

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

Electronic Application And Request For Decision By	)	
April 5, 2021 Of Kentucky Power Company For An	)	
Order Approving Accounting Practices	)	
To Establish A Regulatory Asset Related To	)	Case No. 2021-00129
The Extraordinary Expenses Incurred By	)	
Kentucky Power Company In Connection With	)	
Three February 2021 Major Storm Events	)	

**VERIFIED APPLICATION**

Kentucky Power Company (“Kentucky Power” or the “Company”) applies to the Public Service Commission of Kentucky (“Commission”) pursuant to KRS 278.030, KRS 278.040, and KRS 278.220 for an Order to be issued on or before **April 5, 2021** permitting the Company to accumulate and defer for review and recovery in its next base rate proceeding before the Commission those extraordinary and incremental net operations and maintenance expenses the Company incurred in connection with three severe February 2021 “Major Event Day” storms in Kentucky Power’s service territory. In support of this Application, the Company states:

**Applicant**

1. Kentucky Power is an electric utility organized as a corporation under the laws of the Commonwealth of Kentucky in 1919.<sup>1</sup> The Company’s post office address is 1645 Winchester Avenue, Ashland, Kentucky 41101. The Company’s electronic mail address is [kentucky\\_regulatory\\_services@aep.com](mailto:kentucky_regulatory_services@aep.com).

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<sup>1</sup> A certified copy of the Company’s Articles of Incorporation and all amendments thereto was attached to the Joint Application in *In the Matter Of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger*, P.S.C. Case No. 99-149. The Company’s March 15, 2021 Certificate of Existence is attached as **EXHIBIT 1**.

2. Kentucky Power is engaged in the generation, purchase, transmission, distribution, and sale of electricity to Kentucky consumers. The Company serves approximately 166,000 retail 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. The Company also furnishes electric service at wholesale to the City of Olive Hill and the City of Vanceburg.

3. Kentucky Power is a wholly-owned subsidiary of American Electric Power Company, Inc.

### **Need For Expedited Relief**

4. Kentucky Power respectfully requests that the Commission issue an order on this Application on or before April 5, 2021 due to exigent circumstances specific to this Application.

5. As explained more fully below, on February 10, 2021, February 15, 2021, and February 17, 2021, Kentucky Power's service territory experienced three severe and destructive ice and snow storms that ultimately resulted in about one inch of ice and four to six inches of snow in the worst-hit areas of the Company's service territory.

6. The resulting damage to the Company's transmission and distribution systems was significant. Preliminary information indicates that the storms caused 759 broken poles, 1,176 damaged cross arms, 412 damaged transformers, and 851 damaged cutouts. Additionally, the Company repaired or replaced thousands of spans of conductor, totaling more than 116 miles (nearly equal to the distance between Lexington, Kentucky and Ashland, Kentucky).

7. In total, the Company restored approximately 141,625 customer outages resulting from the three storms. Many of these outages included multiple outages suffered by the same customers who had their service restored only to lose service again when the successive storms

swept Kentucky Power's service territory. The restoration efforts took nearly three weeks, and early restoration efforts frequently were impaired or were required to be repeated after new outages occurred from additional ice and/or snow. Restoration crews and thousands of employees and contractors from ten states assisted in restoring service to the Company's customers over the course of the three weeks.

8. The Company's best estimates at the time of this filing indicate that the total costs associated with the three storms could total approximately \$70-80 million. The estimated total jurisdictional incremental O&M costs associated with the three storms that would not have been incurred but for the storms could exceed \$45 million, an amount nearly 44 times the \$1,029,788.89 in O&M major storm-related expenses included in Kentucky Power's base rates.

9. Further, for comparison purposes, Kentucky Power's 2020 operating income was \$69.9 million, and its net income was \$41 million.<sup>2</sup> Thus, the estimated high-level incremental Major Event storm-related expenses for which the Company seeks deferral *for these three storms alone* could constitute as much as 64% of the Company's operating income and as much as 110% of its net income for 2020.

10. In most instances, the Commission requires a jurisdictional utility to obtain Commission approval before recording as a regulatory asset on the utility's books for accounting purposes an expense that qualifies for establishment as a regulatory asset.<sup>3</sup>

11. The magnitude of the storm costs, the timing of the storms, and the significant effect of the storm costs on Kentucky Power's first quarter 2021 financial statements prepared in

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<sup>2</sup> See Kentucky Power 2020 income statement, which can be accessed at: <https://www.aep.com/Assets/docs/investors/Filings/docs/2020subsidiaries/4Q20-KPCo.pdf>

<sup>3</sup> See Order, *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*, Case No. 2016-00180, at 1 (Ky. P.S.C. Dec. 12, 2016) ("2016 Storm Order").

accordance with generally accepted accounting principles (GAAP), drives the Company's request for a ruling on this Application on or before April 5, 2021.

