



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

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Anthony D. Kanagy

akanagy@postschell.com  
717-612-6034 Direct  
717-731-1985 Direct Fax  
File #: 2507/140056

March 13, 2014

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

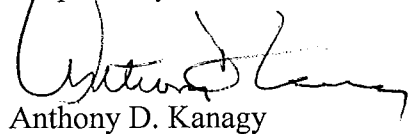
**Re: Petition of PPL Electric Utilities Corporation for Authorization to Defer, for Accounting and Financial Reporting Purposes, Certain Substantial, Unanticipated, Non-Recurring, and Extraordinary Meter Inspection and Replacement Expenses  
Docket No. P-2014-**

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Dear Secretary Chiavetta:

Enclosed for filing please find the Petition of PPL Electric Utilities Corporation for Authorization to Defer, for Accounting and Financial Reporting Purposes, Certain Substantial, Unanticipated, Non-Recurring, and Extraordinary Meter Inspection and Replacement Expenses. Copies will be provided as indicated on the Certificate of Service.

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**

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

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

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

Date: March 13, 2014



Anthony D. Kanagy

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities	:	
Corporation for Authorization to Defer, for	:	
Accounting and Financial Reporting	:	Docket No. P-2014-
Purposes, Certain Substantial,	:	
Unanticipated, Non-Recurring, and	:	
Extraordinary Meter Inspection and	:	
Replacement Expenses	:	

**PETITION OF  
PPL ELECTRIC UTILITIES CORPORATION FOR  
DEFERRED ACCOUNTING**

**I. INTRODUCTION**

PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) hereby petitions the Pennsylvania Public Utility Commission (“Commission”), pursuant to 66 Pa. C.S. § 1701 and 52 Pa. Code § 5.41, for authority to defer, for accounting and financial reporting purposes, the substantial, unanticipated, non-recurring and extraordinary incremental operation and maintenance (“O&M”) expenses, totaling approximately \$25 - \$30 million, which are associated with inspecting and replacing, if necessary, certain of the Company’s meters that have polycarbonate resin back plates (“PRBP Meters”) and associated deteriorated customer meter bases.

PPL Electric intends to seek recovery of these incremental O&M expenses in its next general base rate proceeding filed pursuant to Section 1308(d) of the Public Utility Code, 66 Pa. C.S. § 1308(d). Therefore, PPL Electric is not requesting that the Commission decide the ratemaking treatment of such costs 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 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 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 furnishes electric service to approximately 1.4 million customers throughout its certificated service territory, which includes all or portions of twenty-nine counties in eastern and central Pennsylvania.

2. PPL Electric’s attorneys for the purpose of this filing are as follows:

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

Anthony D. Kanagy (ID # 85522)  
Devin T. Ryan (ID # 316602)  
Post & Schell, P.C.  
17 North Second Street, 12<sup>th</sup> Floor  
Harrisburg, PA 17101-1601  
Phone: 717-731-1970  
Fax: 717-731-1985  
E-mail: akanagy@postschell.com  
E-mail: dryan@postschell.com

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

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

3. PPL Electric has become aware of a potential issue associated with the combination of aging customer meter bases that have deteriorated over time<sup>1</sup> and certain PRBP Meters. As customer meter bases wear over time, the jaws in the base can lose their strength and the ability to firmly clamp the meter blades. Over time, this can lead to gaps in the connection between the meter and the meter base, and in certain circumstances, can result in electrical arcing across this gap. This has been a common issue observed by electric utility personnel.

4. In 2008, PPL Electric began installing new digital PRBP Meters and has installed approximately 130,000 of these meters since that time. The Company has become aware that a small percentage of these PRBP Meter back plates have been damaged, which appears to have been caused by heat generated from the electrical arcs in older deteriorated meter bases.<sup>2</sup>

5. The Company is taking several steps to address this issue. First, since completing its investigation of the issue, the Company has stopped installing this type of PRBP meter. PPL's new standard 200 amp residential meter's back plate is more resistant to the heat generated by the electrical arcs described above.

