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File #: 2507/140056

December 13, 2012

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 Extraordinary Expenses Relating to Storm Damage Docket No. P-2012-

Dear Secretary Chiavetta:

Enclosed please find the Petition of PPL Electric Utilities Corporation ("PPL Electric") For Authorization To Defer, For Accounting Purposes, Certain Extraordinary 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 give this Petition expedited consideration. The Company is requesting expedited consideration so that it can finalize its accounting books for the year 2012, and meet its financial reporting obligations as a publicly traded company.

Very truly yours,

Jessica R. Rogers

JRR/skr
Enclosure

cc: Certificate of Service
Bohdan Pankiw, Esquire

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).

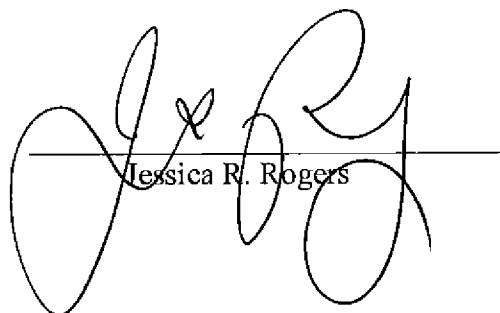
VIA FIRST CLASS MAIL

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: December 13, 2012



Handwritten signature of Jessica R. Rogers over a horizontal line.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities	:	
Corporation For Authorization To Defer,	:	
For Accounting Purposes, Certain	:	Docket No. P-2012-
Extraordinary 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, and Section 5.41 of the Commission’s regulations, 52 Pa. Code § 5.41, for authority to defer, for accounting and financial reporting purposes, extraordinary distribution system expenses that PPL Electric incurred due to storm damage from Hurricane Sandy, which occurred in late October of 2012. PPL Electric will seek to recover such expenses in a future proceeding, as appropriate. The expenses that PPL Electric will seek to recover will be the actual distribution system expenses (excluding straight time wages and benefits) incurred as a result of Hurricane Sandy, 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 a future rate proceeding before the Commission.

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 a future 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, in accordance with prior practice, clarify that the Company may have the opportunity to recover all net distribution storm damage expenses, including any portion of those expenses that may be amortized prior to the proceeding in which the Commission allows recovery.

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 and addresses of PPL Electric’s attorneys for the purpose of this filing are as follows:

David B. MacGregor
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Four Penn Center
1600 John F. Kennedy Blvd.
Philadelphia, PA 19103-2808

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 18101

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

3. In late October of 2012, Hurricane Sandy struck Pennsylvania, including the majority of PPL Electric's certificated service territory. Pennsylvania began experiencing storm conditions on October 29, 2012. Conditions deteriorated from the morning of October 29 to late on October 30, at which point PPL Electric's service territory experienced the most severe portion of the storm. Storm conditions continued in PPL Electric's service territory until late on October 31. During the storm, PPL Electric's service territory experienced heavy rainfall and extremely high winds, with gusts over 80 mph. As a result of the storm, most of PPL Electric's service territory experienced at least 2 inches of rain, while some areas received up to 5 inches. Restoration efforts were hampered for many days by the prolonged windy conditions, because bucket trucks cannot safely operate in winds above 30 mph.

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

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. Many of the Company's distribution facilities were badly damaged in the storm. The storm interrupted service to 523,936 customers. A total of 420,115 customers experienced service interruptions lasting longer than six hours, due to the prolonged high winds. Hurricane Sandy was the most damaging storm in PPL Electric's service territory since records have been kept.

6. As a result of Hurricane Sandy, PPL Electric was required to replace 619 poles and 1,494 cross arms in order to restore service to its customers. In addition, 76 miles of wire had to be repaired or replaced as a result of the storm.

7. PPL Electric's losses associated with the storm damage have not yet been finally determined. 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. However, to date, the Company anticipates that the total expenses incurred as a result of Hurricane Sandy will exceed \$60 million dollars. From this total cost, PPL Electric has excluded transmission related expenses, which resulted in a downward adjustment to the expenses presented in this Petition. The Company also excluded straight time wages and capital costs from the amount included in this Petition. Capital costs will be addressed in a future base rate proceeding.

