

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	
POWER COMPANY FOR (1) RENEWED)	
AUTHORITY UNDER KRS 278.2207 (2) AND KRS)	
278.2219 TO ENABLE THE COMPANY TO PAY)	CASE NO.
THE FEES AND COSTS IMPOSED BY THE GRID)	2023-00305
ASSURANCE LLC SUBSCRIPTION)	
AGREEMENT; AND (2) THE GRANT OF ALL)	
OTHER REQUIRED APPROVALS AND RELIEF)	

ORDER

On September 15, 2023, Kentucky Power Company (Kentucky Power) filed an application pursuant to KRS 278.2207(2) and KRS 278.2219(2) for (1) an Order renewing Kentucky Power’s authority to execute the Subscription Agreement with Grid Assurance LLC (Grid Assurance), to enter into all transactions contemplated by the Subscription Agreement, and to continue to pay all fees and costs required by the Subscription Agreement including Kentucky Power’s Contract Allocated Share and the purchase cost associated with the purchases in connection with Qualifying events¹ and (2) granting all other required relief and approvals, and (3) an Order to be issued no later than November 15, 2023.²

¹ The application appeared to also request authority to enter into discretionary sales, which was denied in Case No. 2018-00287, *Electronic Application of Kentucky Power Company for 1) Authority Under KRS 278.2207(2) and KRS 278.2219 to the Extent Required to Enable the Company to Pay Fees and Costs Imposed by the Grid Assurance, LLC Subscription Agreement; 2) The Grant of All Other Required Approvals and Relief*. In response to Commission Staff’s First Request for Information (Staff’s First Request), Item 1, Kentucky Power confirmed that it was not seeking approval to acquire assets.

² Application at 1.

The record from Case No. 2018-00287³ was previously incorporated into this case by Order issued October 9, 2023. There are no intervenors in this matter. Kentucky Power responded to Staff's First Request for Information on October 13, 2023. Kentucky Power filed a Motion to Submit Matter for Decision on the Record on October 17, 2023.

BACKGROUND

Kentucky Power is a wholly owned subsidiary of American Electric Power Company, Inc. (AEP). AEP Transmission Holding Company, LLC (AEP Transmission Holding) is a limited liability company organized under the laws of the State of Delaware.⁴ AEP Transmission Holding is a wholly owned subsidiary of AEP and an affiliate of Kentucky Power as that term is defined at KRS 278.010(18).⁵ AEP Appalachian Transmission Co., Inc.; AEP Indiana Michigan Transmission Co., Inc.; AEP Kentucky Transmission Co., Inc.; AEP Ohio Transmission Co., Inc.; AEP Oklahoma Transmission Co., Inc.; AEP Texas Inc.; AEP West Virginia Transmission Co., Inc.; Appalachian Power Company; Electric Transmission Texas, LLC; Indiana Michigan Power Company; Kingsport Power Company; Ohio Power Company; Public Service Company of Oklahoma; Southwestern Power Company; and Wheeling Power Company (collectively, the other AEP Subscribers) have executed the Subscription Agreement. The other AEP Subscribers, with the exception of Electric Transmission Texas, LLC, are wholly owned

³ Case No. 2018-00287, *Electronic Application of Kentucky Power Company for 1) Authority Under KRS 278.2207(2) and KRS 278.2219 to the Extent Required to Enable the Company to Pay Fees and Costs Imposed by the Grid Assurance, LLC Subscription Agreement; 2) The Grant of All Other Required Approvals and Relief* (Ky. PSC Nov. 15, 2018).

⁴ Application at 2.

