

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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April 2, 2014

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

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-2014-2410164

Dear Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Answer to the Petition of PPL Electric Utilities Corporation for Deferred Accounting in the above-referenced proceeding.

Copies have been served as indicated on the enclosed Certificate of Service.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Aron J. Beatty'.

Aron J. Beatty
Assistant Consumer Advocate
PA Attorney I.D. # 86625

Enclosures

cc: Office of Special Assistants
Office of Administrative Law Judge
Certificate of Service

181328

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PPL Electric Utilities	:	
Corporation for Authorization to Defer, for	:	
Accounting and Financial Reporting	:	Docket No. P-2014-2410164
Purposes, Certain Substantial,	:	
Unanticipated, Non-Recurring, and	:	
Extraordinary Meter Inspection and	:	
Replacement Expenses	:	

ANSWER OF THE OFFICE OF CONSUMER ADVOCATE
TO THE PETITION OF PPL ELECTRIC UTILITIES
CORPORATION FOR DEFERRED ACCOUNTING

I. INTRODUCTION

Pursuant to 52 Pa. Code § 5.61, the Office of Consumer Advocate (OCA) files this Answer in Opposition to the Petition of PPL Electric Utilities Corporation (PPL or the Company) to defer, for accounting purposes, expenses incurred in inspecting and replacing certain meters that have polycarbonate resin back plates (PRBP Meters) and associated deteriorated customer meter bases, and to seek recovery of such deferred amounts in future base rate proceedings.

Through its Petition, PPL seeks to defer, for accounting and financial reporting purposes only, the incremental operation and maintenance expenses associated with inspection and replacement of the damaged PRBP meters and deteriorated customer meter bases. Petition at 4-5. The Petition provides that the total inspection and replacement costs are not yet known, although it is likely that such costs will be approximately \$25 to \$30 million. Petition at 4. The Company is not requesting that the Commission make a final determination at this time as to the

recovery of said losses. Rather, PPL is requesting that the Commission address the issue of recovery for the expense of inspecting and replacing certain meters and deteriorated meter bases, and address the issue of a proper amortization period for this expense in its next general rate increase proceeding pursuant to Section 1308(d) of the Public Utility Code. Petition at 8-9. PPL is also requesting the ability to make a claim in its next base rate case for the entire amount of its meter and meter base inspection and replacement costs. Petition at 9.

II. ANSWER

The OCA opposes the deferral of PPL's meter inspection and replacement expenses. The expenses associated with inspecting and replacing certain PRBP Meters are not the type of costs that the Commission has allowed for deferral. Specifically, costs incurred due to meter malfunction or design issues are typically encountered and also raise issues as to whether such costs are more appropriately sought from the meter manufacturer. If the Commission does approve the Petition to defer the costs, however, it should condition such approval as set forth herein. Further, the Commission should make clear that PPL will bear the burden of proving the justness and reasonableness of the costs in any future rate proceeding.

A. PPL's Request Is Not the Type of Request Typically Afforded Deferral Treatment

In an Order entered July 19, 2012, the Commission set forth the standard for approval of a deferral request:

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 retroactive recovery of past expenses.

Pa. PUC v. Pennsylvania Util. Co., Inc., No. P-2012-2297313 (Order entered July 19, 2012), at 4 (Pa. Util.); see also Petition of Pike County Light & Power Co., No. P-2012-2293578 (Order

entered June 21, 2012), at 4 (Pike County). The types of items that the Commission has allowed as an exception to the general rule against retroactive recovery of past expenses have been extraordinary, unanticipated, non-recurring and substantial. Examples include costs to make repairs to avoid an imminent threat to public health and safety, hurricane damages, and across-the-board accounting changes that have a substantial financial impact. Petition of Columbia Gas of Pennsylvania, Inc., No. P-2012-2319920 (Order entered Dec. 5, 2012), at 5; see also Pa. Util. at 2; Pike County at 2. While the Company has alluded to a public safety risk, the fact remains that there are many repairs conducted by PPL in its normal course of business that and meter repair and replacement is one of those costs.

In the case at hand, costs associated with inspecting and replacing certain meters and deteriorated customer meter bases are generally within the control of the company, may have reasonably been anticipated, and do not meet the Commission's standard for deferral accounting. Costs associated with inspecting and replacing certain meters and deteriorated meter bases are not extraordinary. All public utilities will need to replace meters at various times, and it is not extraordinary that some of the new meters may malfunction or have other issues requiring their replacement. Other companies have experienced similar problems such as overheating that have required newly installed meters to be replaced. See Petition of PECO Energy Company, No. M-200902123944. This is not the type of extraordinary expense that the Commission has allowed to be deferred in the past.

Moreover, in its Petition, PPL is seeking to defer expenses associated with inspecting and replacing certain PRBP meters and deteriorated meter bases, and to make a claim in its next base rate case for the entire amount of its meter and meter base inspection and replacement costs. The Company has not made any indication in its Petition that it has explored

avenues of recovering these costs from the meter manufacturer before seeking to defer the costs and later recover the costs from customers. The OCA submits that the Commission should encourage the Company to attempt to recover costs due to meter malfunctions or design errors from the meter manufacturer before the Commission will consider a deferral petition.

B. If Approved, the Order Should Be Subject to Certain Conditions

If, however, the Commission affords deferral treatment, the OCA submits that Commission should include certain conditions in its Order. The OCA submits that at a minimum, the following conditions should apply:

1. That the authorization granted to PPL here for deferred accounting treatment carries no assurance of future rate recovery;
2. That PPL be directed to claim its deferred losses at the first available opportunity;
3. That any authorization for deferred accounting treatment be limited to actual operations and maintenance costs, net of any insurance recovery or recovery from the meter manufacturer, and not extend to straight time and capitalized costs; and,
4. That any opinion and order in this matter will in no way limit the ability of any party to a future rate case to oppose rate recovery of any of the costs deferred pursuant to the limited authorization granted herein.

III. CONCLUSION

PPL's proposal to defer expenses related to the inspection and replacement of certain meters and deteriorated customer meter bases does not meet the Commission's standard for authorizing deferral accounting. The OCA respectfully requests that the Commission reject the proposed deferral for the reasons set forth above. If, however, the Commission approves the Petition, the Commission should specify that its approval is subject to the conditions set forth above.

Respectfully Submitted,



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Dated: April 2, 2014
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CERTIFICATE OF SERVICE

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-2014-2410164

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Answer to the Petition of PPL Electric Utilities Corporation for Deferred Accounting, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code §1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 2nd day April 2014.

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