

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)	CASE NO.
ESTABLISH A REGULATORY ASSET RELATED)	2022-00293
TO THE EXTRAORDINARY EXPENSES)	
INCURRED IN CONNECTION WITH JUNE 2022)	
AND JULY 2022 MAJOR STORM EVENTS)	

ORDER

On August 30, 2022, Kentucky Power Company (Kentucky Power) filed an application pursuant to KRS 278.220 requesting authorization to establish a regulatory asset for incremental operating and maintenance (O&M) expenses related to storm restoration efforts after storms and flooding affected its service territory in June 2022 and July 2022 (Major Storm Events). Kentucky Power requested that the Commission render a decision on or before September 30, 2022. 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 Storm Events, Kentucky Power stated the storms caused extensive and widespread damage to its transmission and distribution systems.¹ Kentucky Power stated that the storms and flood were major events as defined by IEEE Standard 1366,

¹ Application, paragraph 6.

which for 2022 is at least 4,546,781 customer minutes of interruption, and the July flood was a declared a state of emergency.²

On June 17, 2022, Kentucky Power's service area experienced a severe thunderstorm and high winds. Kentucky Power stated that the June storm caused 53 broken poles, 52 damaged cross arms, 11 damaged transformers, and 23.6 total miles of damaged or destroyed conductor, and 29,957 customers without electric service.³ Restoration efforts lasted four days and Kentucky Power estimated the incremental costs associated with the June storm were \$4,967,271, of which \$3,088,343 is incremental O&M expense attributable to the storm.⁴ Kentucky Power estimated that 858 internal and contract employees assisted in restoration efforts.⁵

On July 28, 2022, Kentucky Power's service area experienced flooding as the result of storms and heavy rainfall on July 27 and 28, 2022. Kentucky Power stated that the July flood caused at least 234 broken poles, 69 damaged cross arms, 33 damaged transformers, 13 damaged cutouts, 10 damaged substations, and 23.7 total miles of damaged or destroyed conductor, 1,684 damaged meters and 77,343 customers without electric service.⁶ Restoration efforts lasted approximately two weeks and Kentucky Power estimated the incremental costs associated with the July flood were \$23,453,984, of which \$15,889,447 is incremental O&M expense attributable to the storm.⁷

² Application, paragraphs 7 and 32.

³ Application, paragraph 6.

⁴ Application, paragraph 6 and Exhibit 3, tab "Exh 3A Jun 17 T'storm_Distr."

⁵ Application, paragraph 27.

⁶ Application, paragraph 6.

⁷ Application, paragraph 6 and Exhibit 3, tabs "Exh 3B Jul 28 Flood_Distr" and "Ech 3C Jul 28 Flood_Trans."

The total estimated restoration costs are \$28,421,255, of which incremental O&M expenses of \$17,965,313 are requested to be deferred.⁸ Kentucky Power's base rates include \$1,012,476 in major storm-related O&M expenses.⁹

LEGAL STANDARD

KRS 278.220 sets out 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 which 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.¹⁰ Additionally, the Commission has

⁸ Application, paragraph 7 and Exhibit 3, tabs "Summary," "Exh 3A Jun 17 T'storm_Distr," "Exh 3B Jul 28 Flood_Distr," and "Ech 3C Jul 28 Flood_Trans."

⁹ Application, Exhibit 3, tab "Summary."

¹⁰ 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.

established a requirement that utilities seek Commission approval before recording regulatory assets,¹¹ and requirements regarding the timing for applications seeking such approval.¹²

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 establish deferral accounting for the repair and restoration of the Major Storm Events, 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 Major Storm Events.

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 Storm Events.
2. The regulatory asset accounts established in this case are for accounting purposes only.

¹¹ 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.

¹² Case No. 2016-00180, *Kentucky Power* (Ky. PSC Dec. 12, 2016), Order at 5.

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.

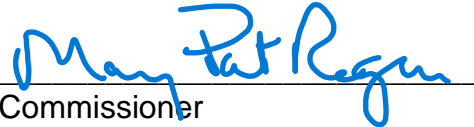
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PUBLIC SERVICE COMMISSION



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ATTEST:



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