⁵ AEP Transmission Holding does not provide retail electric service in the Commonwealth and is not otherwise a utility as the term is defined at KRS 278.010(3)(a).

subsidiaries of AEP and are affiliates of Kentucky Power as that term is defined at KRS 278.010(18).⁶

Grid Assurance

Grid Assurance is a limited liability company organized under the laws of the State of Delaware.⁷ Grid Assurance provides services to assist subscribing members in restoring the bulk electric system in the wake of catastrophic events such as a natural disaster or a physical or cyberattack.⁸

Kentucky power stated that the current equity investors in Grid Assurance are three major utility companies or their affiliates — Berkshire Hathaway Energy U.S. Transmission, LLC (20 percent); AEP Transmission Holding on behalf of AEP (70.1 percent); and FirstEnergy Transmission, LLC (9.9 percent).⁹ Other transmission-owning electric utilities that execute Subscription Agreements (Subscribers) may become investors in Grid Assurance.¹⁰

Kentucky Power stated that Grid Assurance supports the restoration of electric service through multiple services including but not limited to:

⁶ None of the other AEP Subscribers is a Kentucky utility as the term is defined at KRS 278.010(3)(a).

⁷ Application at 2.

⁸ Grid Assurance does not provide retail electric service in the Commonwealth and is not otherwise a utility as the term is defined at KRS 278.010(3)(a).

⁹ Application at 3.

¹⁰ Kentucky Power does not hold an equity interest in Grid Assurance. Kentucky Power does not anticipate that it or any affiliate of Kentucky Power other than AEP Transmission Holding will hold an equity interest in Grid Assurance.

- Procuring and maintaining an inventory of critical spare transformers, circuit breakers, and related transmission equipment optimized for the collective needs of its Subscribers;
- Providing secure domestic warehousing of the inventory of spares in secure and strategic locations; and
- Releasing inventory of spares to Subscribers as needed in response to specified types of emergencies (known as “Qualifying Events”) and assisting with delivery logistics.¹¹

Kentucky Power stated that Grid Assurance procures and maintains an inventory of new spare transformers, circuit breakers, and other critical transmission equipment (Inventoried Spares) made available are owned and maintained by Grid Assurance. The Inventoried Spares are purchased by Grid Assurance based upon the responses to a Request for Proposals sent to select and vetted vendors. Grid Assurance maintains and provides access to an inventory of extra high voltage, large power transformers and circuit breakers. This equipment is adjusted based upon the needs of subscribing transmission owners, which are grouped into multiple “equipment classes” with common specifications (Equipment Class).¹²

Kentucky Power stated each Equipment Class has a target inventory optimized and managed to meet the collective needs of transmission owners that subscribe to equipment in that class. Grid Assurance warehouses its inventory in secure domestic locations away from affected substations. Grid Assurance currently maintains two

¹¹ These services collectively are referred to as Sparing Service.

¹² Application at 5.

warehouse locations. One warehouse is located in the East and one warehouse is located in the Midwest. The specific locations of the warehouses cannot be disclosed for security reasons.¹³

Kentucky Power stated the Grid Assurance Subscription Agreement enables a Subscriber to purchase Inventoried Spares from Grid Assurance upon the occurrence of a Qualifying Event.¹⁴ Kentucky Power stated the Sparing Service provided by Grid Assurance is intended to supplement the inventory management practices of Subscribers.¹⁵

The Grid Assurance Subscription Agreement

Kentucky Power stated the Grid Assurance Subscription Agreement remains unchanged in all material respects from the terms and from previously approved agreements, by the Commission. The Subscription Agreement provides Subscribers the contractual right to receive Sparing Service in accordance with the agreement's terms and conditions. Any transmission-owning entity that enters into the Subscription Agreement and pays the required annual Sparing Service Fee may become a Subscriber and receive Sparing Service.¹⁶

Sparing Service Fee.

Kentucky Power stated the Sparing Service Fee is an annual cost and is designed to reflect Grid Assurance's costs, including its cost to purchase, store, and maintain an

¹³ Application at 5.

¹⁴ Application at 6.

¹⁵ The Sparing Service thus is different from mutual assistance mechanisms such as are available through programs such as the Edison Electric Institute Spare Transformer Equipment Program (EEI-STEP) or the Regional Equipment Sharing for Transmission Outage Restoration (RESTORE) initiative.

