COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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	))))))))	CASE NO. 2016-00180

ORDER

The matter is before the Commission upon Kentucky Power Company's ("Kentucky Power") motion for a partial rehearing of the Commission's November 3, 2016 Final Order. First, Kentucky Power requests that a rehearing be granted to permit the development of a further record in order to provide an opportunity to re-examine its ruling that Commission approval is needed prior to a utility's recording of certain expenses as a regulatory asset. Secondly, Kentucky Power requests that the Commission amend that portion of the 2016 Final Order which requires all jurisdictional utilities, including Kentucky Power, to obtain Commission approval before recording as a regulatory asset on the utilities' books for accounting purposes an expense that meets one of the following four criteria: a) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning; b) an expense resulting from a statutory or administrative directive; c) an expense in relation to an industry-sponsored initiative; or d) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost. With respect to the second request for relief, Kentucky Power asks that the directive be modified to permit jurisdictional utilities to defer, consistent with Financial Accounting Standards Board Accounting Standards Codification ("FASB") 980-340-25-1, Major Event storm[1] and other extraordinary expenses for subsequent Commission review and approval.

In support of its motion, Kentucky Power states that FASB 980-340-25-1 imposes a duty on a utility to exercise its independent judgment to determine when the requirements of the accounting standard are satisfied and the expense is probable of later recovery, subject to final determination by the Commission. Kentucky Power contends that the Commission's ruling amounts to a bright line rule that has the potential to distort a utility's financial statements and would result in arbitrary outcomes solely based upon the period between the date of a Major Event storm and the closing of Kentucky Power's financial statements. Kentucky Power points out that a utility has no control over the timing of a storm or its consequent remediation efforts. Thus, according to Kentucky Power, its inability to time its Major Event storm expenditures increases the likelihood that it will be unable to secure Commission approval prior to the closing of its financial statements. Kentucky Power states that this is particularly so when a Major Event storm occurs toward the end of a utility's fiscal year, which could create extreme difficulty in timely filing an application for authority to create a deferral prior to the closing of its books.

Kentucky Power also points out that the requirement that an application seeking to defer Major Even storm expenses include only those expenses in excess of base rate amounts makes it more difficult for a utility to timely submit an application for authority to

[1] A Major Event storm is defined by the Institute of Electrical and Electronic Engineers Standard 1366 as one that exceeds reasonable design and operational limits of an electric power system.

establish a regulatory asset, as any such application would be skewed toward the end of the utility's fiscal year. Kentucky Power further contends that storm restoration efforts typically require the use of outside contractors. The need to employ contractors could result in differing treatment of the operation and maintenance expense of a Major Event storm, given that outside vendor invoices are sometimes received months after the storm restoration efforts have been completed, and the utility may need to use cost estimates in its reporting. Lastly, Kentucky Power asserts that storm restoration expenses associated with a Major Event storm could have a significant impact on a utility's financial results, depending on the authorized accounting treatment. Thus, Kentucky Power states that Major Event storm expenses, if not properly accounted for, could distort a utility's financial statements. Claiming that the Commission's ruling may result in arbitrary and unreasonable outcomes, Kentucky Power requests that the directive be modified to permit jurisdictional utilities, subject to subsequent Commission review and approval, and consistent with FASB 980-340-25-1, to defer expenses and create a corresponding regulatory asset, when in the judgment of the utility the expenses are probable of recovery. Kentucky Power notes that the requested relief would not impose any limitation on the Commission's ability to review the deferral, or the creation of the corresponding regulatory asset; nor does it limit the Commission's authority to consider the ratemaking treatment, if any, to be accorded the regulatory asset in a future base rate case.

Having reviewed Kentucky Power's motion and being otherwise sufficiently advised, the Commission finds that Kentucky Power has failed to provide sufficient justification to permit a rehearing to further develop the record regarding the

Commission's ruling requiring jurisdictional utilities to obtain Commission approval before establishing a deferral account. The Commission also finds that Kentucky Power has not provided sufficient justification for the Commission to amend the ruling at issue to allow utilities to defer, consistent with FASB 980-340-25-1, Major Event storm and other extraordinary expenses subject to Commission review and approval. We note that Kentucky Power's principal argument is that utilities can neither control when a Major Storm event will occur nor how long the restoration efforts will take. Kentucky Power contends that a utility may not have sufficient time to obtain authorization to defer expenses for a storm that occurs later in the fiscal year, yet for similar storm expenses that occur earlier in the fiscal year there would be sufficient time for a utility to obtain prior Commission approval to record those same expenses as a regulatory asset. Kentucky Power contends that the Commission's ruling, therefore, is arbitrary because the ability for a utility to record a deferred asset rests not on the merits of the situation but on the timing of the occurrence of the storm. The Commission finds that such a narrow argument is not sufficient to justify a wholesale amendment to the Commission's ruling as requested by Kentucky Power, particularly as it relates to the request to allow utilities the authority to establish a regulatory asset not only for storm-related expenses but also for "other extraordinary expenses."

The Commission, however, finds that Kentucky Power raises a valid point regarding the impact of a late-occurring Major Event storm. The Commission will, therefore, modify its ruling to allow jurisdictional utilities to record expenses for Major Event storms occurring in the fourth quarter of the fiscal year as a deferred asset for accounting purposes only, subject to the utility's providing the Commission with immediate notice of the establishment of such deferred asset, and also subject to the utility's filing of an application within 90 days of the occurrence of the Major Event storm seeking Commission approval for such authority. Such modification will provide flexibility to the jurisdictional utilities to address the timing issue related to expenses in connection with late-occurring Major Event storms, as raised by Kentucky Power in its rehearing request.

IT IS HEREBY ORDERED that:

1. Kentucky Power's request for a rehearing to further develop the record regarding the Commission's ruling requiring jurisdictional utilities to obtain Commission approval before establishing a deferral account is denied.

2. Kentucky Power's request for a rehearing to amend the ruling at issue to allow utilities to defer, consistent with FASB 980-340-25-1, Major Event storm and other extraordinary expenses subject to Commission review and approval is denied.

3. The Commission's ruling requiring jurisdictional utilities to obtain Commission approval before establishing a deferral account is modified to allow jurisdictional utilities to record expenses for Major Event storms occurring in the fourth quarter of the fiscal year as a deferred asset for accounting purposes only, subject to the utility's providing the Commission with notice of such within five days of the establishment of the deferred asset, and also subject to the utility's filing of an application within 90 days of the occurrence of the Major Event storm seeking Commission approval for such authority.

4. The instant matter is closed and is removed from the Commission's docket.

By the Commission

ENTERED

DEC 12 2016

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Aaron D. Greenwell
for

Executive Director

*Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*Honorable Kurt J Boehm
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*Kentucky Power Company
101 A Enterprise Drive
P. O. Box 5190
Frankfort, KY 40602

*Kentucky Power Company
Kentucky Power Company
101 A Enterprise Drive
P. O. Box 5190
Frankfort, KY 40602

*Honorable Michael L Kurtz
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*Honorable Mark R Overstreet
Attorney at Law
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KENTUCKY 40602-0634