12. In addition to issuance of its annual, audited financial statements, Kentucky Power has an obligation to issue interim financial statements that are complete, accurate, and in compliance with GAAP Accounting Standards Codification (ASC) 270 – Interim Reporting. ASC 270 – Interim Reporting states that (1) interim financial information is essential to provide investors and others with timely information as to the progress of the entity, (2) each interim period should be viewed primarily as an integral part of an annual period, and (3) arbitrary assignment of costs to an interim period shall not be made.<sup>4</sup>

13. The Company will close its first quarter books on April 6, 2021 and issue its first quarter 2021 financial statements on April 22, 2021.

14. Kentucky Power's interim financial statements are made available to various parties, including bond holders, leasing agencies, and credit rating agencies, who in turn have the ability to use those financial statements to assess the Company's financial health and make determinations that have the potential to impact the Company's cost of capital. Providing the users of Kentucky Power's quarterly financial statements with timely and relevant information regarding the potential for future recovery of these significant and material incremental storm costs is critical to Kentucky Power's ability to manage financing costs on behalf of its customers. If incremental major storm O&M costs are expensed and not deferred as a regulatory asset for Kentucky Power's first quarter 2021 financial statements, it indicates to financial statement users that future recovery of those costs is not probable (i.e., the standard for recognition of a regulatory asset under GAAP, specifically ASC 980-340-25-1, has not been met). Failure to reflect the potential for future

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<sup>4</sup> See ASC 270-10-45-1; 270-10-45-8.

recovery of these costs in the quarterly financial statements could negatively impact Kentucky Power's financing costs.

15. For example, the Company presently is in communication with Moody's Credit Services, which likely will be updating its credit opinion of Kentucky Power in the second quarter of 2021. Moody's likely will review the Company's first quarter financial statements when it does so.

16. At present, Kentucky Power's Moody's credit rating is at the lowest investment grade credit rating, and its recent actual credit metrics, such as funds from operations to debt, have been running below (or worse) than expected for their current rating. If Kentucky Power is not granted the approvals requested herein and instead is required to expense these storm costs on the first quarter financial statements, it could negatively impact both the quantitative and qualitative analysis that Moody's considers in rating a company.

17. A downgrade by Moody's could, in turn, impact the Company's financing costs. For example, Kentucky Power has a \$75,000,000 floating rate local bank loan with banks in communities Kentucky Power serves. The interest rate includes an adder based on Kentucky Power's credit rating at Standard and Poor's and Moody's Credit Services. Per the terms of the loan, a Moody's downgrade would result in an 87.5 basis point increase in the interest rate which would add \$656,250 of interest expense to Kentucky Power annually. Kentucky Power has other financing activity that will occur in the next year which would also be negatively impacted if the Company were downgraded.

18. Historically, the amount of storm costs incurred has been a fraction of the costs of the three storms detailed herein. As a result, Kentucky Power typically could close its interim financial statements without making the accounting entries requested herein. Instead, the

Company would include a disclosure in the quarterly financial statements indicating to financial statement users that the Company will be seeking leave to defer those costs.<sup>5</sup> However, due to the magnitude of the incremental storm expense associated with the three February 2021 storms, a disclosure alone in this instance is insufficient.

19. Had these storms occurred in the fourth quarter, this Application would have been unnecessary before making the requested accounting entries in order for the Company to close its year-end books. A jurisdictional utility is allowed to record expenses for Major Event storms occurring in the fourth quarter of the fiscal year as a regulatory asset for accounting purposes only, subject to the utility's providing the Commission with immediate notice of the establishment of such deferred asset, and also subject to the utility's filing of an application within 90 days of the occurrence of the Major Event storm seeking Commission approval for such authority.<sup>6</sup> Kentucky Power is seeking similar relief here because the extraordinary nature and amount of the February 2021 storm expenses render it critical that the Company's first quarter financial statements fairly reflect the ultimate treatment of the expenses. For these reasons, and as detailed and supported by the facts below, the Company respectfully requests that the Commission approve this Application **on or before April 5, 2021.**

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<sup>5</sup> Such a disclosure would include language similar to the following: "In [month and year], major storms impacted KPCo's service territory resulting in customer outages for approximately [number] customers and damages to KPCo utility assets. Management currently estimates that KPCo will incur incremental other operation and maintenance expenses, split approximately evenly between the xx and xx quarters of [year], related to the [month and year] storms ranging from \$xx million to \$xx million. Consistent with prior guidance from the KPSC, KPCo will file with the KPSC seeking recovery of these prudently incurred costs. Until KPCo receives deferral authority for these incremental storm costs from the KPSC, it will reduce future net income and cash flows and impact financial condition."

