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 ESTABLISH A REGULATORY ASSET RELATED TO THE EXTRAORDINARY EXPENSES INCURRED BY KENTUCKY POWER COMPANY IN CONNECTION WITH THE JANUARY 5, 2025 AND FEBRUARY 15, 2025 MAJOR EVENT STORMS	)))))))))	CASE NO. 2025-00031

O R D E R

On February 28, 2025, Kentucky Power Company (Kentucky Power) filed an application pursuant to KRS 278.030, KRS 278.040, and KRS 278.220 requesting authorization to establish a regulatory asset for Kentucky Power's net operation and maintenance (O&M) expenses arising from severe weather occurring on January 5, 2025, and February 15, 2025, in its service area. Kentucky Power requested to defer approximately $10.7 million in incremental O&M costs of the $16.7 million total restoration costs.[1] Kentucky Power requested that the Commission enter an order on or before March 31, 2025, because obtaining an order by that date would permit Kentucky Power sufficient time to record the storm costs on its first quarter 2025 financial statements, which are expected to close on April 8, 2025.[2] No party sought to intervene in this

[1] Application, Exhibit 2.

[2] Application at 2–3.

proceeding. Based upon the record and Kentucky Power's request, this case is submitted for a decision based on the written record.

LEGAL STANDARD

KRS 278.220 provides 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 that 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.[3] Additionally, the Commission has established

[3] 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.

a requirement that utilities seek Commission approval before recording regulatory assets,[4] and requirements regarding the timing for applications seeking such approval.[5]

REQUEST FOR REGULATORY ASSET

In support of the request to establish a regulatory asset for O&M costs related to storms, Kentucky Power asserted that it incurred extraordinary O&M costs to restore service after severe weather on January 5, 2025, and February 15, 2025. Kentucky Power asserted that both storms meet the standard for a major event day under IEEE Standard 1366, which, for 2025, is at least 4,467,511 customer minutes of interruption (CMI).[6]

Kentucky Power explained that, on January 5, 2025, Kentucky Power's service area experienced severe snow and ice accumulation associated with Winter Storm Blair, which resulted in 35 broken poles, 29 damaged sets of cross arms, 16 damaged transformers, 449 spans of damaged or destroyed conductor, and 10,735 customer outages with a CMI of 20,369,727.[7] Kentucky Power asserted that restoration efforts lasted approximately four days and resulted in total costs of $7.3 million, of which $4.9 million was incremental O&M expense.[8] Kentucky Power further asserted that approximately 1,149 internal and contract employees assisted in restoration efforts.[9]

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[4] 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.

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

[6] Application at 4.

[7] Application at 5–6.

[8] Exhibit 2.

[9] Application at 5.

Kentucky Power also explained that, on February 15, 2025, Kentucky Power's service area experienced heavy rain and widespread flooding that resulted in 61 broken poles, 62 damaged sets of cross arms, 31 damaged transformers, 506 spans of damaged or destroyed conductor, 5 flooded substations, and 18,373 customer outages with a CMI of 36,991,243.[10] Kentucky Power asserted that restoration efforts lasted approximately five days and resulted in total costs of $9.3 million, of which $5.8 million was incremental O&M expense.[11] Kentucky Power further asserted that approximately 836 internal and contract employees assisted in restoration efforts.[12]

The total estimated restoration costs are $16,677,637, of which incremental O&M expenses of $10,742,099 are requested to be deferred.[13] Kentucky Power's base rates include $1,101,000 in storm-related O&M expenses.[14] Kentucky Power stated that the year-to-date storm damage O&M expenses, exclusive of January 5 and February 15 storms is $236,000 as of February 28, 2025. Kentucky Power asserted that the incremental O&M costs were extraordinary and sufficiently significant to satisfy the standard to establish a regulatory asset.[15] Kentucky Power argued that the Commission evaluates whether to authorize a regulatory asset for storm costs based upon the magnitude of the expense as compared to storm-related costs in the utility's rate base and the effect on the utility's current year financial results if the regulatory asset was

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[10] Application at 7–8.

[11] Exhibit 2.

[12] Application at 7.

[13] Exhibit 2.

[14] Application at 8.

[15] Application at 10–13.

denied.[16] Kentucky Power proposed to defer the total jurisdictional incremental storm-related O&M expense and reduce the deferral amount of this regulatory asset to correspond with only those amounts that are incremental to its embedded base rate annual storm expense commensurate with the close of 2025, to the extent that Kentucky Power does not incur additional Major or Non-Major storm expense in 2025.[17]

DISCUSSION AND FINDINGS

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that Kentucky Power's request for authorization to establish regulatory assets for the repair and restoration of storm-related damages, including the costs to repair the damaged assets, represent O&M expenses that 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, a regulatory asset based on the jurisdictional incremental costs of extraordinary O&M expenses incurred by Kentucky Power as a result of the storms. However, the Commission finds that Kentucky Power should only be authorized to defer the amount of jurisdictional incremental storm-related O&M expense to the extent it exceeds the $1.1 million embedded in Kentucky Power's base rates.

In Case No. 2023-00159, Kentucky Power's last base rate case, the Commission approved Kentucky Power's proposal to reduce the level of total distribution major and non-major storm project expense in the test year from $7.3 million to approximately $1.0

[16] Application at 11-12.

