

Kentucky Power Company
KPSC Case No. 2020-00034
Commission Staff's 2nd Set of Data Requests
Dated April 16, 2020
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DATA REQUEST

- KPSC 2_1** Refer to Kentucky Power's response to Commission Staff's First Request for Information (Staff's First Request), Items 3 and 4(a) and Case No. 2016-00180¹. The Commission has historically not allowed a utility to establish a regulatory asset after a cost has been recorded as an expense and the utility has closed its books for the relevant fiscal year.
- a. Confirm that Kentucky Power recorded the GreenHat Energy, LLC (GreenHat) default charges billed to Kentucky Power in August through December 2018 and January through December 2019 as expenses in 2018 and 2019, respectively. If confirmed, explain why regulatory asset treatment is appropriate for amounts that have been recorded as an expense in a fiscal year for which Kentucky Power has closed its books.
- b. Explain whether Kentucky Power will amend its 2018 or 2019 financial statements if the relevant GreenHat default amounts are approved for deferral. If so, explain how Kentucky Power would amend its 2018 or 2019 financial statements. If not, explain whether Kentucky Power's 2018, 2019, or 2020 financial statements will be materially misstated.

RESPONSE

In his May 9, 2019 affidavit in Case No. 2019-00002, Ranie Wohnhas, Kentucky Power Company's Vice President, Regulatory and Finance, explained that Kentucky Power began booking GreenHat default charges as allocated to the Company from PJM beginning in August 2018. He further explained that Kentucky Power interpreted its Tariff F.A.C. to require the Company to recover the fuel-related portion of the charges through its fuel adjustment clause.

Kentucky Power included GreenHat default charges in its May 20, 2019 F.A.C. filing, which concerned April 2019 fuel charges. Commission Staff contacted Kentucky Power management on May 28, 2019, requesting that the GreenHat charges be removed from the Company's F.A.C. filings until the Commission issued its order in Case No. 2019-

¹ 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).

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00002. Kentucky Power made a supplemental F.A.C. filing on May 29, 2019 to conform to Staff's request, but explained again in that filing that fuel-related GreenHat default charges are properly recoverable through the Company's Tariff F.A.C.

Kentucky Power, interpreting its Tariff F.A.C. to authorize the recovery of the Greenhat charges, recognized the novelty of the issue pending before the Commission and awaited a Commission Order in Case No. 2019-00002 to resolve the issue of the appropriateness of the deferral in lieu of filing a separate application for deferral prior to closing its 2019 books. In other words, if the Commission approved the Company's understanding of its Tariff F.A.C. that the GreenHat charges were properly recoverable through its fuel adjustment clause, there would be no need to seek approval of a regulatory asset.

In its December 26, 2019 Order in Case No. 2019-00002, the Commission held that fuel-related GreenHat default charges are not recoverable through Kentucky Power's current Tariff F.A.C. and recognized that Kentucky Power may seek recovery of those charges through, among other things, base rates or an update to Tariff F.A.C. Thus, the Company set up the accounting treatment in December 2019 business as described in its response to KPSC 1-4 in this case. Kentucky Power filed its application in this proceeding, requesting approval to accumulate and defer the charges for review and recovery in its next base rate proceeding, on February 14, 2020.

a. Kentucky Power confirms that Greenhat default charges were recorded as expenses in 2018 and 2019. As presented in the Direct Testimony of Witness Wohnhas, Page 10, Table 1, GreenHat default charges allocated to the Company by PJM were recorded to FERC expense accounts 5614007 and 5614008 beginning in August 2018. Also, see Attachment 1 to Company's response to KPSC 1_3 for a monthly breakdown of actual GreenHat default charges recorded to expense beginning in August 2018 through December 2019.

