respectfully requests that the Commission act on this Petition on or before its last Public Meeting in 2011, which is currently scheduled for December 15, 2011. The Company is requesting that the Commission act before the end of the year to enable PPL Electric to reflect the results of the Commission's decision on its books of account for 2011.

Based upon the foregoing, PPL Electric respectfully requests that it be permitted to defer, for accounting and financial reporting purposes, the distribution expenses (excluding capital costs and straight time wages and benefits) associated with the storm related damage incurred in late August of 2011 as a result of Hurricane Irene.

III. CONCLUSION

WHEREFORE, for all the foregoing reasons, PPL Electric Utilities Corporation respectfully requests that the Pennsylvania Public Utility Commission authorize PPL Electric to defer for accounting and financial reporting purposes, the actual storm damage distribution expenses (excluding capital costs and straight time wages and benefits) incurred as a result of Hurricane Irene in late August of 2011. In addition, if the Commission requires amortization to commence immediately, PPL Electric respectfully requests that the Commission clarify that the Company shall have the right to seek recovery of all storm damage expenses, including any portion of those expenses that may be amortized prior to PPL Electric's next base rate proceeding.

Respectfully submitted,



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Of Counsel:

Post & Schell, P.C.
Date: November 1, 2011

Attorneys for PPL Electric Utilities Corporation

VERIFICATION

I, Dennis A. Urban, Jr., being the Senior Director of Rates and Regulatory Affairs for PPL Electric Utilities Corporation, hereby state that the facts above set forth are true and correct to the best of my knowledge, information and belief and that I expect that PPL Electric Utilities Corporation 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.

Date: November 1, 2011

Handwritten signature of Dennis A. Urban, Jr. in cursive script, underlined.