

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER)
COMPANY FOR AN ORDER APPROVING)
ACCOUNTING PRACTICES TO ESTABLISH)
REGULATORY ASSETS AND LIABILITIES) CASE NO. 2009-00352
RELATED TO THE EXTRAORDINARY EXPENSES)
INCURRED BY KENTUCKY POWER COMPANY)
IN CONNECTION WITH THREE MAJOR)
EVENT STORMS IN 2009)

O R D E R

On August 31, 2009, Kentucky Power Company ("Kentucky Power") filed an application seeking authority to establish a regulatory asset for its operation and maintenance costs incurred in connection with restoring electric service to its customers following three major 2009 storms ("2009 Storms") in its service area. The three 2009 Storms were a January ice storm, a February windstorm and a May thunderstorm. In its application, Kentucky Power states that, at the peak of the January ice storm, approximately 33,200 customers, or roughly 19 percent of its customer base, were without electricity. Service to approximately 58,000 Kentucky Power customers was affected as a result of the February windstorm. In May, a severe thunderstorm, with winds reported as high as 80 miles per hour, struck Kentucky Power's territory. The wind damage, as well as mudslides caused by heavily rain-saturated soils, caused extensive damage to Kentucky Power's electrical facilities. On October 12, 2009, Kentucky Power provided an updated total of \$10,306,227 as the amount of storm-related costs it is requesting to establish as a regulatory asset.

A procedural schedule was established which provided for two rounds of discovery and for the filing of intervenor testimony or comments. Commission Staff issued two rounds of data requests. There are no intervenors in this matter. There being no further procedural steps in this proceeding, the case now stands submitted for a decision.

ARGUMENT

Kentucky Power states that, as of September 30, 2009, its operation and maintenance costs related to the 2009 Storms exceed the storm-related expenses included in its base rates by approximately \$10.3 million. Kentucky Power contends that the measures it took to restore service, and the related costs, were reasonable and prudent, and should be recoverable as a necessary cost of providing electric service to its customers. Citing the magnitude of these costs, Kentucky Power requests permission to record this amount as a regulatory asset and to defer these costs for consideration for future rate recovery.

Kentucky Power states that such accounting treatment will allow it to make appropriate adjustments on its books of account to remove its extraordinary storm-related costs currently recorded as expenses on its books for calendar year 2009. Kentucky Power further states that such treatment will allow it to record those storm-related costs as a regulatory asset in Account No. 182 of the Uniform System of Accounts established by the Federal Energy Regulatory Commission (“FERC”), which this Commission has adopted.

Kentucky Power requested approval of its request by no later than December 31, 2009, in order to make the requested adjustments and avoid distortion of its year-end 2009 financial statements. In response to Commission Staff's initial data request, Kentucky Power indicated it believes the final actual operations and maintenance costs for the three 2009 storms will be the amount known and recorded as of September 30, 2009.¹

DISCUSSION

Kentucky Power's damage and service restoration costs related to the cumulative effects of the 2009 Storms are clearly extraordinary in nature based on their absolute magnitude and the amount of storm damage expenses built into Kentucky Power's base rates. Reflecting the cumulative costs associated with the 2009 Storms as expenses on Kentucky Power's 2009 books would have a significant impact on its 2009 financial results. The number of customers without electric service dictated an extraordinary effort on the part of Kentucky Power to restore service, an effort which resulted in its incurring an extraordinarily high level of costs. Given the nature and impact of these costs, the Commission concludes that it is reasonable and appropriate to authorize Kentucky Power to establish a regulatory asset based on its actual storm-related costs for its damages and service restoration costs incurred as a result of the combined effects of the three 2009 Storms.

¹ As of September 30, 2009, Kentucky Power's actual costs in excess of base rate storm expense were approximately \$10.3 million. Responses to Item 3.c. and Item 5a, page 2 of Commission Staff's First Data Request, filed October 12, 2009.

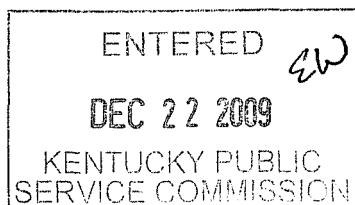
SUMMARY

The Commission finds that Kentucky Power should be allowed to create and record a regulatory asset for its actual costs incurred to restore service for the three 2009 Storms, not to exceed costs of \$10,306,227. Further, the Commission agrees with Kentucky Power's proposal that the regulatory asset should be recorded in FERC Account No. 182.

IT IS THEREFORE ORDERED that:

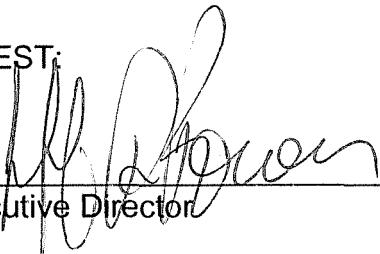
1. Kentucky Power is authorized to establish a regulatory asset in the amount of \$10,306,227 based on its costs for storm damages and service restoration due to the 2009 Storms occurring in January, February and May, 2009.
2. Kentucky Power shall file the accounting entries it makes to establish and record the regulatory asset authorized herein with the Commission no later than January 31, 2010.

By the Commission



Commissioner Border Abstains.

ATTEST:


Executive Director

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