



139 East Fourth Street, R. 25 At II  
P.O. Box 960  
Cincinnati, Ohio 45201-0960  
Tel: 513-419-1852  
Fax: 513-419-1846  
[Rocco.D'Ascenzo@duke-energy.com](mailto:Rocco.D'Ascenzo@duke-energy.com)

Rocco O. D'Ascenzo  
Senior Counsel

**VIA OVERNIGHT DELIVERY**

November 14, 2008

**RECEIVED**

**NOV 17 2008**

**PUBLIC SERVICE  
COMMISSION**

Ms. Stephanie Stumbo  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602-0615

Re: Case No. 2008- 476

Dear Ms. Stumbo:

Enclosed please find an original and twelve copies of an Application of Duke Energy Kentucky For An Order Approving The Establishment Of A Regulatory Asset.

Please date-stamp the extra two copies of the Application and return in the enclosed envelope.

Sincerely,

Rocco O. D'Ascenzo  
Senior Counsel

cc: Dennis G. Howard II

**RECEIVED**

NOV 17 2008

**PUBLIC SERVICE  
COMMISSION**

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of an Application of )  
Duke Energy Kentucky, Inc. For an Order Approving ) Case No. 2008-  
The Establishment of a Regulatory Asset )

**VERIFIED APPLICATION OF DUKE ENERGY KENTUCKY, INC.**

To the Honorable Kentucky Public Service Commission:

Duke Energy Kentucky, Inc. ("Duke Energy Kentucky" or the "Company") respectfully petitions the Kentucky Public Service Commission ("Commission") for an accounting order permitting Duke Energy Kentucky to accumulate and defer for recovery in rate proceedings before the Commission expenses incurred to repair damage and restore service to its customers following recent and extensive storm-related damage caused by Hurricane Ike on September 14, 2008. In support of this Application, Duke Energy Kentucky states as follows:

1. Duke Energy Kentucky is a Kentucky corporation and a public utility as defined in Section 278.010 of the Kentucky Revised Statutes ("KRS") and is subject to the Commission's jurisdiction. Duke Energy Kentucky is engaged in the business of furnishing gas and electric services to various municipalities and unincorporated areas in Boone, Campbell, Gallatin, Grant, Kenton and Pendleton Counties in the Commonwealth of Kentucky.

2. Duke Energy Kentucky's address is 1697 A-Monmouth Street, Newport, Kentucky 41017.

3. Duke Energy Kentucky's articles of incorporation are on file with the Commission in Case No. 2006-000563 and are incorporated by reference herein pursuant to 807 KAR 5:001, Section 8(3).

4. Pursuant to KRS 278.220, the Commission is authorized to prescribe accounting to be kept by utilities subject to its jurisdiction. By Order dated January 31, 2002, in Case No. 2001-00092, the Commission required Duke Energy Kentucky to obtain Commission approval to establish any new regulatory assets.

5. Communications regarding this Application should be addressed to:

Rocco O. D'Ascenzo  
Senior Counsel  
Amy B. Spiller  
Associate General Counsel  
Duke Energy Business Services, Inc.  
139 East Fourth Street, Room 2500 AT II  
P.O. Box 960  
Cincinnati, OH 45201-0960

6. On September 14, 2008, a historic wind storm from the remnants of Hurricane Ike struck the entire Northern Kentucky and Greater Cincinnati areas, carrying hurricane force winds that included bursts in excess of 70 miles per hour. The unprecedented winds brought widespread damage to trees and especially to Duke Energy Kentucky's electric delivery system including, but not limited to, poles, power lines, transformers, insulators, and other equipment.

The September 14, 2008, wind storm caused the largest documented electric outage in the history of Duke Energy Kentucky. The magnitude of the storm was such that Governor Steven L. Beshear declared a state of emergency in the Commonwealth.<sup>1</sup> More than two thirds (2/3) of Duke Energy Kentucky customers were without power as a result of the storm. The Company documented approximately 148,500 sustained outages (greater than five minutes in length) due to the damage caused by Hurricane Ike. Despite the best and diligent efforts of Duke Energy Kentucky's employees, contractors, and colleagues from other utilities, service could not be fully restored to 100% of Duke Energy Kentucky's territory for several days. To the

best of Duke Energy Kentucky's knowledge, these outages, combined with outages experienced by other Kentucky utilities, constitute the largest power outage event ever experienced in the Commonwealth. Duke Energy Kentucky used its best available resources to monitor Hurricane Ike, but those resources were unable to predict the storm's strength and impact on Northern Kentucky.

