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|   | **PENNSYLVANIA****PUBLIC UTILITY COMMISSION****Harrisburg, PA 17105-3265** |  |
|  | Public Meeting held May 9, 2013 |
| Commissioners Present: |  |

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|  Robert F. Powelson, Chairman John F. Coleman, Jr., Vice Chairman |  |
|  Wayne E. Gardner, Commissioner James H. Cawley, Commissioner |  |
|  Pamela A. Witmer, Commissioner |  |
|  Rosemary Chiavetta, Secretary |  |
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| Petition of PECO Energy Company for Approval to change the accounting treatmentof certain direct load control program costs | Docket Numbers:P-2013-2355662M-2009-2093215 |

**ORDER**

**BY THE COMMISSION:**

On April 4, 2013, PECO Energy Company (“PECO” or the “Company”) filed a Petition, pursuant to 52 Pa. Code §5.572, requesting that the Pennsylvania Public Utility Commission amend its Order approving the Company’s Phase I Energy Efficiency and Conservation Plan (“Phase I Plan”) entered October 28, 2009, as revised by Orders entered February 17, 2010 and January 28, 2011, and Secretarial Letter issued August 18, 2011. The Petition requests that the Commission approve changes to the accounting treatment of certain direct load control (“DLC”) program costs that the Company incurred to implement its Phase I Plan. In particular, the Company is seeking Commission approval to treat equipment, installation and information technology costs for its Residential DLC Program (collectively, the “Equipment Costs”) as operation and maintenance (“O&M”) expenses instead of capital costs, which would enable the Company to recover the unamortized balance of Equipment Costs as part of the reconciliation of Phase I Plan costs and revenues.

In accordance with the requirements of 52 Pa. Code § 1.54, copies of the petition of PECO Energy Company for approval to change the accounting treatment of certain direct load control program costs were served upon the Office of Consumer Advocate, the Office of Small Business Advocate, and the Bureau of Investigation and Enforcement. PECO also served all parties to the Phase I Plan proceeding. No protests or comments have been received.

PECO is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania with its principal office in Philadelphia, Pennsylvania. PECO provides electric delivery service to approximately 1.6 million customers and natural gas delivery service to approximately 495,000 customers in Pennsylvania.

 On October 15, 2008, Act 129 of 2008 (“Act 129”) was signed into law, which added Section 2806.1 to the Pennsylvania Public Utility Code. Act 129 required Pennsylvania electric distribution companies (“EDCs”) to file energy efficiency and conservation (“EE&C”) plans by July 1, 2009 containing the plan elements specified in Section 2806.1(b) (“Phase I EE&C Program”). 66Pa.C.S. § 2806.1(b). On January 16, 2009, the Commission entered an Order at Docket No. M-2008-2069887 providing standards and guidance for implementing the Phase I EE&C Program.

 Sections 2806.1(c) and (d) required that EDCs Phase I EE&C plans be designed to (1) reduce retail energy consumption by a minimum of 1% by May 31, 2011 and a minimum of 3% by May 31, 2013; and (2) to reduce peak demand, measured by reference to the 100 highest hours of demand, by a minimum of 4.5% no later than May 31, 2013. 66 Pa.C.S. § 2806.1(c) and (d).

 Pursuant to 66 Pa. C.S. § 2806.1(k), EDCs are entitled to full and current cost recovery of prudent and reasonable costs incurred in the provision or management of an EE&C plan. PECO’s EE&C plan costs include “capital expenditures for any equipment and facilities that may be required to implement the EE&C programs, as well as depreciation, operating and maintenance expenses, a return component based on the EDC’s weighted cost of capital, and taxes*.” Phase I Implementation Order,* p. 33.

 In compliance with Section 2806.1 and the *Phase I Implementation Order*, PECO prepared and submitted its EE&C plan for the Phase I EE&C Program on July 1, 2009. The Commission subsequently approved PECO’s Phase I Plan, with modifications, on October 28, 2009, and further revisions were adopted in various subsequent orders. PECO’s approved Phase I Plan contains energy efficiency programs and demand reduction programs, including the Residential DLC Program.

