

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

The Matter Of:

The Application Of Kentucky Power Company)
For An Order Approving Accounting Practices)
To Establish Regulatory Assets And Liabilities)
Related To The Extraordinary Expenses) Case No. 2016-00180
Incurred By Kentucky Power Company)
In Connection With Two 2015 Major Storm Events)

APPLICATION

Kentucky Power Company applies the Commission pursuant to KRS 278.030, KRS 278.040, and KRS 278.220 for an Order permitting Kentucky Power to accumulate and defer for review and recovery in its next base rate proceeding before the Commission those extraordinary and incremental net operation and maintenance costs incurred by Kentucky Power in connection with the two 2015 “Major Event Day” Storms in Kentucky Power’s service territory. In support Kentucky Power states:

Applicant

1. Kentucky Power is an electric utility organized as a corporation under the laws of the Commonwealth of Kentucky in 1919.¹ The post office address of Kentucky Power is 101A Enterprise Drive, P.O. 5190, Frankfort, Kentucky 40602-5190. Kentucky Power is engaged in the generation, purchase, transmission,

¹ A certified copy of Kentucky Power’s Articles of Incorporation and all amendments thereto was attached to the Joint Application in Case No. 99-149 as Exhibit 1. The Company’s May 24, 2016 Certificate of Existence is attached as EXHIBIT I.

distribution, and sale of electric power. Kentucky Power serves approximately 170,000 customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. Kentucky Power also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility as that term is defined at KRS 278.010.

2. Kentucky Power is a wholly-owned subsidiary of American Electric Power Company, Inc. ("AEP").

Kentucky Power's Transmission and Distribution Facilities

3. As of January 2015, Kentucky Power owned approximately 1,200 circuit miles of transmission lines. Kentucky Power's transmission system is designed and constructed to meet heavy loading criteria. The transmission system comprises approximately 1,922 metal/aluminum structures and 4,459 wooden structures.

4. The Company also owned approximately 10,049 circuit miles of distribution lines as of January 2015. Of these, approximately 175 circuit miles were underground. Kentucky Power's distribution system is designed and constructed to meet medium loading criteria. The distribution system also includes approximately 175,000 overhead service drops.

5. Kentucky Power's service territory includes some of the most rugged and difficult topography in the Commonwealth. Its distribution and lower voltage

transmission facilities in particular cross mountainous and heavily-wooded terrain.

The 2015 “Major Event Day” Storms

6. Under IEEE Standard 1366, a Major Event is one that exceeds reasonable design and or operational limits of the electric power system. IEEE Standard 1366 statistically defines a “Major Event Day” as any day in which the system’s SAIDI (“System Average Interruption Duration Index”) exceeds the threshold value of T_{med} . The T_{med} threshold value in turn is calculated at the end of each reporting period (typically a single calendar year) using data from the previous five years. It is calculated by taking the average of the natural logarithm of each daily SAIDI during the previous five year period. The standard deviation of the five-year data set is then determined and the threshold value of T_{med} is set at 2.5 standard deviations. Any day in the subsequent reporting period that exceeds T_{med} is classified as a Major Event Day.

7. Between January 1, 2015 and December 31, 2015 Kentucky Power’s service territory experienced two storms involving Major Event Days as defined by IEEE Standard 1366. They were the March 4, 2015 snowstorm and the July 13, 2015 thunderstorm.

A. The March 4, 2015 Snowstorm.²

8. Beginning late March 3, 2015 heavy rains entered eastern Kentucky. Total rain, coupled with runoff from melting snow pack, produced three inches melted precipitation throughout much of the Company’s service territory. By

² See generally http://www.weather.gov/jkl/20150305_floodwinterstorm .

Wednesday March 4, 2014 flooding was reported in 13 of the 20 counties of the Company's service territory. The affected counties were located in the central and southern portions of Kentucky Power's service territory.