8. Finally, for 2012, PPL Electric purchased insurance to cover expenses incurred as a result of storm damage. PPL Electric adjusted the total storm damage expense presented in this Petition to reflect the amount that it estimates will be covered by the Company's storm insurance. PPL Electric anticipates that the storm insurance will cover approximately the first \$13 million of storm damage expense after the Company has met its deductible.

9. After excluding transmission expenses, straight time wages, capital costs, and the portion of the expense that will be covered by PPL Electric's storm insurance, the Company estimates that it has experienced approximately \$20 to \$30 million dollars in net distribution related storm damage expenses. PPL Electric will update this estimate as additional data becomes available. PPL Electric seeks Commission approval to defer, for accounting and financial reporting purposes, the actual net distribution related storm damage expenses associated with Hurricane Sandy, which are currently estimated to be approximately \$20 to \$30 million dollars.

III. DEFERRAL OF EXTRAORDINARY ITEMS

10. For accounting purposes, electric public utilities are divided 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 Licensees (Class A and Class B)" of the Federal Energy Regulatory Commission. 52 Pa. Code Section 57.42(a).

11. Under the Uniform System of Accounts, as described in General Instruction 7, an item that exceeds 5% of a utility's income is automatically defined as an extraordinary item for accounting purposes. As discussed above, PPL Electric currently estimates that the net distribution related storm damage expenses associated with Hurricane Sandy are approximately \$20 to \$30 million. For calendar year 2011, PPL Electric's Net Utility Operating Income was approximately \$220 million. Accordingly, the significant expenses PPL Electric incurred as a result of Hurricane Sandy will exceed 5% of the Company's income. Therefore, those expenses

should be booked as an extraordinary item, which under the Uniform System of Accounts would receive deferred accounting treatment. PPL Electric is filing this Petition in order to ensure that it takes appropriate accounting action for its Hurricane Sandy storm expenses, and also to ensure PPL Electric's ability to seek recovery of these deferred storm expenses in a future proceeding.

12. 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"));⁵ *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. 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

⁵ 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).

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.).

13. 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).

14. 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 a future rate proceeding.

15. 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 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 proceeding where the utility sought recovery of the expenses. *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).

16. 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 future rate proceeding. See also *Petition of PPL Electric Utilities Corporation for Authorization to Defer, for Accounting Purposes, Certain Unanticipated*

Expenses Relating to Storm Damage, Docket No. P-2011-2270396 (Order entered Dec. 15, 2011) and *Petition of PPL Electric Utilities Corporation for Authorization to Defer, for Accounting Purposes, Certain Unanticipated Expenses Relating to Storm Damage from the Late October 2011 Snowstorm*, Docket No. P-2011-2274298 (Order entered Dec. 15, 2011).

17. 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 a request to recover these expenses.

18. 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 future 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.

19. PPL Electric respectfully requests that the Commission act on this Petition before the end of January 2013. In order for the Company to finalize its accounting books for the 2012

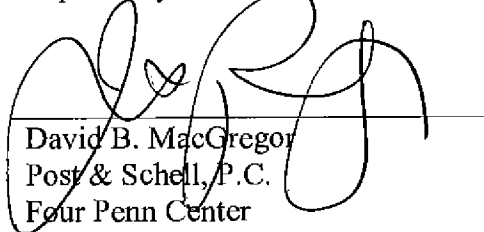
calendar year, and to meet its financial reporting obligations as a publicly traded company, it must know how to treat the storm related expenses it incurred as a result of Hurricane Sandy. Therefore, PPL Electric requests that the Commission give this Petition expedited consideration.

20. Based upon the foregoing, PPL Electric respectfully requests that it be permitted to defer, for accounting and financial reporting purposes, the actual net distribution related storm damage expenses (excluding capital costs, straight time wages and benefits and storm insurance recoveries) incurred as a result of Hurricane Sandy.

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 net distribution related storm damage expenses (excluding capital costs, straight time wages and benefits and storm insurance recoveries) incurred as a result of Hurricane Sandy. 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 request to recover these expenses in a future proceeding.

Respectfully submitted,



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Date: December 13, 2012

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