The reason regulatory asset treatment is appropriate for amounts that have been recorded as expense in a prior fiscal year is anchored in the GAAP definition of a regulatory asset, which was initially supplied in paragraph 16. of the Company's Application in this matter and is included below for reference:

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16. *Financial Accounting Standards Board Accounting Standards Codification 980-340-25-1 ("FASB ASC 980-340-25-1") provides for the creation under prescribed circumstances of a regulatory asset. FASB ASC 980-340-25-1 states:*

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. 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 (emphasis supplied).***

In summary, a regulatory asset should be recognized for accounting purposes when, in the opinion of the Company, costs are probable of recovery². Because the Commission had not yet authorized regulatory deferral for GreenHat default charges allocated to the Company by PJM, Kentucky Power did not conclude recovery was probable in 2018 or 2019; therefore, Kentucky Power did not record a regulatory asset in 2018 or 2019, consistent with FASB ASC 980-340-25-1. If the Commission approves this request for deferral and creation of a regulatory asset, Kentucky Power will conclude recovery is probable in that financial reporting period and a regulatory asset will be recorded, consistent with FASB ASC 980-340-25-1. GreenHat default charges are appropriately stated within Kentucky Power's 2018, 2019, and 2020 financial statements.

b. Kentucky Power will not amend its 2018 or 2019 financial statements if the relevant GreenHat default amounts are approved for deferral. Kentucky Power's 2018, 2019, and 2020 financial statements are appropriately stated in accordance with FASB ASC 980-340-25-1, as supported in the response to KPSC 2_1(a).

Witness: Ranie K. Wohnhas

² As described in Staff's First Request, Items 3 and 4(a), in Case No. 2016-00180, a regulatory asset was recognized for accounting purposes when, in the opinion of the Company, costs were probable of recovery based on Commission precedent described in paragraphs 29-34 of the application.

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DATA REQUEST

- KPSC 2_2** 2. Refer to Kentucky Power's response to Staff's First Request, Item 5, Attachment, page 1 of 1.
- a. Provide this response in Excel spreadsheet format with formulas intact and unprotected and all rows and columns accessible.
 - b. If any expenses shown are recovered through Kentucky Power's Fuel Adjustment Clause or System Sales Clause, provide those amounts in a similarly formatted schedule in Excel spreadsheet format with formulas intact and unprotected and all rows and columns accessible.
 - c. Explain what is recorded to Accounts 5614009 GreenHat Settlement and 5660010 GreenHat Settlement, and explain how those amounts relate to the amounts recorded in Accounts 5614007 and 5614008.
 - d. Confirm that the GreenHat default charges represent less than 1 percent of Kentucky Power's transmission expenses in 2018 or 2019. If confirmed, explain why Kentucky Power does not believe these expenses are de minimis.

RESPONSE

- a. Please see attachment KPCO_R_KPSC_2_2_Attachment1 for the requested information.
- b. Please see attachment KPCO_R_KPSC_2_2_Attachment1 for the requested information. None of the accounts identified are recovered through the fuel adjustment clause. The accounts recovered through the systems sales clause are noted.
- c. The GreenHat settlement was deemed probable and estimable in the third quarter of 2018. As such, a provision entry was recorded to accounts 5614009 (Kentucky Power as a load serving entity) and 5660010 (Kentucky Power as a transmission owner) to reflect the full amount of the anticipated payout. The provisions in accounts 5614009 and 5660010 are reversed on a monthly basis for the actual settlement that comes through on the PJM invoice, as recorded in accounts 5614007 (actual amounts related to serving retail load), 5614008 (actual amounts related to off system sales), and 5660000 (actual amounts related to providing transmission service).

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D. While total estimated GreenHat default charges represent less than 1 percent of Kentucky Power's transmission expenses in 2018 or 2019, these costs were outside of the Company's control, could not be reasonably anticipated, and were not estimable prior to GreenHat's June 2018 default. Moreover, Kentucky Power does not believe, on an absolute basis, that \$335,261.25 in charges can fairly be characterized as de minimis.

Witness: Ranie K. Wohnhas