9. The rain turned to sleet and then snow beginning the night of March 4, 2015. By the time the snow stopped on March 5, 2015, eight to 12 inches of snow fell in those portions of the Company's service territory located near or north of the I-64 corridor, including Rowan, Elliot, Carter, and portions of Lewis County. Portions of Lewis and Greenup counties received 12 to 18 inches of snow. Other counties in Kentucky Power's service territory received four to eight inches of snow.

10. Both before and during March 3-5, 2015, Kentucky Power's Distribution Dispatch Center in Ashland, Kentucky monitored weather-related information sources, including the Weather Channel, the National Weather Service's web-site and several weather radar online sites. In addition, the Center was advised by the AEP meteorologist both before and during the storm. This information was relayed by the Dispatch Center to Kentucky Power management so that informed decisions could be made to call-in personnel, and to schedule the workforce during restoration efforts.

11. On March 5, 2015, Governor Steven L. Beshear issued Executive Order 2015-152 declaring a state of emergency in the Commonwealth:

Beginning March 3, 2015, and continuing, a severe winter storm with heavy rain, flooding, ice, sleet, significant snowfall accumulations, strong winds, bitterly cold air, and sub zero wind chills began tracking the Commonwealth with severe impacts to infrastructure, governmental properties, and private properties....

12. The rain and accumulated snow caused significant damage to Kentucky Power's system, resulting in the loss of power to thousands of Kentucky Power customers. At the height of the outages, there were 190 active outage cases affecting 6,326 Kentucky Power customers.

13. There were a total of 691 outages (Ashland district 419 outages; Hazard district 113 outages; and Pikeville district 159 outages) experienced on Kentucky Power's distribution system as a result of this storm. Nearly all outages were caused by the heavy snow and ice on, and mudslides and flooding near, the Company's distribution facilities. Kentucky Power replaced 26 poles, approximately 19 cross arms, 10 distribution transformers, and approximately 140 spans of conductors as a result of the storm.

14. In response to weather forecasts calling for significant wet snowfall, the Company began mobilizing restoration crews beginning the morning of March 4, 2015. The mobilized crews included 50 line personnel and 20 assessors from Kentucky Power affiliates in Ohio, Michigan, and Indiana. A total of 161 non-Company line personnel, 70 line personnel from Kentucky Power affiliates, 204 contract right-of-way personnel, and 159 Kentucky Power employees worked to restore service following the March 4, 2015 snow storm. The restoration efforts, which concluded at approximately 8:30 p.m. on March 7, 2015, required 9,038 employee hours and 8,469 contractor hours of work.

15. The total actual-to-date costs to restore service following the March 4, 2015 snow storm totaled \$1,450,406.³ The operation and maintenance expenses associated with the March 4, 2015 snow storm restoration effort were \$1,035,373. But for the March 4, 2015 snow storm, \$740,679 of these operation and maintenance expenses would not have been incurred.⁴ The summary calculation of the incremental operation and maintenance expense is provided in EXHIBIT 2.

16. By this application, Kentucky Power seeks authority to accumulate and defer for consideration in its next rate proceeding that portion of the incremental operation and maintenance expenses that (in conjunction with the incremental operation and maintenance expenses incurred in connection with the July 2015 Major Event storm) exceed the storm-related operation and maintenance expense in Kentucky Power's base rates.

17. Kentucky Power recorded its total operation and maintenance expenses of \$1,035,373⁵ for the March 4, 2015 snowstorm repair and restoration efforts in the following FERC accounts:

<u>Account No.</u>	<u>Expenditure</u>
5880000	\$4,197
5930000	\$1,030,068
9030001	\$901
9350001	\$207
Total	\$1,035,373

³ See EXHIBIT 3 at col. ("A+B+C+D Total Cost to Restore"), row 82 (total restoration costs).

⁴ The jurisdictional portion of these incremental expenses totaled \$734,013.

⁵ See EXHIBIT 3 at col. (c), row 82 (total restoration costs).

