

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 EXPENSE	)	2021-00402
INCURRED BY KENTUCKY POWER COMPANY	)	
IN CONNECTION WITH THE MARCH 1, 2021	)	
MAJOR STORM EVENT	)	

ORDER

On December 5, 2021, Kentucky Power Company (Kentucky Power) filed an application, pursuant to KRS 278.220, requesting authorization to establish regulatory assets to account for expenses incurred to repair damage and restore service caused by severe flooding resulting from a storm in Kentucky Power's service territory from February 26, 2021, to March 1, 2021 (Major Flood Event). Kentucky Power requested that the Commission render a decision on or before January 5, 2022.

By Order dated November 19, 2021, the Commission established a procedural schedule for the processing of this matter. The procedural schedule provided for a deadline for intervention requests and one round of discovery upon Kentucky Power. There were no parties requesting intervenor status to this proceeding. Kentucky Power responded to one round of discovery from Commission Staff. 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 the request to establish regulatory assets for the restoration expenses related to the Major Flood Event, Kentucky Power stated the storms caused extensive and widespread damage to its transmission and distribution systems.<sup>1</sup> Kentucky Power stated that the storms were major events as defined by IEEE Standard 1366 and was a declared a state of emergency.<sup>2</sup> Kentucky Power stated that the three storms caused 12 broken poles, 33 pole relocations caused by mudslides, 17 damaged cross arms, and 68 downed spans of wire.<sup>3</sup> Kentucky Power indicated there were 8,287 customers without electric service at the peak of the outages.<sup>4</sup> Kentucky Power estimated the incremental costs associated with the Major Flood Event were \$1,553,990, of which \$826,495 is incremental operation and maintenance (O&M) expense attributable to the storm.<sup>5</sup> Kentucky Power's base rates include \$1,029,789 in major storm-related O&M expenses.<sup>6</sup>

In addition to the Major Flood Event, Kentucky Power experienced ice and snowstorms between February 10, 2021, and February 17, 2021, and received approval to defer the incremental O&M expenses to a regulatory asset, estimated to be \$42,582,003 as of September 30, 2021.<sup>7</sup> Excluding those expenses that Kentucky Power

---

<sup>1</sup> Application, paragraph 11.

<sup>2</sup> *Id.*, paragraph 9 and 12.

<sup>3</sup> *Id.*, paragraph 17.

<sup>4</sup> *Id.*, paragraph 11.

<sup>5</sup> *Id.*, paragraph 19 and Exhibit 3, tab "Exh 3 Mar 1, 2021 Flood Storm\_D."

<sup>6</sup> Application, paragraph 18.

<sup>7</sup> *Id.*, paragraph 20. See 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).

has requested or received regulatory asset treatment, Kentucky Power has recorded \$5,124,250 in expenses related to major storm events through November 2021.<sup>8</sup>

### DISCUSSION

As the Commission 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>9</sup>

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that with regard to Kentucky Power's request for authorization to establish deferral accounting for the repair and restoration of the Major Flood Event, 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

---

<sup>8</sup> Kentucky Power's Response to Commission Staff's First Request for Information, Item 3.

<sup>9</sup> 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* (Ky. PSC Dec. 23, 2008), Order at 3-4.

of extraordinary O&M expenses incurred by Kentucky Power as a result of the Major Flood Event. However, the Commission is concerned that despite restoring service to most customers by March 4, 2021,<sup>10</sup> Kentucky Power filed its application eight months later and only 30 days before closing its books. The Commission notes that Kentucky Power filed its request for regulatory asset treatment<sup>11</sup> for storms in February 2021 approximately one month later, using estimated expenses, demonstrating that there is no requirement that amounts be finalized before a request is made. While circumstances permitted the Commission to meet Kentucky Power's requested date in this instance, Kentucky Power should not rely on similar results in the future.

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 Major Flood Event.
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.

---

<sup>10</sup> Application, paragraph 15.

<sup>11</sup> See 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).

By the Commission



ATTEST:

  
Executive Director

\*Hector Garcia-Santana  
American Electric Power Service Corporation  
1 Riverside Plaza, 29th Floor  
Post Office Box 16631  
Columbus, OHIO 43216

\*Kentucky Power Company  
1645 Winchester Avenue  
Ashland, KY 41101

\*Katie M Glass  
Stites & Harbison  
421 West Main Street  
P. O. Box 634  
Frankfort, KENTUCKY 40602-0634

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