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September 27, 2016

PARTIES OF RECORD

Re: Case No. 2016-00180

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter. If you have any questions, please contact Chris Whelan at (502)782-2644.

Sincerely,

A handwritten signature in blue ink that reads "Talina P. Mathews".

Talina Mathews
Executive Director

Attachments

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Chris Whelan, Commission Staff

DATE: September 27, 2016

RE: 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

Pursuant to an Order issued on September 20, 2016, a telephonic informal conference ("IC") was held on September 23, 2016, at the Commission's offices in Frankfort, Kentucky. The purpose of the informal conference was for Commission Staff ("Staff") to ask remaining questions of Kentucky Power Company ("Kentucky Power") regarding this proceeding. A list of the attendees is attached hereto.

Kentucky Power is requesting authority to establish a regulatory asset for major storm costs in the amount of \$4,694,230. Kentucky Power entered a journal entry on its books related to the storm costs in July 2015 in which it credited expense and debited regulatory assets for an estimated amount of \$4,377,336. In March 2016, Kentucky Power made an additional journal entry crediting expense and debiting regulatory assets for \$381,440. In preparation of the IC, Kentucky Power's counsel e-mailed to the parties two handouts related to the journal entries and the amount of the regulatory asset. (The handouts consist of a narrative handout and spreadsheet handout, both of which are attached to this memo.) Because the total amount of the regulatory asset requested by Kentucky Power is \$4,694,230, the two handouts explain that the March 2016 journal entry resulted in an overstatement of the jurisdictional amount of the deferral by \$64,546. The attachments indicate that the March journal entry should have been in the amount of \$316,894 instead of \$381,440. In the narrative handout, Kentucky Power states that upon resolution of this proceeding, it will expense the \$64,546 over-deferral.

Kentucky Power stated during the IC that the \$381,440 recorded in the March 2016 journal entry represented operations and maintenance ("O&M") expenses and that it was not recording on its books a non-jurisdictional deferral related to the storms. As a result of questioning by Staff, Kentucky Power agreed to provide the following:

1. The portion of the \$114,839 recorded in January 2016 as storm costs that represents jurisdictional O&M expenses. (See Kentucky Power's response to Commission Staff's Second Request for Information, Item 2.b.)
2. The portion of the \$4,694,230 requested deferral amount that was expensed in 2015.

There being no further discussions, the informal conference was adjourned.

Attachments:

Sign-in sheet

Attachments e-mailed by Kentucky Power's counsel to parties prior to IC

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY)
FOR AN ORDER APPROVING ACCOUNTING) CASE NO.
PRACTICES TO ESTABLISH REGULATORY ASSETS) 2016-00180
AND LIABILITIES RELATED TO THE)
EXTRAORDINARY EXPENSES INCURRED BY)
KENTUCKY POWER COMPANY IN CONNECTION)
WITH THE TWO 2015 MAJOR STORM EVENTS)

Informal Conference – September 23, 2016

Please sign in:

NAME	REPRESENTING
<u>Bob Russell</u>	<u>PSC</u>
<u>Tim Liviers</u>	<u>PSC</u>
<u>Chris Whelan</u>	<u>PSC</u>
<u>Quang Nguyen</u>	<u>PSC - by phone</u>
<u>Mark Overstreet</u>	<u>KP - by phone</u>
<u>Ronie Wohnhas</u>	<u>KP - by phone</u>
<u>Mike Kurtz</u>	<u>KIUC - by phone</u>
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Q. Please reconcile the \$4,377,336 storm cost deferral on Kentucky Power's 2015 financial statements with the \$4,694,230 storm cost deferral requested in the Company's application.

A. The \$4,377,336 deferral amount shown on the Company's 2015 financial statements represents the estimated amount of the 2015 Major Event storm O&M expense deferral as of December 31, 2015. The statement in paragraph 25 of the Company's application that "Kentucky Power deferred for purposes of its 2015 financials the total jurisdictional incremental operation and maintenance expenses associated with the two 2015 Major Event storms" is incorrect. Subsequent to the preparation of the Company's 2015 financial statements, Kentucky Power in March 2016 booked an additional deferral of O&M expenses incurred in connection with the two 2015 Major Event storms. The additional deferral booked was \$381,440, which resulted in a total deferral on Kentucky Power's books of \$4,758,776 in connection with the two 2015 Major Event storms.

The March 2016 booked entry of \$381,440 in additional 2015 Major Event storm O&M expenses, combined with the \$4,377,336 estimated deferral amount shown on the Company's 2015 financial statements, resulted in an overstatement of the deferral amount on the Company's books. On a *jurisdictional* basis, the March 2016 additional 2015 Major Event storm O&M expenses was \$316,894. Combined with the \$4,377,336 deferral shown on the Company's 2015 financial statements, the correct amount of the 2015 Major Event storm jurisdictional O&M expense deferral is the \$4,694,230 requested in the Company's application ($\$4,377,336$ [2015 Kentucky Power financial statements] + $\$316,894$ [jurisdictional portion of 2015 Major Event storm O&M expense booked in March 2016] = $\$4,694,230$).

The calculation of the \$64,546 over-deferral currently reflected on Kentucky Power's books, as well as the reconciliation of the deferral amount requested in this proceeding with the amount of the deferral currently reflected on the Company's books, are illustrated on the attachment to this response.

Kentucky Power will expense the \$64,546 over-deferral upon the resolution of this proceeding.

KENTUCKY POWER COMPANY
 KPSC Case No. 2016-00180
 Deferral Analysis for KPSC Staff

Line No.	Description	KPSC DR 2-2 Attachment 3, Page 2 of 9			Direct Testimony of Ranie Wohnhas Exhibit 2			Deferral Change (i)
		3/14/2015 Snow Storm (c)	7/31/2015 Thunderstorm (d)	Estimated Deferral (e)	3/14/2015 Snow Storm (f)	7/31/2015 Thunderstorm (g)	Actual Deferral (h)	
1	Total Incremental Costs	\$ 1,077,361	\$ 6,341,403		\$ 1,093,299	\$ 7,132,124		
2	O&M Percentage	0.7157	0.83		0.6775	0.7378		
3	Incremental O&M	\$ 771,067	\$ 5,263,364	\$ 6,034,432	\$ 740,679	\$ 5,261,860	\$ 6,002,539	\$ (31,893)
4	Retail Juris. Percentage	0.989	0.989		0.991	0.989		
5	Incremental Retail O&M	\$ 762,586	\$ 5,205,467	\$ 5,968,053	\$ 734,013	\$ 5,203,980	\$ 5,937,992	\$ (30,061)
6	Major Storm Costs in Base Rates			\$ 1,590,717	\$ 448,404	\$ 795,359	\$ 1,243,763	\$ (346,954)
7	Retail O&M Deferral			\$ 4,377,336			\$ 4,694,230	\$ 316,894
8	Year End 2015 Deferral on Books (e7)						\$ 4,377,336	
9	Additional Deferral in 3/16 (Note 1)						\$ 381,440	
10	Total Deferral on the Company's Books						\$ 4,758,776	
11	Over Deferral based upon total company versus jurisdictional (h9 - i7)						\$ 64,546	

Note 1: Source is KPSC DR 2-2, Attachment 3, pages 6-7 of 9

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