B. The July 13, 2015 Thunderstorms.

18. Beginning the afternoon of Monday, July 13, 2015, three waves of thunderstorms passed through Kentucky Power's service territory by Tuesday evening July 14, 2015.⁶ The storms deposited large amounts of rain throughout eastern Kentucky. The hardest hit area was the Flatgap/Redbush community located northeast of Paintsville in Johnson County Kentucky. The rain led to flash flooding along Big Mudlick Creek and Ramey Branch in Johnson County. More than 150 homes were destroyed and approximately 500 residences were damaged in the area. During the 48 hours ended 8:00 a.m. July 15, 2015, heavy rains also fell in areas of Breathitt (5.75 inches), Clay (3.81 inches), Elliot (3.17 inches), Floyd (3.77 inches), Knott (4.84 inches), Leslie (5.45 inches), Letcher (3.43 inches), Martin (3.85 inches), Morgan (3.52 inches), Owsley (5.18 inches), Perry (5.84 inches), Pike (4.86 inches), and Rowan (3.65 inches) counties. Five counties in the Company's service territory, Johnson, Rowan, Breathitt, Carter, and Perry, were declared federal disaster areas.

19. Throughout the course of the storm, there were 2,204 outages (Ashland district 706 outages; Hazard district 647 outages; and Pikeville district 851 outages) recorded on Kentucky Power's system. At the height of the outages, 883 active outages and 30,707 Kentucky Power customers were known to the Company to be without power. A total of 110 poles, 244 cross arms, 67 transformers, 151,653 feet

⁶ See generally http://www.weather.gov/jkl/20150714_wxsummary

of wire, and 490 spans of downed conductor were replaced or installed in Kentucky Power's service territory as a result of the storm damage.

20. Kentucky Power immediately dispatched restoration crews following the thunderstorms. In addition to 185 Kentucky Power employees, a total of 1,165 non-Company personnel (698 contract line personnel, 105 Kentucky Power affiliate line personnel, and 362 contract right-of-way workers) participated in the restoration efforts. The restoration efforts to date required 17,081 employee hours and 60,900 contractor hours of work.

21 On July 14, 2015, Governor Steven L. Beshear issued Executive Order 2015-481 declaring a state of emergency across the Commonwealth:

beginning on July 3, 2015, and continuing, a series of severe storms with heavy rain, flash flooding, flooding, strong winds, straight line winds, and damaging hail began tracking the entire Commonwealth, causing injuries and deaths and resulting in severe impacts to infrastructure, governmental properties, and private properties

22. The total actual costs to restore service following the July 13, 2015 thunderstorm totaled \$7,744,052.⁷ The operation and maintenance expenses associated with the July 13, 2015 thunderstorm restoration effort were \$5,806,491.⁸ But for the July 13, 2015 thunderstorm, \$5,261,860 of these operation and maintenance expenses would not have been incurred.⁹ The calculation of these amounts is provided in EXHIBIT 2.

⁷ EXHIBIT 4 at col. ("A+B+C+D Total Cost to Restore"), row 130 (total restoration costs).

⁸ See EXHIBIT 4 at col. (c), row 130 (total restoration costs).

⁹ The jurisdictional portion of these incremental expenses totaled \$5,203,980. See EXHIBIT 2.

23. By this application, Kentucky Power seeks authority to accumulate and defer for consideration in its next rate proceeding that portion of the incremental operation and maintenance expenses that (in conjunction with the incremental operation and maintenance expenses incurred in connection with the March 2015 Major Event storm) exceed the storm-related operation and maintenance expense in Kentucky Power's base rates.

24. Kentucky Power recorded its total actual-to-date operation and maintenance expenses for the July 13, 2015 thunderstorm repair and restoration efforts in the following FERC accounts:

Account No.	Expenditure
5880000	\$18,829
5930000	\$5,787,662
Total	\$5,806,491

The Amount To Be Accumulated And Deferred.

25. The total jurisdictional incremental operation and maintenance costs associated with the two 2015 Major Event storms that would not have been incurred but for the storms was \$4,694,230.¹⁰ Kentucky Power did not expense these amounts in its 2015 financial statements. Subject to Commission approval in this case, Kentucky Power deferred for purposes of its 2015 financials the total jurisdictional incremental operation and maintenance expenses associated with the two 2015 Major Event storms.