7. On September 14, 2008, Duke Energy Kentucky and its sister utilities, Duke Energy Ohio, Inc. and Duke Energy Indiana, Inc. immediately began implementing their emergency plans to respond to the damage. With respect to the service territories of Duke Energy Kentucky and Duke Energy Ohio, the storm affected every part of the 3,000-square-mile service area in Northern Kentucky and Southwest Ohio. More than 1,200 Duke Energy employees and contractors responded to the storm by assessing damage, preparing material for the field, assigning jobs to crews, removing damaged vegetation, repairing down lines and equipment and providing support services. An additional 450 employees and contractors worked in the call centers taking customer calls, including 145 people from other departments who served as auxiliary call center representatives.

Duke Energy Kentucky and Duke Energy Ohio worked together to retain approximately 1,230 employees and contractors from other utilities, in other states, to assist in the restoration effort for Kentucky and Ohio customers. This included approximately 570 employees and contractors from Duke Energy Carolinas, many of whom were preparing to go to Texas and Louisiana to assist with hurricane restoration there, but were diverted to the Northern Kentucky and Greater Cincinnati areas. Employees and contractors from six other utilities from

---

<sup>1</sup> See <http://kyem.ky.gov/>

as far away as Virginia assisted with the restoration effort. The non-Duke crews first arrived September 15, 2008, the day after the wind storm hit.

8. The storm restoration efforts resulting from Hurricane Ike were significant and extraordinary, both in magnitude of damage repair and total cost. The costs Duke Energy Kentucky has incurred as part of the restoration have exceeded the Company's average annual storm-related costs. Duke Energy Kentucky estimates that its Hurricane Ike-related expenses, most of which are operations and maintenance ("O&M") costs will be approximately \$4,920,812. The current estimates for repair costs are attached hereto as Exhibit 1. These costs are based upon both actual and estimated costs incurred to date and reasonable estimates of contingencies.

9. Duke Energy Kentucky does not maintain property and casualty insurance that covers all of its distribution and transmission systems for damage caused by severe weather because of the cost of doing so. As a result, Duke Energy Kentucky has not and will not receive any insurance proceeds to offset the Hurricane Ike damage expenses.

10. Duke Energy Kentucky asks the Commission for permission to accumulate as a regulatory asset and defer for future recovery in appropriate accounts, the actual costs incurred as a result of the September 14, 2008, wind storm caused by Hurricane Ike. The measures Duke Energy Kentucky took to restore service, and the costs related thereto, were reasonable and prudent and should therefore be recoverable as a necessary cost of providing service to Duke Energy Kentucky's customers. If approved, Duke Energy Kentucky will hold its deferred costs in account No. 182.3, Other Regulatory Assets, until such time as the Commission considers the method of recovery in a future rate proceeding.

11. The accounting treatment requested herein related to the September 14, 2008, wind storm will only have a small impact on customers when the Commission subsequently

approves amortization and rate recovery of the regulatory asset. For example, if in the next rate case, the Commission approves a three-year amortization of this regulatory asset to be included in revenue requirements, the overall impact on retail customers is expected to be less than one percent (1%).

12. The Commission has previously approved accounting treatment for such extraordinary events and permitted deferral and amortization of significant and extraordinary expenses.<sup>2</sup> Duke Energy Kentucky respectfully submits that the costs incurred because of the September 14, 2008, wind storm undeniably qualify as such extraordinary expenses.

13. Consistent with Statements of Financial Standards ("SFAS") No. 71, granting such treatment in this case will allow Duke Energy Kentucky to make appropriate adjustments to its books of account for the regulatory asset and prevent Duke Energy Kentucky from having to record extraordinary storm costs as expenses on its books. To comply with SFAS No. 71, Duke Energy Kentucky respectfully requests the Commission to state explicitly in its order that it is authorizing Duke Energy Kentucky to accumulate in a regulatory asset and defer for future recovery the actual amounts, and accruals for estimated amounts until actual costs can be determined, of extraordinary expenses Duke Energy Kentucky incurred to repair damage and restore service to customers following the September 14, 2008, wind storm in a regulatory asset in Account No. 182.3, Other Regulatory Assets.

