

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	)	CASE NO.
ASSETS AND LIABILITIES RELATED TO THE	)	2012-00445
EXTRAORDINARY EXPENSES INCURRED BY	)	
KENTUCKY POWER COMPANY IN CONNECTION	)	
WITH FOUR 2012 MAJOR STORM EVENTS	)	

ORDER

On September 28, 2012, Kentucky Power Company ("Kentucky Power") filed an application seeking authority to establish a regulatory asset for its incremental operation and maintenance costs incurred in connection with repairing damages and restoring electric service to customers following four 2012 major event storms in its service area. The four storms were: a February snowstorm; March tornadoes and windstorms; a June 29, 2012 derecho followed two days later by severe storms; and severe thunderstorms on July 5, 2012. In its application, Kentucky Power proposed that the requested regulatory asset be for the amount of \$12,808,101.

Kentucky Power states that at the peak of the February snowstorm, 34,375 of its customers were without electricity, while service to 15,363 customers was affected as a result of the March tornadoes and windstorms. At the peak of the June 29, 2012 derecho and July 1, 2012 severe storms event, 122,490 Kentucky Power customers were without power. The severe thunderstorm of July 5, 2012 resulted in 27,319 customers being left without power. On December 7, 2012, Kentucky Power provided

an updated total of \$12,146,521 as the amount of storm-related costs it is requesting to establish as a regulatory asset.<sup>1</sup>

A procedural schedule was not initially established in this proceeding, as there were no intervenors. On October 26, 2012, Kentucky Industrial Utility Customers (“KIUC”) was granted intervenor status. At an informal conference on October 30, 2012, KIUC stated that it would not be actively participating in the case, but rather would be monitoring the proceeding. Commission Staff issued two information requests to which Kentucky Power responded. The record is complete and the case now stands submitted for decision.

#### KENTUCKY POWER'S POSITION

In its application, Kentucky Power estimated that its 2012 storm-related incremental operation and maintenance costs for which it is seeking regulatory asset treatment would approximate \$12.808 million. In response to Staff's Second Request, Kentucky Power updated its estimate to \$12.146 million, based on actual costs and revised estimates as of November 30, 2012.<sup>2</sup> Citing the magnitude of these costs, Kentucky Power seeks authority to accumulate and defer for consideration in its next rate proceeding that portion of the 2012 storm-related incremental operation and maintenance expenses that exceed the storm-related operation and maintenance expenses included in Kentucky Power's base rates of \$904,953.<sup>3</sup>

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<sup>1</sup> Supplemental response to Commission Staff's Second Request for Information (“Staff's Second Request”), item 5, filed Dec. 7, 2012. According to Kentucky Power, a shift of costs from expenses to capital expenditures in conjunction with the March tornadoes and windstorms was the main reason for the decrease from the amount contained in its application.

<sup>2</sup> Id.

<sup>3</sup> Application at paragraph 39, page 14.

Kentucky Power relies upon prior Commission decisions granting similar accounting treatment to Kentucky Power and other utilities for extraordinary storm damages. Most recently, in Case Nos. 2009-00352 and 2009-00459,<sup>4</sup> Kentucky Power was authorized to establish a regulatory asset related to storm damage from four 2009 storms. In the instant case, Kentucky Power claims that such accounting treatment will allow it to make appropriate adjustments on its books of account and remove its extraordinary storm-related costs from the expenses recorded on its books for calendar year 2012.

Kentucky Power requests approval of its request by no later than January 8, 2013 in order to make the requested adjustments and avoid distortion of its calendar year 2012 financial statements.<sup>5</sup> In its application, Kentucky Power states that it will adjust estimated amounts to actual costs once they are known. Kentucky Power indicated it expects the amount of the final actual incremental operations and maintenance costs to be known by December 31, 2012.<sup>6</sup>

### DISCUSSION

Kentucky Power's 2012 storm-related damage and service restoration costs are extraordinary in nature based on their magnitude and the amount of storm damage expenses built into its base rates. Reflecting the 2012 storm costs as expenses on Kentucky Power's 2012 books would have a significant impact on its 2012 financial

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<sup>4</sup> Case No. 2009-00352, 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 Three Major Event Storms in 2009 (Ky. PSC Dec. 22, 2009); Case No. 2009-00459, Application of Kentucky Power Company for a General Adjustment of Electric Rates (Ky. PSC Jun. 28, 2010)

<sup>5</sup> Response to Staff's Second Request, item 2, filed Nov. 30, 2012.

<sup>6</sup> Response to Commission Staff's First Request for Information, item 7, filed Nov. 5, 2012.

results. The number of customers without 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 will authorize Kentucky Power to establish a regulatory asset based on its actual storm-related costs for the damage and service restoration costs it incurred as a result of the four major event storms.