¹⁰ March 4, 2015 snowstorm jurisdictional incremental operation and maintenance expenses of \$734,013 (fn. 3) *plus* July 13, 2015 thunderstorm jurisdictional incremental operation and maintenance expenses of \$5,203,980 (fn. 5) *less* major storm jurisdictional incremental operation and maintenance expenses included in base rates of \$1,243,763 (EXHIBIT 2).

26. Kentucky Power recorded its total estimated operation and maintenance expenses for the repair and restoration efforts associated with its two 2015 Major Event storm repair and restoration efforts in the following FERC accounts:

Account No.	Account	March 4, 2015 Snowstorm	July 13, 2015 Thunderstorm	Total Expenditures
5880000	Miscellaneous Distrib. Exp.	\$4,197	\$18,829	\$23,026
5930000	Maint. Of Overhead Lines	\$1,030,068	\$5,787,662	\$6,817,730
5930001	Tree and Brush Control	\$901		\$901
9030001	Customer Orders & Inquiries	\$207		\$207
Total		\$1,035,373	\$5,806,491	\$6,841,864

27. Kentucky Power's base rates contain operation and maintenance major storm-related expenses totaling \$1,243,763. See EXHIBIT 2.

28. Kentucky Power seeks authorization from the Commission to accumulate and defer for review and recovery in Kentucky Power's next base rate proceeding the net actual costs (total incremental storm-related O&M expenses less the amount of storm-related O&M expenses currently in its base rates) of extraordinary operation and maintenance expenses incurred to repair damaged facilities and restore service to customers following the March 4, 2015 snow storm and the July 13, 2015 thunderstorm. The amount to be established as a regulatory asset in Account No. 182 is \$4,694,230. That amount is calculated as shown in EXHIBIT 2.

Basis For The Requested Accounting Treatment

29. Financial Accounting Standards Board Standards Codification 980-340-25-1 (“FASB Codification 980-340-25-1”) provides for the creation under prescribed circumstances of a regulatory asset. FASB Codification 980-340-25-1 states in pertinent part:

Rate actions of a regulator can provide reasonable assurance of the existence of an asset. ***An enterprise shall capitalize all or part of an incurred 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 the inclusion of that cost in the allowable costs for ratemaking purposes.
- b. Based on the 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....¹¹

30. Traditionally, the Commission has exercised its discretion to approve a regulatory asset upon demonstration that the expenses to be deferred fall into one of four categories:

- (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 nonrecurring expense that over time will result in a savings that fully offsets the costs.¹²

¹¹ (emphasis supplied).

¹² *In The Matter Of: The 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*, Case No. 2008-00436 at 4 (Ky. P.S.C. December 23, 2012),

31. The Commission has exercised its discretion in the past to approve a regulatory asset capitalizing major storm-related costs, to the extent such costs exceed the amount of storm-related costs contained in base rates, under the first category identified above. To be approved, the costs must be found to be extraordinary¹³ and “sufficiently significant.”¹⁴ These determinations in turn involve consideration of the magnitude of the storm expenses,¹⁵ their size in relation to the amount of storm related costs built in the utility’s base rates,¹⁶ and the effect a refusal to capitalize the expense would have on the utility’s current year financial results.¹⁷

32. The incremental Major Event storm-related expenses for which the Company seeks deferral total \$4,694,230, an amount 3.77 times the \$1,243,763 in operation and maintenance major storm-related expenses included in Kentucky Power’s base rates.

33. Based upon Commission precedent, Kentucky Power created, subject to Commission approval, a regulatory asset in connection with its 2015 financial

¹³ *In The Matter Of: Application Of Kentucky Power Company For An Order Approving Accounting Practices To Establish Regulatory Assets And Liabilities Related To Extraordinary Expenses Incurred By Kentucky Power Company In Connection With Three Major Storm Events In 2009*, 2009-00352 (Ky. P.S.C. December 22, 2009).