¹⁶ Application at 6.

inventory of spare parts; general and administrative expenses; and financing costs. Kentucky Power has stated that the Sparing Service Fee continues to be calculated consistent with the methodology previously approved by the Commission.¹⁷

Kentucky Power proposes to continue its participation in Grid Assurance as a Subscriber and thereby continue its eligibility to receive Sparing Service upon receipt of all required Commission approvals. Kentucky Power proposes its continued participation as a Subscriber in conjunction with fifteen other AEP transmission-owning affiliates.¹⁸

Kentucky Power stated that its portion of the annual Sparing Service Fee is its allocated share (Contract Allocated Share) of the total annual Sparing Service Fee due under the Subscription Agreement from the AEP Subscribers. Grid Assurance bills AEP Transmission Holding Company which directly bills Kentucky Power. AEP Transmission Holding Company pays Grid Assurance Kentucky Power's Contract Allocated Share of the annual Sparing Service Fee.¹⁹

Kentucky Power stated its Contract Allocated Share is calculated based on the asset make-up of the AEP affiliates participating in Grid Assurance. Kentucky Power asserts that the fee structure is not anticipated to change materially from year to year.

Kentucky Power stated the allocation of costs to Kentucky Power will be based on its transformer and circuit breaker assets, compared to total AEP transformer and circuit breaker assets. Kentucky Power's projected annual Sparing Service Fee for the period

¹⁷ Application at 6.

¹⁸ Application at 6.

¹⁹ Application at 7.

from January 1, 2024, through December 31, 2024, is expected to be approximately \$4,958 on a total company basis.

Kentucky Power stated that through payment of this *de minimis* annual amount, Kentucky Power gains access to the multiple benefits available to it through Grid Assurance, it also allows Kentucky Power to avoid or limit the potentially higher costs and less certainty likely with other alternatives.

Sales Upon Qualifying Events.

Kentucky Power stated that in the event of a Qualifying Event, Kentucky Power may purchase an Inventoried Spare from any Equipment Class in which Kentucky Power is participating at the time of the Qualifying Event. Kentucky Power states these terms remain unchanged from the agreement previously approved by the Commission.²⁰

The Subscription Agreement governs all pricing and services. Kentucky Power may purchase the Inventoried Spare at a price equal to the Original Cost of the Inventoried Spare, Original Cost is defined as “the total cost incurred by Grid Assurance to purchase or acquire that Inventoried Spare and have it delivered to one of the Warehouse, including all transportation and delivery charges, taxes, duties (including custom duties), assessments, fees (including import and export fees) and other charges.” The Original Cost may be greater or less than the market price at the time of the Qualifying Event. Kentucky Power states that it anticipates that obtaining comparable spares upon the same schedule in the case of a Qualifying Event would be more costly.²¹

²⁰ Application at 8.

²¹ Application at 8.

Kentucky Power anticipates that Discretionary Sales, which are optional with Grid Assurance, principally will be used by Grid Assurance to manage its inventory of Inventoried Spares. In particular, the Company anticipates Grid Assurance will use Discretionary Sales to mitigate the risk that Inventoried Spares could become technologically or physically obsolete, and to mitigate the risk of Inventoried Spares aging beyond the applicable warranty period.

In the Commission's November 15, 2018 Order in Case No. 2018-00287, the Commission partially granted Kentucky Power's previous application. The Commission granted Kentucky Power's requests to enter into the Subscription Agreement, pay its Contract Allocated Share, and purchase equipment from Grid Assurance at Original Cost following Qualifying Events, subject to certain specified conditions. The Commission also denied Kentucky Power's request for deviation from KRS 278.2207 to purchase equipment through a Discretionary Sale, the Commission did allow Kentucky Power to seek deviations for specific purchases on a case-by-case basis.