6. Second, the Company is remotely monitoring the internal temperature of communication modules inside the PRBP meters on a daily basis and inspecting the meter and meter base in a timely manner. Specifically, the Company is using baseline temperature information for the 130,000 PRBP meter population and is replacing all meters where the

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<sup>1</sup> Meter bases are customer owned equipment and are not owned by PPL Electric.  
REMSI Rule 12 (c) Customer Installs Meter Mounting  
<https://www.pplelectric.com/at-your-service/electric-rates-and-rules/remsi/list-of-rules/rule-12.aspx#rule12c>

<sup>2</sup> Certain of the PRBP meters have shown discoloration and others have been damaged due to heat.

maximum internal temperature has exceeded 75 degrees centigrade. This is approximately 10,000 meters. PPL is also replacing approximately 1,000 early generation PRBP meters without internal temperature monitoring. As the Company replaces these PRBP Meters, it is inspecting the customer's meter base and replacing it, if necessary. The Company has decided to replace customers' deteriorated meter bases under these circumstances to eliminate any potential safety concerns for its customers as well as the general public. The Company anticipates that this work will be completed by the end of June 2014.

7. The Company also is inspecting the installed PRBP Meters and associated meter bases in its service territory, which constitutes approximately 130,000 customer locations. The Company will replace all damaged PRBP Meters and replace customer meter bases, if necessary. If the PRBP Meter and the meter base are determined to be in good working order, PPL Electric will not replace either of them. PPL Electric will then replace the PRBP Meter under the Company's normal meter replacement schedule or pursuant to the Company's smart meter plan that will be filed in June 2014.

8. PPL Electric estimates that the incremental O&M expenses for inspecting the damaged PRBP meters and replacing deteriorated customer meter bases will be approximately \$25 - \$30 million. PPL Electric intends to defer its actual incremental O&M expenses. In addition, PPL Electric will incur capital costs associated with the replacement of the damaged PRBP meters and will capitalize these costs for recovery in future base rate proceedings.

### **III. DEFERRAL OF INCREMENTAL O&M EXPENSES**

9. PPL Electric respectfully requests that the Commission grant the Company permission to defer, for accounting and financial reporting purposes only, the substantial,

unanticipated, non-recurring and extraordinary incremental O&M expenses associated with the inspection and replacement of the damaged PRBP Meters and deteriorated customer meter bases.

10. The Commission recently outlined the standard for seeking deferred accounting treatment in *Petition of Duquesne Light Co. for Authorization to Defer Expenses for Accounting Purposes Only*, Docket No. P-2012-2333760 (Apr. 17, 2013) (“*Duquesne 2013*”). The standard “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.” *Id.* at 5. In general, substantial, unanticipated, non-recurring, and extraordinary expenses are within “the scope of the type of items that the Commission has previously allowed to be deferred for accounting purposes.” *Id.* at 6. “[F]oreseeable costs incurred for routine business operations,” however, do not fall under this standard. *Id.*

11. Here, the incremental O&M expenses are substantial, unanticipated, non-recurring, and extraordinary and, therefore, are within the scope of the type of items previously allowed to be deferred for accounting purposes.

12. First, the level of expense is clearly substantial, estimated to total approximately \$25 - \$30 million. This level of incremental O&M expenses is more than the estimated \$17 million in storm damage expenses that the Commission previously approved for deferral in *Petition of PPL Electric Utilities Corp. 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 (Aug. 26, 2005). *Accord* *Petition of PPL Elec. Utils. Corp. 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 (Dec. 15, 2011) (“*PPL 2011 Snowstorm*”) (approving deferral of an estimated \$13 million to \$18

million in expenses). Thus, considering the dollar figures of past expenses deemed substantial by the Commission, the incremental O&M expenses at issue here are substantial.

13. Second, the costs are unanticipated. PPL Electric did not anticipate and could not have reasonably anticipated that the electrical arcing associated with the customers' aging meter bases could damage the PRBP meters. In fact, this type of meter is still broadly used in the electric utility industry.

