

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	
POWER COMPANY FOR AN ORDER)	
APPROVING ACCOUNTING PRACTICES TO)	
ESTABLISH A REGULATORY ASSET RELATED)	CASE NO.
TO THE EXTRAORDINARY EXPENSES)	2023-00137
INCURRED BY KENTUCKY POWER COMPANY)	
IN CONNECTION WITH THE MARCH 3, 2023,)	
MARCH 25, 2023, AND APRIL 1, 2023 MAJOR)	
EVENT STORMS)	

ORDER

On May 1, 2023, Kentucky Power Company (Kentucky Power) filed an application pursuant to KRS 278.030, KRS 278.040, and KRS 278.220 requesting authorization to establish a regulatory asset for Kentucky Power’s net operation and maintenance (O&M) expenses arising from the March 3, 2023, March 25, 2023, and April 1, 2023 windstorms in its service area. Kentucky Power requested to defer approximately \$9,966,978 in incremental O&M costs of the \$13,981,323 total restoration expense.

Kentucky Power requested that the Commission enter an order on or before June 5, 2023, because obtaining an order by that date will permit Kentucky Power sufficient time to pursue securitization of the storm-related O&M costs that otherwise Kentucky Power would request to recover in base rates.

There are no intervenors in this proceeding. This case is submitted for a decision based on the written record.

LEGAL STANDARD

KRS 278.220 provides that the Commission may establish a uniform system of accounts (USoA) for utilities and in Kentucky Power's case, that the system of accounts shall conform as nearly as practicable to the system adopted or approved by the Federal Energy Regulatory Commission (FERC). The FERC USoA provides for regulatory assets, or the capitalization of costs that would otherwise be expensed but for the actions of a rate regulator. It must be probable that the utility will recover approximately equal revenue through the inclusion of these costs for ratemaking purposes, with the intent to recover the previously incurred cost not a similar future cost.

The Commission has established parameters for expenses that qualify for regulatory asset treatment; the Commission has approved 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.¹ Additionally, the Commission has established a requirement that utilities seek Commission approval before recording regulatory assets,² and requirements regarding the timing for applications seeking such approval.³

¹ 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), Order at 3–4.

² 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 Nov. 3, 2016), Order at 9.

³ Case No. 2016-00180, Dec. 12, 2016 Order at 5.

REQUEST FOR REGULATORY ASSET

In support of the request to establish a regulatory asset for O&M costs related to windstorms, Kentucky Power asserted that it incurred extraordinary O&M costs during storms that resulted in severely high winds on March 3, 2023, March 25, 2023, and April 1, 2023. Kentucky Power asserted that the three windstorms meet the standard for a major event day under IEEE Standard 1366, which for 2023, is at least 4,655,631 customer minutes of interruption.⁴

Kentucky Power explained that, on March 3, 2023, Kentucky Power's service area experienced a severe thunderstorm and high winds that resulted in 58 broken poles, 64 damaged cross arms, 36 damaged transformers, 449 spans of damaged or destroyed conductor, and 18,112 customer outages.⁵ Kentucky Power asserted that restoration efforts lasted four days and resulted in total costs of \$5,436,349, of which \$3,295,455 is incremental O&M expense.⁶ Kentucky Power further asserted that approximately 741 internal and contract employees assisted in restoration efforts.⁷

Kentucky Power also explained that, on March 25, 2023, Kentucky Power's service area experienced a severe thunderstorm and high winds that resulted in at least 21 broken poles, 33 damaged cross arms, 6 damaged transformers, 3 damaged cutouts, 312 spans of damaged or destroyed conductor, and 10,027 customer outages.⁸ Kentucky Power asserted that restoration efforts related to the March 25, 2023 storm lasted

⁴ Application at 6.

⁵ Application at 7.

⁶ Application at 3.

⁷ Application at 7.

⁸ Application at 8.

approximately two days and resulted in total costs of \$1,573,935, of which \$1,028,326 is incremental O&M expense.⁹ Kentucky Power further asserted that approximately 375 internal and contract employees assisted in restoration efforts.¹⁰

Kentucky Power explained that, on April 1, 2023, Kentucky Power's service area experienced a severe thunderstorm and high winds that resulted in at least 77 broken poles, 70 damaged cross arms, 45 damaged transformers, 52 damaged cutouts, 538 spans of damaged or destroyed conductor, and 10,027 customer outages.¹¹ Kentucky Power asserted that restoration efforts lasted approximately four days and resulted in total costs of \$6,971,039, of which \$5,643,197 is incremental O&M expense.¹² Kentucky Power further asserted that approximately 908 internal and contract employees assisted in restoration efforts.¹³

The total estimated restoration costs are \$13,981,323, of which incremental O&M expenses of \$9,966,978 are requested to be deferred.¹⁴ Kentucky Power's base rates include \$1,012,476 in major storm-related O&M expenses.¹⁵

Kentucky Power stated that it intended to request to amortize the regulatory asset in an upcoming base rate case.¹⁶ Given the recent enactment of a law that authorizes

⁹ Application at 3.

