

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of

APPLICATION OF DUKE ENERGY KENTUCKY,)	
INC. FOR AN ORDER APPROVING THE)	CASE NO.
ESTABLISHMENT OF A REGULATORY ASSET)	2018-00416

ORDER

On December 13, 2018, Duke Energy Kentucky, Inc. (Duke Kentucky), filed an application seeking authority to establish a regulatory asset for incremental operation and maintenance costs it incurred to repair damage and restore electric service to its customers caused by severe ice and wind conditions in November 2018 (November Ice Storm).¹ The November Ice Storm occurred from November 15, 2018, through November 18, 2018. Duke Kentucky seeks approval for a regulatory asset of \$1.6 million.

Duke Kentucky states that the November Ice Storm began on November 15, 2018, in its service territory, and brought a mix of freezing rain and snow that covered trees, utility lines, and ground with layers of ice. The ice and wind caused widespread damage to Duke Kentucky's electric delivery system including, but not limited to, downed tree limbs, wires and poles, and other equipment damage.² During the course of the November Ice Storm, Duke Kentucky had 1,127 total events³ and 26,482 customers were

¹ Application at 1.

² *Id.*

³ Duke Kentucky's response to Commission Staff's Third Request for Information (Staff's Third Request), Item 1. According to Duke Kentucky, an event includes non-outage situations such as safety issues or downed poles that Duke Kentucky responded to.

without power.⁴ More than 1,200 Duke Energy Corporation employees and contractors responded to the November Ice Storm in Northern Kentucky and Southwest Ohio by assessing the storm damage, preparing materials for the field, assigning job crews, removing damaged vegetation, repairing downed lines and equipment and providing support services.⁵

There are no intervenors in this proceeding. Commission Staff issued three rounds of data requests to which Duke Kentucky responded. The record is complete and the case now stands submitted for decision-based on the evidentiary record.

DUKE KENTUCKY'S REQUEST

Duke Kentucky is requesting a deferral of \$1.6 million for the November Ice Storm-related expenses, most of which are operations and maintenance (O&M) expenses.⁶ Duke Kentucky's requested deferral is 60 percent greater than its total 2018 budget for storm-related O&M expenses.⁷ Duke Kentucky's total budget for 2018 storm-related expenses was \$1 million and its actual 2018 storm-related expenses were \$2.137 million.⁸ Duke Kentucky actually incurred \$1,283,673⁹ in 2018 and 2019 in O&M expenses related to the November Ice Storm and recorded November Ice Storm expenses of \$(102,318.90) in January 2019 as a result of the January 2019 actual true-up of \$(149,306).¹⁰ Of the

⁴ Duke Kentucky's response to Commission Staff's First Request for Information (Staff's First Request), Item 1.

⁵ *Id.*, Item 2.

⁶ Application at 2.

⁷ Duke Kentucky's response to Staff's First Request, Item 3.

⁸ *Id.*

⁹ Duke Kentucky's response to Commission Staff's Third Request for Information, Item 3.

¹⁰ *Id.*

total November Ice Storm-related O&M expense of \$1,283,673, \$232,618 was considered normal operations (internal Duke Kentucky labor) making the total incremental O&M impact of \$1,051,054.¹¹ Duke Kentucky does not expect to incur any other expenses related to the November Ice Storm after January 2019.¹²

Duke Kentucky states that consistent with Statements of Financial Standards No. 71 codified as Accounting Standards Codification (ASC) 980, granting such treatment in this case will allow Duke Kentucky to make appropriate adjustments to its books to account for the regulatory asset and prevent Duke Kentucky from having to record extraordinary storm costs as expenses on its books.¹³ Duke Kentucky proposes to record the expenses associated with the November Ice Storm in Account 182.3, Other Regulatory Assets.

BACKGROUND

The Commission has previously approved regulatory assets for Duke Kentucky and other jurisdictional utilities. Such approval has been granted when a utility has incurred (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

¹¹ *Id.*, Attachment 1. The amount is \$1 off due to rounding.

¹² *Id.*

¹³ Application at 7, paragraph 29.

saving that fully offsets the cost.¹⁴ Duke Kentucky submits that the expenses incurred related to the November Ice Storm undeniably qualify as such extraordinary nonrecurring expenses and that such expenses could not be reasonably anticipated in its planning, consistent with item (a) above.

The Commission has previously approved accounting treatment for such extraordinary storm-related events and permitted deferral and amortization of significant and extraordinary expenses to the extent such costs exceed the amount of storm-related costs contained in base rates.¹⁵

The Commission has granted Duke Kentucky and other utilities similar accounting treatment for extraordinary and significant storm damage costs. In Case Nos. 2012-00445¹⁶ and 2009-00352,¹⁷ Duke Kentucky was authorized to establish regulatory assets for extraordinary and significant costs associated with restoration efforts resulting from storm damages occurring in 2012 and 2009, respectively.