---

<sup>2</sup> See e.g. *In the Matter of: An Adjustment of the Electric Rates, Terms and Conditions of Kentucky Utilities Company*, Case No. 2003-00434, Order at 39-41 (June 30, 2004), finding Kentucky Utilities' proposal to defer and amortize significant ice storm related expenses as reasonable; *In the Matter of General Adjustment of Rates of East Kentucky Power Cooperative*, Case No. 2006-472 (Order)(December 7, 2007) Permitting amortization of forced outage expenses over three years due to the significance and extraordinary nature of the event.

14. If the Commission approves Duke Energy Kentucky's requested regulatory asset treatment of its September 14, 2008, wind storm related expenses, Duke Energy Kentucky will make the following journal entries for Hurricane Ike-related costs:

Debit	182.3	Other Regulatory Assets		
		Credit	58X	Distribution Operation Expense
			59X	Distribution Maintenance Expense
			9XX	Administrative & General Expense
			408	Payroll Taxes

15. Duke Energy Kentucky respectfully requests that the Commission approve this requested accounting treatment at the earliest possible date, and no later than December 31, 2008, so that the Company can reflect the necessary adjustments on its books for the year ending December 31, 2008. This is necessary to avoid inaccuracies in Duke Energy Kentucky's financial statements for 2008 and 2009. For example, if the Commission does not grant the requested deferral until 2009, Duke Energy Kentucky will have to record the expenses in 2008, artificially depressing its operating income in that year and artificially increasing it in the calendar year 2009. To avoid such an anomaly in financial records, Duke Energy Kentucky respectfully requests the Commission issue an order granting the relief requested herein no later than December 31, 2008.

WHEREFORE, Duke Energy Kentucky prays that the Commission issue an order at the earliest possible date, and no later than December 31, 2008, granting authority to accumulate in a regulatory asset and defer for future recovery the actual amounts, and accruals for estimated amounts until actual costs can be determined, of extraordinary expenses Duke Energy Kentucky incurred to repair damage and restore service to customers following the September 14, 2008,

wind storm and to apply the proposed accounting treatment to make appropriate adjustments on its books of account for the year ending December 31, 2008.

Respectfully submitted,

Duke Energy Kentucky, Inc.



Rocco O. D'Ascenzo (92792)

Senior Counsel

Amy B. Spiller (85309)

Associate General Counsel

Duke Energy Business Services, Inc.

2500 Atrium II

P. O. Box 960

Cincinnati, Ohio 45201-0960

Phone: (513) 419-1852

Fax: (513) 419-1846



**Ike Storm Restoration Estimate  
Duke Energy Kentucky  
September 14, 2008**

	<u><b>Kentucky Estimated O&amp;M Expense</b></u>
Estimated Internal Duke Labor	\$2,463,703
Linemen Contractors	\$1,831,694
Tree Trimming Contractors	\$ 237,510
<i>Subtotal Contractor Estimate</i>	<i>\$2,069,204</i>
Materials & Supplies	\$224,031
Other Non-Labor Expenses (Food, Lodging, etc.)	\$295,829
<b><i>Total Kentucky O&amp;M Cost Projection Estimate for Ike Storm Restoration</i></b>	<b><u>\$5,052,767</u></b>
Estimated Amount Considered Normal Operations (Internal Duke Labor)	\$131,948
<b><i>Total Estimated Incremental O&amp;M Impacts to Kentucky</i></b>	<b><u>\$4,920,819</u></b>


## Notes:

Data from Final Oct 03, 2008 Estimate

VERIFICATION

STATE OF OHIO )  
 ) SS:  
COUNTY OF HAMILTON )

The undersigned, Paul G. Smith, being duly sworn, deposes and says that he is the Vice President Rates Ohio-Kentucky, that he has personal knowledge of the matters set forth in the foregoing, and that the information contained therein is true and correct to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
Paul G. Smith, Affiant

Subscribed and sworn to before me by Paul G. Smith on this 14<sup>th</sup> day of November,  
2008.

  
\_\_\_\_\_  
NOTARY PUBLIC

My Commission Expires: 9-15-2009

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served on the following via overnight mail, postage prepaid, this 17<sup>th</sup> day of November, 2008:

Dennis G. Howard II  
Assistant Attorney General  
The Kentucky Office of the Attorney General  
1024 Capital Center Drive  
Frankfort, Kentucky 40602-2000



Rocco O. D'Ascenzo  
Amy B. Spiller