 PECO’s Phase I Plan identifies certain expenditures as capital costs. For the Residential DLC Program, Equipment Costs, which include switches, installation costs and certain information technology costs are identified as costs that will be “capitalized over a 15-year time period at a rate of 14.51%.” *Phase I Plan*, pp. 150-151.

 At the end of the Phase I Plan (May 31, 2013), the Equipment Costs that would be recovered as O&M expenses will total approximately $12.4 million. Because the Phase I Plan is being implemented at less than its originally budgeted cost, PECO is projecting that it will have over-collected approximately $20.4 million from residential customers through its Commission-approved Energy Efficiency and Conservation Program Charge (“EEPC”) by May 31, 2013. Recovering its Equipment Costs as of May 31, 2013 from its EEPC over-collection will avoid the need to continue to capitalize the Equipment Costs and amortize those costs, with a return, over the remainder of the 15-year amortization period.

 For accounting purposes, the carrying value of the Equipment Costs for its Residential DLC Program are currently held on the balance sheet as plant-in-service and being depreciated to depreciation expense over their remaining useful life. PECO avers that changing the accounting treatment will not change how it accounts for the Residential DLC Program Equipment Costs for book or tax purposes; thus, the Equipment Costs will continue to be held on the balance sheet as plant-in-service and depreciated over their remaining useful life consistent with authoritative guidance. PECO avers a regulatory liability will be established in the amount of the carrying value of the Residential DLC Program Equipment Costs. The regulatory liability will be amortized over a period consistent with the useful life of the Equipment Costs and will fully offset the related depreciation expense. PECO will not earn a return on the Residential DLC Program Equipment Costs during this period.

The effect of treating the Equipment Costs as O&M expenses instead of capital costs will be to reduce the refund rate to residential customers for Phase I during the reconciliation period (May 31, 2013 through December 31, 213) from ($0.00254) per kWh to ($0.00099) per kWh. For example, on the monthly bill of an average residential customer using 500 kWh of electricity, the customer would experience a refund of $0.50 instead of $1.27.

 PECO avers that recovering Equipment Costs as an O&M expense, to be funded from the over-collection that will exist as of May 31, 2013, will permit PECO to fully recover its remaining Equipment Costs through the reconciliation of Phase I costs and revenues. It will avoid the need to continue to carry the Equipment Costs as capitalized costs and amortize those costs, with a return, over the remainder of the 15-year amortization period.

 PECO avers that the recovery of remaining Equipment Costs can be fully funded from the projected over-collection, and as a result, customers will not experience any increase in rates. In addition, the administrative burdens associated with the continued capitalization and amortization of the Equipment Costs can be eliminated.

Upon review, the Commission finds that PECO’s petition to expense certain direct load control program costs related to the Company’s Phase I Plan should be granted. Equipment, installation and information technology costs for its Residential DLC Program that have been capitalized may be treated as operation and maintenance expense and recovered as part of PECO’s reconciliation of Phase I Plan costs and revenues. Book accounting and tax accounting treatment of these costs should be implemented as described in the body of this Order.

**THEREFORE,**

 **IT IS ORDERED:**

 1. That the Commission amend its Order approving PECO’s Phase I Plan entered October 28, 2009, as revised by Orders entered February 17, 2010 and January 28, 2011, and Secretarial Letter issued August 18, 2011, and approve changes to the accounting treatment of certain direct load control program costs so that PECO may treat Equipment Costs for its Residential DLC Program as Operation & Maintenance expenses instead of Capital Costs.

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2. That PECO recover the balance of Equipment Costs as part of the Phase I Plan reconciliation of costs and revenues.

3. That PECO file appropriate replacement tariff pages reflecting the impact of the conversion to the residential Phase I EEPC and the residential distribution rates on a one (1) day notice.

 **BY THE COMMISSION,**

 Rosemary Chiavetta

 Secretary

(SEAL)

ORDER ADOPTED: May 9, 2013

ORDER ENTERED: May 9, 2013