The Commission notes that the authorization of a regulatory asset is not an assurance that these costs will be recovered in rates. A decision on rate recovery will be made only after fully examining the reasonableness of these costs in the context of a future rate case. The Commission's determination of whether any of the 2012 storm-related costs should be recovered in rates will include a detailed review of Kentucky Power's storm preparedness, its response to the outages and system reliability, all of which are issues of great interest to the Commission. Particular attention will be paid to the effectiveness of Kentucky Power's vegetation management program to mitigate outages as a result of additional funds awarded in Kentucky Power's last rate case for reliability improvements.<sup>7</sup> It is expected that the scope of the Commission's review will include Kentucky Power's efforts to "harden" its system as opportunities to do so arise, based on public statements to that effect made by the President and Chief Executive Officer of American Electric Power Company, Kentucky Power's parent company, in a recent newspaper article.<sup>8</sup> In light of the number of severe storms in recent years and

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<sup>7</sup> Case No. 2009-00459, Application of Kentucky Power Company for a General Adjustment of Electric Rates (Ky. PSC Jun. 28, 2010)

<sup>8</sup> Rebecca Smith, *Utilities Revisit Storm Plan: Weaknesses in Mutual-Aid System, Exposed by Sandy, Spur Calls for Fixes*, Wall Street Journal, December 16, 2012.

the Commission's recommendations in its November 2009 report on the impacts of Hurricane Ike in 2008 and the 2009 ice storm,<sup>9</sup> we anticipate that any future rate review of the storm costs will be more in-depth than previous reviews of the costs included in storm-related regulatory assets.

#### KENTUCKY POWER'S MOTION TO AMEND APPLICATION

On December 21, 2012, Kentucky Power filed a motion to amend its application so that it could seek authority to establish a regulatory asset for its incremental operation and maintenance costs incurred in connection with restoration efforts associated with a fifth major event storm. This fifth storm occurred on October 29, 2012, when Kentucky Power's service territory was struck by a snowstorm associated with Hurricane Sandy. According to the Amended Application, the heavy, wet snow accumulation produced significant damage to its system, resulting in service interruptions to 11,942 customers. Kentucky Power asserted that the total operational and maintenance expenses associated with the restoration efforts were approximately \$893,400, of which \$702,525 would not have been incurred but for the Hurricane Sandy snowstorm.

Having reviewed Kentucky Power's motion and being otherwise sufficiently advised, the Commission finds that Kentucky Power has failed to establish good cause to permit it to amend its application. The Commission notes that the motion to amend, along with the amended application, was filed almost two months after the occurrence of the Hurricane Sandy snowstorm. Coupled with Kentucky Power's request for an order to be issued on January 8, 2013, at the latest, the Commission

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<sup>9</sup> The Kentucky Public Service Commission Report on the September 2008 Wind Storm and the January 2009 Ice Storm, November 19, 2009.

would have had just eight business days<sup>10</sup> in which to review and process the amended request. In light of the fact that the Commission will not have sufficient time to fully and properly investigate and review the amended application, we will therefore deny Kentucky Power's motion to amend its application.

#### 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 during the four 2012 storms, not to exceed its November 30, 2012 estimated/actual amount of \$12.146 million. Further, the Commission agrees with Kentucky Power's proposal that estimated amounts will be adjusted to actual costs once they are known.<sup>11</sup> As stated earlier, the actual amount of all costs to be included in the regulatory asset is expected to be known by December 31, 2012. A downward adjustment to the amount of the regulatory asset will be necessary if total actual costs are less than the amount being approved herein. In the event that Kentucky Power's total actual costs exceed \$12.146 million, the excess should be expensed. The Commission would not be meeting its regulatory responsibilities if, under the circumstances of unusual or extraordinary storm damage costs, it authorized a utility to create an "open-ended" regulatory asset.

IT IS THEREFORE ORDERED that:

1. Kentucky Power is authorized to establish a regulatory asset in the amount of \$12.146 million, based on its costs for storm damages and service

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<sup>10</sup> The amended application was filed on December 21, 2012, which is the Friday before Christmas. The Commission's office is closed on Christmas Eve and Christmas Day as well as New Year's Eve and New Year's Day.

<sup>11</sup> Application at paragraph 47, page 17.

restoration due to the four major 2012 storms that affected customers in its service area.

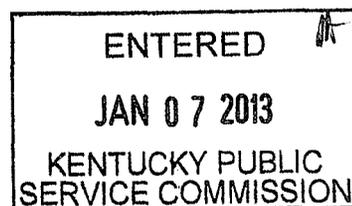
2. As the total actual storm costs become known, Kentucky Power shall adjust the amount of the asset downward if the total is less than \$12.146 million.

3. Kentucky Power shall file the accounting entries it makes to establish and record the regulatory asset authorized herein. Kentucky Power shall file these entries with the Commission no later than January 31, 2013.

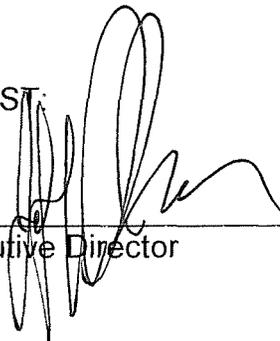
4. The amount, if any, of the regulatory asset authorized herein that is to be amortized and recovered in rates shall be determined in Kentucky Power's next rate case based on an examination of its storm preparedness, its storm restoration efforts, reliability improvement efforts and the reasonableness of the costs incurred.

5. Kentucky Power's motion to amend its application is denied.

By the Commission



ATTEST:

  
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