The Commission also in its Order in Case No. 2018-00287, found that Grid Assurance's Sparing Service would increase Kentucky Power's ability to restore electricity to customers during catastrophic events. The Commission also found that following a Qualifying Event, market prices for Inventoried Spares may be higher than the Original Cost available through Grid Assurance.²²

In its application, Kentucky Power stated that the Subscription Agreement is extremely beneficial to Kentucky Power and its customers. As a "sub-subscriber" is able

²² Case No. 2018-00287, Nov. 15, 2018 Order.

to take advantage of cost sharing among all AEP affiliates.²³ Grid Assurance has assets at the ready, to immediately assist Kentucky Power's grid restoration efforts, whereas insurance would merely provide cash to purchase assets at today's higher prices, and with today's high lead times, which sometimes are up to four years.²⁴

Kentucky Power stated from 2019 through the end of 2022, it has paid \$13,467 (an average of \$3,300/year) in Grid Assurance subscription fees. Kentucky Power's Grid Assurance subscription allows it to access up to fifteen 345 kV circuit breakers and twenty 138 kV circuit breakers at Grid Assurance's original cost basis. During this period, Kentucky Power did not require Grid Assurance's assistance.²⁵

Kentucky Power stated that by participating in Grid Assurance, Kentucky Power estimated it has saved approximately \$3.7 million, and its ratepayers saved approximately \$4.3 million (including avoided return on equity grossed up for taxes), compared to what it would have cost to achieve a reasonable and comparable level of risk exposure through self-supply.²⁶

LEGAL STANDARD

KRS 278.2201 to KRS 278.2219 establish a number of rules governing transactions between utilities subject to the jurisdiction of the Commission, such as Kentucky Power, and their unregulated affiliates. KRS 278.010(18) defines an affiliate

²³ Application at 11.

²⁴ Application at 12.

²⁵ Application at 12.

²⁶ Application at 12.

for the purposes of those statutes as “a person that controls or that is controlled by, or is under common control with, a utility.”

KRS 278.2207(1)(b) requires that services and products provided to a utility by its affiliate be priced “at the affiliate’s fully distributed cost but in no event greater than market or in compliance with the utility’s existing USDA, SEC, or FERC approved cost allocation methodology.”²⁷ A utility may request a deviation from KRS 278.2207(1)(b) “for a particular transaction or class of transactions” and, in doing so, “[t]he utility shall have the burden of demonstrating that the requested pricing is reasonable.”²⁸ “The [C]ommission may grant the deviation if it determines the deviation is in the public interest.”²⁹

DISCUSSION AND FINDINGS

The Commission previously found in its November 15, 2018 Order in Case No. 2018-00287 that Grid Assurance is an affiliate of Kentucky Power as defined by KRS 278.010(18). The Commission continues to agree with that finding given AEP Transmission Holding’s significant majority interest in Grid Assurance. Thus, Kentucky Power’s transactions with Grid Assurance must comply with the requirements in the affiliate transactions statutes, including KRS 278.2207(1)(b), unless a deviation is granted.

The Contract Allocated Share to be paid by Kentucky Power to receive the benefits available to Subscribers is a cost-based fee that includes a return on equity component. There currently is no established market for the types of services to be provided to

²⁷ KRS 278.2207(1)(b).

²⁸ KRS 278.2207(2).

²⁹ KRS 278.2207(2).

Kentucky Power under the Subscription Agreement. It thus is not practicable to quantify the market price for such services.³⁰ Further, the annual fee, which has averaged \$3,300 a year since 2019, is low and would make up a *de minimis* amount of Kentucky Power's annual expenses. Thus, payment of the subscription fee alone would not likely result in a violation KRS 278.2207(1)(b).

Conversely, as noted by Kentucky Power, the cost of purchasing an inventoried spare as the result of a Qualifying Event could, under limited hypothetical circumstances, be greater than the market price for the inventoried spare, which would result in a violation of KRS 278.2207(1)(b).³¹ However, the Commission notes that for the market price to be lower than the original cost paid by Grid Assurance the market for such items would generally have to fall below the original cost, which the Commission does not see as likely given the historic and current inflationary environment for such equipment. Further, the risk that market prices might drop after the purchase of an inventoried spare would also apply if Kentucky Power maintained inventory on its own.