The Commission has also recognized the impact of a late-occurring major event storm as it relates to the utility's fiscal year operations and the timing constraint placed

¹⁴ Case No. 2008-00436, *The 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*, Final Order at 4 (Ky. PSC Dec. 23, 2008).

¹⁵ Case No. 2003-00434, *An Adjustment for Electric Rates, Terms and Conditions of Kentucky Utilities Company* (Ky. PSC June 30, 2004); Case No. 2006-00472, *In the Matter of General Adjustment of Rates of East Kentucky Power Cooperative* (Ky. PSC Dec. 7, 2007).

¹⁶ Case No. 2012-00445, *Application of Duke Kentucky Company for an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities Related to the Extraordinary Expenses Incurred by Duke Kentucky Company in Connection with Four 2012 Major Storm Events* (Ky. PSC Jan. 7, 2013).

¹⁷ Case No. 2009-00352, *Application of Duke Kentucky Company for an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities Related to the Extraordinary Expenses Incurred by Duke Kentucky Company in Connection with Three Major Event Storms in 2009* (Ky. PSC Dec. 22, 2009).

upon seeking accounting authorization from the Commission. In Case No. 2016-00180,¹⁸ the Commission stated that it would allow jurisdictional utilities to record expenses for “Major Event” storms¹⁹ occurring in the fourth quarter of the fiscal year as a deferred asset for accounting purposes only, subject to the utility’s providing immediate notice to the Commission of the establishment of such a deferred asset and the utility’s filing of an application within 90 days of the occurrence of the Major Event storm seeking Commission approval for such authority. Duke Kentucky provided the requisite notice pursuant to the application in this matter, and the application was also filed within the 90-day period of the occurrence of the November Ice Storm.

Duke Kentucky’s request for a regulatory asset is for accounting purposes only, with ratemaking treatment deferred for consideration in its next base rate proceeding.²⁰ The accounting treatment requested by Duke Kentucky related to the November Ice Storm will only have a small impact on customers should the Commission approve recovery in Duke Kentucky’s next base rate case. Duke Kentucky states that if the Commission were to approve recovery of the regulatory asset over a five-year amortization period in its next base rate case, the overall impact on retail customers’ monthly bills is expected to be significantly less than one percent.²¹

¹⁸ 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 Two 2015 Major Storm Events (Ky. PSC Dec. 12, 2016).

¹⁹ As noted in Case No. 2016-00180, 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. See Case No. 2016-00180, *Kentucky Power*, Dec. 12 2016 Rehearing Order at 2.

²⁰ Application at 5, paragraph 12.

²¹ *Id.*, paragraph 13.

DISCUSSION

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that Duke Kentucky's November Ice Storm-related expenses incurred in 2018 and 2019, with the exception discussed below, are extraordinary and significant in nature based on their magnitude and the amount of storm damage expenses built into its base rates. The number of customers without service dictated an extraordinary effort on the part of Duke Kentucky to restore service, an effort from which it incurred an extraordinarily high level of costs.

Given the nature and impact of these costs, the Commission will authorize Duke Kentucky to establish, for accounting purposes only, a regulatory asset based on its incremental, actual storm-related costs for the damage and service restoration costs it incurred and deferred as a result of the November Ice Storm.

However, the Commission will limit the amount of the authorized deferral to \$1,051,054, the amount of the total incremental O&M expense impact to Duke Kentucky that exceeds storm-related costs already in base rates.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky is authorized to establish a regulatory asset in the amount of \$1,051,054, based on its total incremental O&M expense over the amount considered as normal O&M expense, for storm damages and service restoration due to the November Ice Storm.
2. The regulatory asset account established in this case is for accounting purposes only.

3. Duke Kentucky shall, within 14 days of the date of this Order, provide to the Commission, the accounting entries made on its books to effectuate the creation of the regulatory asset.

4. The amount, if any, of the regulatory asset authorized herein that is to be amortized and recovered in rates shall be determined in Duke Kentucky's next base rate case based on an examination of its storm preparedness, its storm restoration efforts, reliability improvement efforts and the reasonableness of the costs incurred.

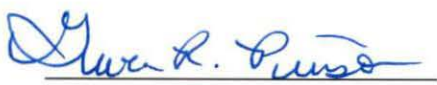
5. This case is hereby closed and will be removed from the Commission's docket.

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By the Commission

ENTERED
MAR 25 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

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