¹⁰ Application at 8.

¹¹ Application at 9–10.

¹² Application at 3.

¹³ Application at 9–10.

¹⁴ Application at 3.

¹⁵ Application at 11.

¹⁶ Application at 1 and 4.

securitization of certain extraordinary expenses, Kentucky Power stated that it now plans to pursue recovery of the extraordinary O&M costs through a securitization application.¹⁷ Kentucky Power explained that, under the securitization law, regulatory assets existing on June 30, 2023, are eligible for recovery through securitization.¹⁸ Kentucky Power asserted that recovering extraordinary O&M costs through securitization would result in a lower interest rate than would be recovered in base rates, and thus would result in lower rates than if the costs were recovered through base rates.¹⁹

Kentucky Power asserted that the incremental O&M costs were extraordinary and sufficiently significant to satisfy the standard to establish a regulatory asset.²⁰ Kentucky Power argued that the Commission evaluates whether to authorize a regulatory asset for storm costs based upon the magnitude of the expense as compared to storm-related costs in the utility's rate base and the effect on the utility's current year financial results if the regulatory asset was denied.²¹ Kentucky Power maintained that the incremental costs would represent 18.9 percent of Kentucky Power's net income for the twelve months ending December 31, 2022.²²

DISCUSSION AND FINDINGS

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that with regard to Kentucky Power's request for authorization to

¹⁷ Application at 4.

¹⁸ Application at 3.

¹⁹ Application at 4.

²⁰ Application at 11.

²¹ Application at 14–15.

²² Application at 15.

establish deferral accounting for the repair and restoration of the windstorms, the costs to repair the damaged assets are extraordinary and nonrecurring and could not have been reasonably anticipated or included in Kentucky Power's planning. Accordingly, the Commission finds that Kentucky Power should be authorized to establish, for accounting purposes only, regulatory assets based on the jurisdictional incremental costs of extraordinary O&M expenses incurred by Kentucky Power as a result of the windstorms.

Approval of the establishment of a regulatory asset by the Commission does not direct or imply approval of any expenses that the utility defers to the regulatory asset. That will occur in the case where the utility seeks recovery of costs related to the regulatory asset and the Commission will thoroughly review the deferred expenses in that subsequent proceeding, given concerns about the increasing frequency of major storm events²³ and the issues of distribution investment expressed in previous cases.²⁴

²³ See Case No. 2020-00368, *Electronic Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with Three 2020 Major Storm Events* (Ky. PSC Feb. 5, 2021); Case No. 2021-00129, *Electronic Application and Request for Decision by April 5, 2021 of Kentucky Power Company for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with Three February 2021 Major Storm Events* (Ky. PSC Apr. 5, 2021); Case No. 2021-00135, *Electronic Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with the December 24-25, 2020 Snow Storm* (Ky. PSC April 5, 2021); Case No. 2021-00402, *Electronic Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to the Extraordinary Expense Incurred by Kentucky Power Company in Connection with the March 1, 2021 Major Storm Event* (Ky. PSC Dec. 29, 2021); and Case No. 2022-00293, *Electronic Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to the Extraordinary Expenses Incurred in Connection with June 2022 and July 2022 Major Storm Events* (Ky. PSC Sept. 28, 2022).

²⁴ See Case No. 2021-00370, *Electronic Investigation of the Service, Rates and Facilities of Kentucky Power Company* (Ky. PSC Sept. 15, 2021) and Case No. 2021-00481, *Electronic Joint Application of American Electric Power Company, Inc., Kentucky Power Company and Liberty Utilities Co. for Approval of the Transfer of Ownership and Control of Kentucky Power Company* (Ky. PSC May 4, 2022).

IT IS THEREFORE ORDERED that:

1. Kentucky Power is authorized to establish regulatory assets for the incremental actual costs of extraordinary O&M expenses related to the windstorms as described in its application.
2. The regulatory asset accounts established in this case are for accounting purposes only.
3. The amount, if any, of the regulatory assets herein that is to be amortized and included in rates shall be determined Kentucky Power's next base rate case.
4. This case is closed and removed from the Commission's docket.

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PUBLIC SERVICE COMMISSION



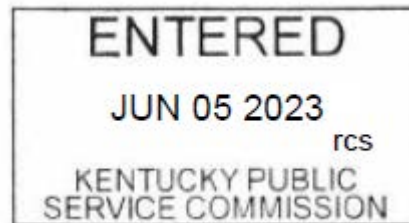
Chairman



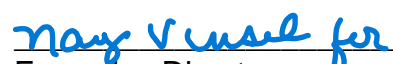
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