

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|                                   |   |            |
|-----------------------------------|---|------------|
| ELECTRONIC APPLICATION OF         | ) |            |
| LOUISVILLE GAS AND ELECTRIC       | ) | CASE NO.   |
| COMPANY FOR AN ORDER APPROVING    | ) | 2019-00017 |
| THE ESTABLISHMENT OF A REGULATORY | ) |            |
| ASSET                             | ) |            |

ORDER

On January 8, 2019, Louisville Gas and Electric Company (LG&E) filed an application, pursuant to KRS 278.220, seeking authorization to establish a regulatory asset to account for expenses incurred to restore service and repair damage caused by an ice storm on November 14, 2018 (November 2018 Ice Storm).

By Order dated January 29, 2019, the Commission established a procedural schedule for the processing of this matter. The procedural schedule provided for a deadline for intervention requests and two rounds of discovery upon LG&E. There were no parties requesting intervenor status to this proceeding. On March 11, 2019, LG&E requested that the Commission take this matter under submission and issue an order on or before March 31, 2019. Because there are no intervenors in this case and a hearing is not necessary in the public interest, the Commission will adjudicate this case based on the evidence of record.

BACKGROUND

In support of its request to establish a regulatory asset for the restoration expenses related to the November 2018 Ice Storm, LG&E states that the storm caused extensive

and widespread damage to its distribution and transmission facilities. LG&E states that the storm took down nearly 2,000 wires, damaged 31 poles, and left nearly 120,000 of its customers without power.<sup>1</sup> LG&E indicates that the repair efforts took upwards of three days to fully restore electric service to its customers.<sup>2</sup> At its peak, LG&E states that the restoration efforts involved nearly 1,000 employees and contractors, including mutual assistance crews from nearby states.<sup>3</sup> LG&E estimates the incremental operations and maintenance (O&M) expenses in connection with the repair and restoration efforts to be approximately \$6.3 million, which excludes normal operations expenses currently embedded in base rates.<sup>4</sup> LG&E contends that the expenses incurred for the November 2018 Ice Storm exceeds its O&M expense budget for storm damage embedded in base rates of approximately \$5.4 million.<sup>5</sup> LG&E also asserts that the November 2018 Ice Storm exceeds the amount of storm restoration expenses included in the forecasted test period of its pending rate case<sup>6</sup> of \$3.3 million.<sup>7</sup> LG&E further states that its total storm damage O&M costs for 2018, excluding previous deferrals but including the November 2018 Ice Storm, exceeds \$12 million.<sup>8</sup>

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<sup>1</sup> Application at paragraph 9 and LG&E's response to Commission Staff's First Request for Information, Item 1.b.

<sup>2</sup> Application at paragraph 9.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.* at paragraph 15.

<sup>5</sup> *Id.*

<sup>6</sup> Case No. 2018-00295, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates* (filed Sept. 28, 2018).

<sup>7</sup> Application at paragraph 15.

<sup>8</sup> *Id.*

Pursuant to the requirements for recording regulatory assets for major storm events that occur in the fourth quarter of a utility's fiscal year, as set forth in the Commission's Rehearing Order in Case No. 2016-00180,<sup>9</sup> LG&E recorded the deferred expenses as a regulatory asset on December 31, 2018, notified the Commission within five days of the establishment of the regulatory asset, and filed its application for approval of the deferral within 90 days of the storm event.<sup>10</sup>

### DISCUSSION

As we noted in Case No. 2008-00436:

A regulatory asset is created when a rate-regulated business is authorized by its regulatory authority to capitalize an expenditure that under traditional accounting rules would be recorded as a current expense. The reclassification of an expense to a capital item allows the regulated business the opportunity to request recovery in future rates of the amount capitalized. The authority for establishing regulatory assets arises under the Commission's plenary authority to regulate utilities under KRS 278.040 and the Commission's authority to establish a system of accounts under KRS 278.220. Historically, the Commission has exercised its discretion to approve regulatory assets where a utility has incurred: (1) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry sponsored initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.<sup>11</sup>

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<sup>9</sup> Case No. 2016-00180, *Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection With the Two 2015 Major Storm Events* (Ky. PSC Dec. 12, 2016) Rehearing Order at 5.

<sup>10</sup> Application at paragraph 17.

<sup>11</sup> Case No. 2008-00436, *Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting From Generation Forced Outages* (Ky. PSC Dec. 23, 2008) Final Order at 3-4.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that LG&E's request for authorization to establish deferral accounting for the repair and restoration expenses associated with the November 2018 Ice Storm is reasonable and should be approved. The Commission finds that these costs are extraordinary and nonrecurring and could not have been reasonably anticipated or included in LG&E's planning. Accordingly, the Commission finds that LG&E should be authorized to establish, for accounting purposes only, a regulatory asset based on the incremental, actual storm-related costs for the damage and service restoration expenses it incurred as a result of the November 2018 Ice Storm.

IT IS THEREFORE ORDERED that:

1. LG&E is authorized to establish a regulatory asset for the actual, incremental costs incurred to repair and restore service resulting from the November 2018 Ice Storm.
2. The regulatory asset account established in this case is for accounting purposes only.
3. The amount, if any, of the regulatory asset authorized herein that is to be amortized and included in rates, shall be determined in LG&E's next rate case.
4. This case is closed and removed from the Commission's docket.

By the Commission

ENTERED  
MAR 25 2019  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2019-00017

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