The Commission finds that the relatively modest risk that Kentucky Power could pay more than the market price for the subscription fee or for the purchase of an inventoried spare as the result of a Qualifying Event is outweighed by the benefits of subscribing to Grid Assurance. The Commission therefore finds that the subscription fee and cost of purchasing inventoried spares as the result of a Qualifying Event is reasonable and that granting Kentucky Power a deviation from KRS 278.2207 for transactions involving those costs for five additional years is in the public interest and should be

³⁰ Application at 14.

³¹ Application at 13.

granted. Thus, the Commission finds that Kentucky Power should be authorized to renew its membership and to pay all fees and costs required in connection with the Grid Assurance Subscription Agreement (i.e., its Contract Allocated Share) and should be authorized to pay costs associated with purchases in connection with a Qualifying Event, subject to any conditions discussed herein.

The Commission notes that Grid Assurance offers discretionary sales to its members. It would require an agreement from both the member and Grid Assurance for a member to purchase an inventoried spare outside of a Qualifying Event, and the costs for such purchases are different from the costs of purchases made as the result of a Qualifying Event. The Commission previously denied Kentucky Power a deviation from KRS 278.2207 to enter into discretionary sales with Grid Assurance³² and Kentucky Power is not seeking a deviation for such purchases in this case.³³ Thus, this Order should not be construed as granting Kentucky Power a deviation from KRS 278.2207 for discretionary purchases from Grid Assurance.

IT IS HEREBY ORDERED that:

1. Kentucky Power's September 15, 2023 application is granted.
2. Kentucky Power is granted a deviation from KRS 278.2207 to enter into the Grid Assurance Subscription Agreement and pay its Contract Allocated Share for five years from the date of service of this Order.

³² Case No. 2018-00287, *Electronic Application of Kentucky Power Company for 1) Authority Under KRS 278.2207(2) and KRS 278.2219 to the Extent Required to Enable the Company to Pay Fees and Costs Imposed by the Grid Assurance, LLC Subscription Agreement; 2) The Grant of All Other Required Approvals and Relief* (Ky. PSC Nov. 15, 2018), Order.

³³ Kentucky Powers Response Commission Staff's First Request for Information (Staff's First Request) (filed Oct. 13, 2023), Item 1.

3. Kentucky Power is granted a deviation from KRS 278.2207 for purchases of equipment from Grid Assurance upon Qualifying Events at Original Cost for five years from the date of service of this Order.

4. Kentucky Power shall provide final transfer, or if applicable, acquisition details, within 30 days of any Qualifying Event transaction occurring under the terms of the Grid Assurance Agreement and shall supplement such initial reporting with subsequent final documents.

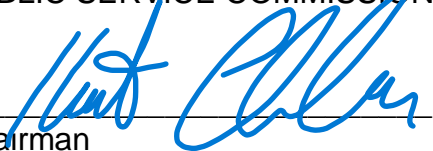
5. Kentucky Power shall notify the Commission should there be any change in the Springing Service to be provided by Grid Assurance or in the fee to be paid by Kentucky Power for that service.

6. Any documents filed pursuant to ordering paragraphs 4 and 5 of this Order shall reference the number of this case and shall be filed into the post-case correspondence file.

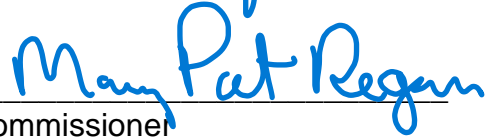
7. This Order in no way affects the Commission's jurisdiction over rates, services, or any matters whatsoever subject to the Commission's jurisdiction that may come before it, nor shall anything herein be construed as acquiescence in any estimate of costs, or any valuation of property claimed or asserted. The Commission retains jurisdiction over this subject matter and Kentucky Power to effectuate the provisions of this Order.

8. This case is closed and removed from the docket.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ENTERED
MAR 15 2024 bsb
KENTUCKY PUBLIC
SERVICE COMMISSION

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