[17] Application at 12-13.

million and maintain the actual test-year level of transmission major and non-major storm project expense of $0.1 million.[18] The Commission expressed concerns specifically stating:

> That interpretation [that a utility is entitled to a regulatory asset simply because an expense significantly exceeds amounts included in base rates] of when a regulatory asset should be permitted would allow a utility to create de facto true-ups with carrying charges by setting an expense low in base rates and receiving a regulatory asset each year for the difference as Kentucky Power has done with storm damage expense in each of the last four years. Such de facto true-ups would reduce incentives for utilities to monitor costs and would likely ultimately result in customers paying more due to carrying charges and potentially increased expenses.[19]

Finally, in that case, the Commission noted that it "will examine each application for a regulatory asset thoroughly to ensure that the costs are reasonable and prudently incurred, regardless of the amount, and will not find that an expense is extraordinary simply because it exceeds the test-year amount."[20]

In the present case, Kentucky Power explained that there are no set monetary thresholds to determine whether or not Kentucky Power will seek a regulatory asset for storm damages, and that the company evaluates each weather event independently.[21] Kentucky Power also explained that the January 5, 2025, storm brought 5–10 inches of snowfall with ice accumulation totals of 0.10–0.47 inches across its service territory, and

[18] Case No. 2023-00159, *Electronic Application of Kentucky Power Company for (1) a General Adjustment of its Rates for Electric Service; (2) Approval of Tariff and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) A Securitization Financing Order; and (5) All other Required Approvals and Relief* (Jan. 19, 2024), Order at 33.

[19] Case No. 2023-00159, January 19, 2024 Order at 34.

[20] Case No. 2023-00159, January 19, 2024 Order at 35.

[21] Kentucky Power's Response to Commission Staff's First Request for Information (Staff's First Request), Item 4b.

the February 15, 2025, storm brought a total of 2 to 4 inches of rainfall to already saturated soils compounded by wind gusts of 40–50 mph across its service territory.[22] Kentucky Power also noted that much of the damage experienced during the February 15, 2025, storm was the result of mudslides causing trees outside the right-of-way (ROW) to fall into Kentucky Power's distribution assets.[23] Kentucky Power also stated that both weather events exceeded the major event day threshold.[24] In this instance, Kentucky Power has provided sufficient evidence that the storm damages are an extraordinary, nonrecurring expense that could not have reasonably been anticipated or included in its planning.

However, the Commission has concerns about how Kentucky Power will ensure that the costs are reasonable and prudently incurred. Therefore, consistent with Case No. 2023-00159,[25] the Commission finds that in any future regulatory assets, Kentucky Power should identify and explain its efforts to keep costs and expenses to a minimum, and that such costs were reasonably and prudently incurred. Additionally, in any future Kentucky Power applications seeking a regulatory asset related to storm damages, the Commission finds that Kentucky Power should provide an explanation for how it chooses contractors during storm events.

Currently for storms during the fourth quarter, the Commission allows utilities to record a regulatory asset subject to providing immediate notice to the Commission of the

[22] Application at 5-6.

[23] Kentucky Power's Response to Staff's First Request, Item 6.

[24] Application at 6-8.

[25] Case No. 2023-00159, January 19, 2024 Order.

establishment of the regulatory asset and filing an application for approval within 90 days of the storm event.[26] The Commission will allow, and recommends, Kentucky Power record expenses for storms occurring in any quarter of the fiscal year as a deferred asset for accounting purposes only, subject to Kentucky Power providing the Commission with notice of such within five days of the establishment of the regulatory asset and subject to Kentucky Power filing an application within 90 days of the occurrence of the storm seeking Commission approval for such authority. The Commission finds that Kentucky Power should use the same filing timeline for quarterly reports as it does for year-end reports.

IT IS THEREFORE ORDERED that:

1. Kentucky Power is authorized to establish a regulatory asset for the incremental actual costs of extraordinary O&M expenses related to the storms as described in its application.

2. Kentucky Power is authorized to defer only the amount of incremental actual costs of extraordinary O&M expenses to the extent it exceeds the $1.1 million embedded in its base rates.

3. The regulatory asset accounts established in this case are for accounting purposes only and is not a final approval of the individual expenses for ratemaking purposes.

4. The amount, if any, of the regulatory asset herein that is to be amortized and included in rates shall be determined in Kentucky Power's next base rate case. Kentucky Power shall maintain records, and provide the same in its rate case application,

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[26] Case No. 2016-00180, Dec. 12, 2016 Order at 5.

in sufficient detail to provide justification of all recorded expenses within the regulatory asset as prudent and necessary.

5. Kentucky Power is allowed to record expenses for storms occurring in any quarter of the fiscal year as a regulatory asset for accounting purposes only, subject to Kentucky Power providing the Commission with notice within five days of the establishment of the regulatory asset and subject to Kentucky Power filing an application within 90 days of the occurrence of the storm seeking Commission approval for such authority.

6. In any future requests for a regulatory asset related to storm damage, Kentucky Power shall explain its effort to keep costs and expenses to a minimum and that such costs were reasonably and prudently incurred.

7. In its next request for a regulatory asset related to storm damages, Kentucky Power shall provide an explanation for how it chooses contractors during storm events.

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

PUBLIC SERVICE COMMISSION

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Chairman

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Commissioner

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Commissioner

ATTEST:

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Executive Director

ENTERED
MAR 31 2025 AH
KENTUCKY PUBLIC
SERVICE COMMISSION

*Hector Garcia Santana
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Post Office Box 16631
Columbus, OH 43216

*Harlee P. Havens
Stites & Harbison
250 West Main Street, Suite 2300
Lexington, KY 40507

*Kentucky Power Company
1645 Winchester Avenue
Ashland, KY 41101

*Kenneth J Gish, Jr.
Stites & Harbison
250 West Main Street, Suite 2300
Lexington, KY 40507

*Katie M Glass
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY 40602-0634