

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

**Petition of Duquesne Light Co. for
authorization to Defer Expenses for
Accounting Purposes Only**

**Public Meeting held April 4, 2013
2333760 – LAW
Docket No. P-2012-2333760**

MOTION OF COMMISSIONER WAYNE E. GARDNER

Duquesne Light Company (Duquesne) is requesting that we issue an order granting it the authority to defer, for accounting purposes, \$2.87 million in one-time implementation costs related to the replacement of its customer information system. At this time, Duquesne does not ask us to decide ratemaking treatment for these expenses but only whether it has permission to defer the costs so that it may seek recovery of these expenses in its next base rate case pursuant to section 1308(d) of the Public Utility Code, 66 Pa. C.S. § 1308(d). A grant of deferred accounting is required to overcome the general rule against retroactive recovery of past expenses.

The standard which a utility must meet when seeking Commission authorization for deferral accounting is whether, based on Commission precedent, the expense item appears to be within the scope of the type of items that the Commission has allowed as an exception to the general rule against recovery of past expenses. Deferred accounting treatment is most often granted for expenses incurred as a result of storm damage, but the Commission has approved other types of expense items which are substantial and/or extraordinary.¹ This standard does not encompass foreseeable costs incurred for routine business operations.²

The scope of the type of items that the Commission has previously allowed to be deferred for accounting purposes are generally expenses that are extraordinary, unanticipated, non-recurring, and substantial. However, Duquesne argues that the Commission's decision in *Petition of Pennsylvania Electric Company for an Order Approving an Order Approving its Pilot Customer Assistance Program CAP and Related Ratemaking*, Docket No. P-00930718 (February 23, 1994) supports its request for deferral of the costs of its new customer information system. In *Penelec*, the Commission granted deferred accounting treatment for the costs of Penelec's initial CAP pilot program. Duquesne argues that its deferral request should be treated the same

¹ See, e.g., *Petition of Metropolitan Edison Company for Permission to Use Deferred Cost Accounting and Financial Reporting Purposes, Certain Incremental Electric Transmission Charges*, Docket No. P-00052143, at 8-9 (Order entered May 5, 2006) (approving deferred accounting for \$186 million in costs related to transmission charges because costs were potentially significant, unprecedented, and thus extraordinary); *Popowsky v. Pennsylvania Pa. PUC*, 868 A.2d 606 (Pa. Cmwlth. 2004), (affirming the PUC's determination that a water utility was entitled to recover increased security costs incurred after the 9/11 terrorist attacks but before the proposed effective date of the utility's new tariff).

² See, e.g., *Petition of Columbia Gas of Pennsylvania, Inc. for Authority to Defer for Accounting and Financial Reporting Purposes Certain Start Up Expenses Associated with the Redesign and Upgrade of Financial Processes and Information Systems*, Docket No. P-2012-2319920 (Order entered December 5, 2012) (denying deferred accounting for costs incurred for start-up expenses attributable to installation of new computer software because it was a routine business expense).

way that Penelec's was because both companies' costs are related to information system development, and both companies had to make the changes to their systems in order to implement Commission ordered programs, the CAP pilot and Act 129. I do not agree with Duquesne's logic that simply because the Commission orders implementation of a program, it should receive deferral accounting treatment. In *Penelec*, the Commission indicated that the deferral was granted to provide an incentive for implementation of CAP programs. *Penelec* at 14. We have not made a similar finding regarding incentives for Act 129 smart meter implementation.

Additionally, as noted by the OCA in its Answer, the type of costs in question, costs incurred to upgrade or replace Duquesne's IT systems, do not meet the Commission's standard for deferral accounting for four reasons. First, upgrades to and replacement of IT systems are routine business, not extraordinary. Second, the costs incurred from upgrading and replacing existing systems were anticipated because Duquesne has been planning to meet Act 129's smart meter requirements for several years. Third, the expenses are not non-recurring because the expense of replacing systems and system components is necessary in order to keep up with advancing technology. Fourth, the estimated cost at \$2.87 million does not satisfy the substantial requirement.³

Because Duquesne has not demonstrated that the costs at issue are: extraordinary, unanticipated, non-recurring, and substantial, the Petition should be denied.

THEREFORE, I MOVE THAT:

1. The Office of Special Assistants prepare an Opinion and Order consistent with this Motion.

April 4, 2013

Date



Wayne E. Gardner, Commissioner

³ In the *Joint Petition of Citizen's Electric Company of Lewisburg and Valley Energy, Inc. to Allow Alternative Deferral Treatment, for Accounting Purposes, of Certain of Special Early Retirement Proposal Costs*, Docket No. P-00062203 (March 17, 2006), we found that the approval of the deferral request was in the public interest and should be granted "because these costs are significant, and the write off of these charges in one fiscal period would negatively impact the consolidated 2005 financial statements for the entire C&T corporate family." *Id.* at 4.