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NEWS RELEASE

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PSC Allows Separate Accounting of Kentucky Power Storm Costs ***No guarantee of recovery through future rates***

FRANKFORT, Ky. (Jan. 7, 2013) – The Kentucky Public Service Commission (PSC) today allowed Kentucky Power Co. to establish a separate account to track power restoration costs and other expenses associated with recovery from the damage caused by four major storms that struck the company's service territory in 2012.

The account, known as a regulatory asset, is a tool that allows unusual or one-time costs to be deferred for a period of time for possible future recovery through rates.

Kentucky Power's request to include costs of repairing damage caused by heavy snows from Superstorm Sandy on Oct. 30 was denied. The request, made in late December, was not submitted in time to allow a full review, the PSC said in an order issued today.

Kentucky Power has about 173,000 electric customers in 20 counties in eastern Kentucky. It is a subsidiary of American Electric Power Co. (AEP). A number of those customers experienced multiple outages as a result of the 2012 storms, the utility said.

"The Commission notes that the authorization of a regulatory asset is not an assurance that these costs will be recovered in rates," the PSC said in today's order. "A decision on rate recovery will be made only after an examination of the reasonableness of these costs in the context of a future rate case."

The PSC said the future review of any recovery of costs will include a detailed look at the adequacy of Kentucky Power's storm preparations and how well the company responded to the outage. In light of the number of severe storms in recent years and the PSC's recommendations in its November 2009 report on massive outages in 2008 and 2009, future reviews of storm-related costs will be more detailed than in the past, the PSC said.

The PSC said it will pay particular attention to Kentucky Power's vegetation management practices, because the company's last rate increase, in January 2010, allocated funding for stepped-up removal of vegetation close to the company's power lines in order to improve reliability.

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PSC Allows Separate Accounting of Kentucky Power Storm Costs – Page 2

The PSC also said it will look at recent comments by top AEP officials regarding efforts to make company systems better able to withstand severe weather.

Today's order authorized Kentucky Power to establish a regulatory asset of \$12.15 million, which is the amount the utility requested.

In its application for the regulatory asset, Kentucky Power said the amount of major storm-related expenses in 2012 far exceeded the annual average of \$904,000 that was used in the most recent calculation of the utility's rates as the expected yearly expenditure for storm recovery.

The four storms were:

Feb. 19 snow storm: 34,375 customers affected; 926 non-company restoration workers; four days to restore power; total costs to date – \$4.15 million

March 2 tornadoes/wind storms: 15,363 customers affected; 718 non-company restoration workers; four days to restore power; total costs to date – \$3.98 million

June 29 “derecho” wind storm/July 1 wind storm: 122,490 customers affected; 1,133 non-company restoration workers; six total days to restore power; total costs – \$5.96 million

July 5 wind storm: 27,319 customers affected; 1,133 non-company restoration workers; two days to restore power; total costs – \$967,000

Kentucky Power placed its total restoration costs for the four storms at more than \$14.3 million. That number was then adjusted to account for operational and maintenance costs that would have occurred under normal circumstances and the amount Kentucky Power had in its annual budget for storm restoration, leaving the \$12.15 million in the regulatory asset account.

Restoration costs for damage from Superstorm Sandy were estimated at about \$702,000. Those costs now will not be eligible for separate recovery.

If granted, recovery of regulatory assets generally occurs over a period of several years. Utilities typically seek to recover the assets in conjunction with a request to the PSC for a rate adjustment. The PSC may allow recovery of all or a portion of the storm-related costs, and will determine the time frame for the cost recovery.

Kentucky Power and other utilities are recovering various storm costs incurred in recent years as a portion of their current rates.

Today's order and related documents are available on the PSC website, psc.ky.gov. The case number is 2012-00445.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 90 employees.