¹⁴ *In The Matter Of: Application Of Kentucky Utilities Company For An Order Approving The Establishment Of A Regulatory Asset*, Case No. 2008-00457 at 5 (Ky. P.S.C. December 22, 2008).

¹⁵ *In The Matter Of: Application Of Kentucky Power Company For An Order Approving Accounting Practices To Establish Regulatory Assets And Liabilities Related To Extraordinary Expenses Incurred By Kentucky Power Company In Connection With Three Major Storm Events In 2009*, 2009-00352 (Ky. P.S.C. December 22, 2009) (“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 expense built into Kentucky Power’s base rates.”)

¹⁶ *Id.*

¹⁷ *In The Matter Of: Application Of Kentucky Utilities Company For An Order Approving The Establishment Of A Regulatory Asset*, Case No. 2008-00174 at 3-4 (Ky. P.S.C. December 22, 2008) (“Reflecting the 2009 Winter Storm costs as expenses on KU’s 2009 books would have a significant impact on its 2009 financial results.”)

statements deferring the \$4,694,230 in Major Storm-related expenses. If the Company instead would have expensed the \$4,694,230 in jurisdictional operation and maintenance expenses for which the Company is seeking the relief requested in this Application, Kentucky Power's 2015 return on equity would have been adjusted downward from 4.21% to approximately 3.78%. The April 30, 2015 Settlement Agreement approved by the Commission's June 22, 2015 Order in Case No. 2015-00396 authorizes a 10.25% return on equity in connection with the calculation of Kentucky Power's weighted average cost of capital.¹⁸

34. In accordance with FASB Codification 980-340-25-1 and Commission precedent, Kentucky Power requests the Commission to exercise its authority under KRS 278.220 to prescribe the manner in which the Company keeps its accounts by entering an order permitting Kentucky Power to accumulate and defer for review and recovery in its next base rate proceeding the currently estimated \$4,694,230 in incremental and extraordinary operation and maintenance expenses incurred by the Company in repairing damage and restoring service in connection with the two 2015 Major Event storms. If the requested relief is granted, Kentucky Power will record the regulatory asset in FERC Account No. 182.

¹⁸ Order, *In the Matter of: Application of Kentucky Power Company For: (1) A General Adjustment Of Its Rates For Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs And Riders; And (4) An Order Granting All Other Required Approvals And Relief*, Case No. 2014-00396, Appendix B ¶ 2; Exhibit 2).

Exhibits

35. The following exhibits are incorporated in this application:

- (a) The Company's May 24, 2016 Certificate of Existence [EXHIBIT 1];
- (b) Summary calculation of costs associated with March 4, 2015 snowstorm and July 13, 2015 thunderstorm [EXHIBIT 2];
- (c) Detailed description of costs associated with March 4, 2015 snowstorm [EXHIBIT 3]; and
- (d) Detailed description of costs associated with July 13, 2015, thunder storm [EXHIBIT 4]

Communications

36. Kentucky Power respectfully requests that all communications in this proceeding be addressed to the following:

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moverstreet@stites.com

Kentucky Power Company
Kentucky_regulatory_services@aep.com

On Behalf Of Kentucky Power Company

Wherefore Kentucky Power Company respectfully requests the Commission enter an Order:

- 1. Authorizing Kentucky Power Company in accordance with FASB Codification 980-340-25-1 and Commission precedent to accumulate and defer for review and recovery in the Company's next base rate proceeding the

amount of \$4,694,230 in incremental and extraordinary operation and maintenance expenses incurred by the Company in repairing damage and restoring service in connection with the two 2015 Major Event storms;

2. Authorizing Kentucky Power to record the deferred amount as a regulatory asset to be recorded in FERC Account No. 182;

3. Granting Kentucky Power all additional relief to which it may be entitled.

This 31st day of May, 2016.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was served by United States Mail, Postage Pre-paid, upon:

Michael L. Kurtz
Kurt J. Boehm
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
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Rebecca Goodman
Lawrence W. Cook
Office of the Attorney General
Utility & Rate Intervention Division
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204

on this the 31st day of May, 2016.



Mark R. Overstreet