

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	
UTILITIES COMPANY AND LOUISVILLE GAS)	CASE NO.
AND ELECTRIC COMPANY FOR AN ORDER)	2025-00196
APPROVING THE ESTABLISHMENT OF)	
REGULATORY ASSETS)	

ORDER

On June 17, 2025, Kentucky Utilities Company (KU) and Louisville Gas and Electric Company (LG&E) (jointly, LG&E/KU) filed an application pursuant to KRS 278.030, KRS 278.040, and KRS 278.220 requesting authorization to establish regulatory assets for extraordinary operating and maintenance (O&M) expenses related to storm damage restoration activities caused by severe thunderstorms and tornadoes occurring on May 16, 2025 (May 2025 Storm). LG&E/KU estimated that their combined distribution and transmission storm-related O&M and capital costs will be approximately \$27.6 million.¹ The storm-related costs were estimated to be approximately \$18.1 million for KU, consisting of storm-related O&M costs of approximately \$3.5 million and storm-related capital costs of approximately \$14.6 million, and approximately \$9.5 million for LG&E, consisting of storm-related O&M costs of approximately \$2.0 million and storm-related capital costs of approximately \$7.5 million.²

¹ Application at 6.

² Application at 6.

In Case No. 2024-00329, the Commission found that LG&E/KU could preliminarily record storm damage regulatory assets for quarterly financial statements and required that they provide immediate notice of the creation of the regulatory assets and request approval within 90 days of the storm event.³ LG&E/KU provided notice that they would record regulatory assets on their books as of the end of June 2025 in connection with their June accounting close.⁴ LG&E/KU responded to one round of requests for information.⁵ This case is submitted for a decision on the written record.

LEGAL STANDARD

KRS 278.220 sets out that the Commission may establish a uniform system of accounts (USoA) for utilities, and in LG&E/KU'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. The Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, which was codified as Accounting Standards Codification (ASC) 980, Regulated Operations, provides the criteria for recognition of a regulatory asset.⁶ Pursuant to

³ Case No. 2024-00329, *Electronic Application of Kentucky Utilities Company and Louisville Gas and Electric Company for an Order Approving the Establishment of Regulatory Assets* (Ky. PSC Dec. 4, 2024), Order at 5–6.

⁴ Application at 8.

⁵ LG&E/KU's Response to Commission Staff's First Request for Information (Staff's First Request) (filed July 29, 2025).

⁶ ASC 980-340-25-1 provides, in full, as follows:

25-1 Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred

ASC 980, 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 similar future cost.

The Commission has established: (1) parameters for expenses which may qualify for regulatory asset treatment; (2) a requirement of Commission approval before recording regulatory assets;⁷ and (3) requirements regarding the timing for applications seeking such approval.⁸ While not determinative, it is illustrative to recognize that previously the Commission has approved regulatory assets when 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;

cost that would otherwise be charged to expense if both of the following criteria are met:

a. It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.

b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date.

⁷ 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), final Order at 9.

⁸ Case No. 2016-00180, Dec. 12, 2016, Order at 5.

or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.⁹

REQUEST FOR A REGULATORY ASSET

In anticipation of severe weather, Governor Andy Beshear issued a state of emergency on May 16, 2025.¹⁰ In the evening hours of May 16, 2025, LG&E/KU's service areas experienced severe thunderstorms, large hail, wind gusts in excess of 80 miles per hour, and a tornado outbreak.¹¹ As a result of the storm damage, LG&E/KU replaced 275 distribution poles and 15 transmission structures, and experienced a total of 823 wire down events.¹² LG&E/KU stated a total of 589 off-system resources assisted in restoration efforts.¹³ Restoration efforts lasted four days and resulted in total estimated costs of \$27.6 million, of which \$5.5 million was O&M expense.¹⁴ LG&E/KU argued that the costs associated with the May 2025 Storm were extraordinary, nonrecurring expenses that could not have reasonably been anticipated or included in either LG&E or KU's planning.¹⁵ Additionally, LG&E/KU asserted the collective magnitude of each of their respective May 2025 Storm expenses, in relation to the amount of storm-related O&M

⁹ Case No. 2008-00436, *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.

¹⁰ Office of Governor Andy Beshear and Lt. Governor Jacqueline Coleman, Executive Order No. 2025-305 (May 16, 2025), https://governor.ky.gov/attachments/20250516_Executive-Order_2025-305_State-of-Emergency-Related-to-Continuing-Weather-Event.pdf

¹¹ Application at 4.

¹² LG&E/KU's Response to Staff's First Request, Item 1.