14. Third, the expenses are non-recurring because PPL Electric will replace, if necessary, the PRBP Meters with ones that will resist damage by the electrical arcing; therefore, the problem with these meters will not arise again in the future. As described previously, PPL EU has also changed the standard residential meter installation to a unit with a meter back plate that is more resistant to the heat generated by the electrical arcs. The cost of replacement and new meter installations will be capitalized, but the cost of inspection and meter base replacement will be O&M expenses. Thus, the incremental O&M expenses are non-recurring.

15. Fourth, the incremental O&M expenses are extraordinary and are not routine business expenses. While PPL Electric inspects and replaces meters in its service territory on a routine basis, the level of inspection and replacement at one time to address this issue is unprecedented and certainly not routine. This inspection and replacement program is due to the extraordinary circumstances associated with the combination of deteriorated customer meter bases with PRBP Meters, which is not a normal business condition.

16. The Commission has allowed public utilities to defer costs for accounting and financial reporting purposes on numerous occasions. 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.*, 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 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.); 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).

17. Here, the Company anticipates that it will incur approximately \$25 - \$30 million in incremental O&M expenses associated with inspecting and replacing PRBP Meters and associated meter bases. The Company will track actual costs incurred, and defer its actual incremental O&M costs. PPL Electric intends to seek recovery of its actual O&M costs in its next base rate proceeding.

18. While the Company believes that these costs should be recoverable in a future ratemaking proceeding, an in-depth analysis of the merits of ratemaking recovery is unnecessary in this matter. 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 Company's recovery of these deferred costs in its next general base rate proceeding, except these parties cannot contend that PPL Electric should have filed a petition to defer these 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. In several recent deferral accounting proceedings, the Commission has ruled that utilities should begin expensing deferred amounts on a reasonable amortization schedule upon entry of a Commission Order approving the deferral. *See e.g., 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 December 15, 2011 ("PPL Electric Deferral Order"); *Petition of Columbia Gas of Pennsylvania, Inc. for Authority to Defer, for Accounting Purposes, Certain Unanticipated Expenses Relating to Storm Damage*, P-2011-2249757, Order entered November 14, 2011 ("Columbia 2011 Deferral

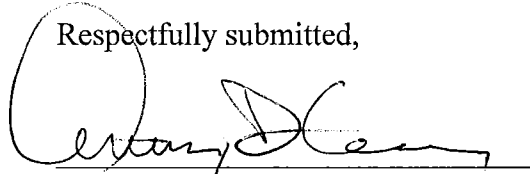
*Order*”). In these Orders, the Commission has also held that utilities have the right to seek full recovery of the total amount of deferred expenses in their next base rate proceedings.

20. Consistent with the *PPL Electric Deferral Order* and the *Columbia 2011 Deferral Order*, in the event that the Commission determines that PPL Electric should begin expensing its deferred amounts upon entry of a Commission Order, the Company requests that the Commission clarify that PPL Electric has the right to seek full recovery of the total amount of deferred expenses in a subsequent base rate proceeding.

**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 only, the incremental O&M expenses associated with inspecting and replacing damaged PRBP Meters and associated deteriorated customer meter bases.

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

Of Counsel:

Post & Schell, P.C.

Date: March 13, 2014

Anthony D. Kanagy (ID # 85522)  
Devin T. Ryan (ID #316602)  
Post & Schell, P.C.  
17 North Second Street  
12<sup>th</sup> Floor  
Harrisburg, PA 17101-1601  
Phone: 717-731-1970  
Fax: 717-731-1985  
E-mail: akanagy@postschell.com  
E-mail: dryan@postschell.com

Counsel for PPL Electric Utilities Corporation

## VERIFICATION

I, Dennis Urban, being the Finance & Regulatory Affairs Vice President for PPL Electric Utilities Corporation, hereby state that the facts set forth in the Petition for Deferred Accounting are true and correct to the best of my knowledge, information and belief and that I expect 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: March 12, 2014

Dennis A. Urban, Jr.