¹³ LG&E/KU's Response to Staff's First Request, Item 2.

¹⁴ Application, Exhibit 1.

¹⁵ Application at 7.

expense included in each of their base rates, as well as the effect on the utilities' current year financial results should the Commission not authorize a deferral, supports the standard to establish a regulatory asset.¹⁶ LG&E/KU anticipates that the actual costs of the May 2025 Storm are to be finalized in January 2026, after the December 2025 accounting close.¹⁷

For KU, the total estimated restoration costs are \$18.1 million, of which incremental O&M expenses of \$3.5 million are requested to be deferred.¹⁸ KU's base rates include \$3.2 million in storm-related O&M expense.¹⁹ As of June 2025, KU's 2025 storm-damage operating expenses that have not been deferred totaled \$3.8 million.²⁰

For LG&E, the total estimated restoration costs are \$9.5 million, of which incremental O&M expenses of \$2.0 million are requested to be deferred.²¹ LG&E's base rates include \$4.6 million in storm-related O&M expense.²² As of June 2025, LG&E's 2025 storm-damage operating expenses that have not been deferred totaled \$4.1 million.²³

¹⁶ Application at 7–8.

¹⁷ LG&E/KU's Response to Staff's First Request, Item 5.

¹⁸ Application, Exhibit 1.

¹⁹ LG&E/KU's Response to Staff's First Request, Item 3a.

²⁰ LG&E/KU's Response to Staff's First Request, Item 3c.

²¹ Application, Exhibit 1.

²² LG&E/KU's Response to Staff's First Request, Item 3b.

²³ LG&E/KU's Response to Staff's First Request, Item 3d.

DISCUSSION AND FINDINGS

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that LG&E/KU's request for authorization to establish regulatory assets for the repair and restoration of the May 2025 Storm should be granted. The costs to repair the damaged assets are extraordinary, nonrecurring, and could not have been reasonably anticipated or included in LG&E/KU's planning. The amount for which KU has requested regulatory asset treatment is material and exceeds the remaining expense amount budgeted in its base rates for 2025. However, the Commission finds that LG&E should only be authorized to defer the amount of storm-related O&M expense that exceeds the amount remaining at year-end embedded in LG&E's base rates.

The Commission finds that LG&E/KU should be authorized to establish, for accounting purposes only, regulatory assets based on the jurisdictional incremental costs of extraordinary O&M expense incurred by LG&E/KU as a result of the May 2025 Storm. The Commission further finds that LG&E/KU shall file the actual deferral amounts within 30 days after the amounts are known. Finally, the Commission finds that the amount, if any, of the regulatory assets authorized herein that is to be amortized and included in base rates shall be determined in LG&E/KU's next base rate case.

IT IS THEREFORE ORDERED that:

1. LG&E/KU's request to for authorization to establish regulatory assets for the repair and restoration of the May 2025 Storm is granted.
2. LG&E/KU are authorized to establish regulatory assets for the incremental actual costs of extraordinary O&M expenses related to the storms as described in their application.

3. LG&E is authorized to defer only the amount of incremental, actual costs of extraordinary O&M expenses to the extent it exceeds the amount remaining at year-end embedded in its base rates for 2025.

4. LG&E/KU shall file with this Commission, within 30 days from the date final actual costs amounts are known, a statement setting forth the total costs incurred, amounts deferred to a regulatory asset, and amounts determined to be normal operations.


5. The regulatory asset accounts established in this case are for accounting purposes only.


6. The amount, if any, of the regulatory assets authorized herein that is to be amortized and included in rates shall be determined in LG&E/KU's next base rate case.


7. Any documents filed in the future pursuant to ordering paragraph 3 herein shall reference this case number and shall be retained in the post-case correspondence file.

8. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:

 RP
Executive Director



*Honorable Allyson K Sturgeon
Vice President and Deputy General Counsel-
LG&E and KU Energy LLC
220 West Main Street
Louisville, KY 40202

*Rick E Lovekamp
Manager - Regulatory Affairs
LG&E and KU Energy LLC
220 West Main Street
Louisville, KY 40202

*Robert Conroy
Vice President, State Regulation and Rates
LG&E and KU Energy LLC
220 West Main Street
Louisville, KY 40202

*Louisville Gas and Electric Company
820 West Broadway
Louisville, KY 40203

*Kentucky Utilities Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40232-2010

*Louisville Gas and Electric Company
820 West Broadway
Louisville, KY 40203

*Sara Judd
Senior Corporate Attorney
LG&E and KU Energy LLC
220 West Main Street
Louisville, KY 40202