An example of the last such disclosure made can be accessed at:  
<https://aep.com/Assets/docs/investors/Filings/docs/2020subsidiaries/2Q20-KPCo.pdf>.

<sup>6</sup> 2016 Storm Order, at 4-5.

### **Kentucky Power's Transmission and Distribution Facilities**

20. As of February 2021, Kentucky Power owned approximately 1,272 circuit miles of transmission lines. Kentucky Power's transmission system is designed and constructed to meet heavy loading criteria. The transmission system comprises approximately 2,265 metal structures and 4,442 wooden structures.

21. The Company also owns approximately 10,821 circuit miles of distribution lines as of February 2021. Of these, approximately 185 circuit miles are underground. Kentucky Power's distribution system is designed and constructed, for new construction, to meet heavy loading criteria. The distribution system also serves approximately 176,179 accounts.

22. 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 February 2021 "Major Event Day" Storms**

23. Under IEEE Standard 1366, a Major Event is one that exceeds reasonable design 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 System Average Interruption Duration Index ("SAIDI") 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. The 2021  $T_{med}$  threshold is 4,224,671 customer minutes of interruption ("CMI").

24. On February 10, 2021, February 15, 2021, and February 17, 2021, Kentucky Power's service territory experienced ice and snow storms involving Major Event Days as defined by IEEE Standard 1366.

25. The storms caused extensive damage and widespread power outages in the Company's Ashland, Hazard, and Pikeville Districts. At the peak of the storm outages, approximately 59,200 customers were without electric service. The approximate number of non-unique customer service outages restored over the course of Kentucky Power's efforts in response to the three storms totaled approximately 141,625 customers.

**A. The February 10-11 and February 15-16, 2021 Ice Storms.<sup>7</sup>**

26. The first ice storm extended from February 10, 2021 to February 11, 2021, and resulted in 0.25"-0.50" of ice accumulation. The ice caused widespread outages as it brought down power lines and caused ice-laden trees to fall on lines. There were 118,000,000 CMI associated with February 10-11, 2021 ice storm.

27. Kentucky Power Company personnel, business partners, and outside resources immediately began assessing the trouble and working to restore customers in a safe and timely manner at the beginning of the first ice storm. The Company initiated its Incident Command System at 09:30 a.m., on Wednesday, February 10, 2021. The storm damage was of such a magnitude and so extensive that outside resources were brought in to assist in restoration efforts.

28. Beginning February 8, 2021, the Commonwealth's Division of Emergency Management established a winter storm event, and Governor Beshear on February 11, 2021

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<sup>7</sup> See generally [https://www.weather.gov/jkl/021121\\_IceStorm](https://www.weather.gov/jkl/021121_IceStorm); [https://www.weather.gov/jkl/021521\\_Ice](https://www.weather.gov/jkl/021521_Ice) (last accessed Mar. 14, 2021).



declared a State of Emergency across Kentucky due to the severe weather.<sup>8</sup> The State of Emergency directed the Kentucky Division of Emergency Management and the Department of Military Affairs to execute the Kentucky Emergency Operations Plan and coordinate the response across state agencies and private relief groups. It also directed the Finance and Administration Cabinet to provide funding for the response and authorized the Division of Emergency Management to request additional resources.<sup>9</sup> In Kentucky Power's service territory, fifteen of twenty counties declared states of emergency (Boyd, Breathitt, Carter, Elliott, Floyd, Greenup, Johnson, Lawrence, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley and Rowan) for the winter storm event.

29. The second ice storm extended from February 15, 2021 to February 16, 2021, and resulted in an additional 0.25"-0.50" of accumulating ice. Following the second ice storm, the total ice accumulation measured approximately 0.50"-1.00" across much of the Company's service territory. In addition to bringing down additional trees into power lines, the ice accumulation also caused many roads to become impassable.<sup>10</sup> The Ashland District sustained the greatest damage. There were 217,000,000 CMI associated with February 15-16, 2021 ice storm.

30. The following reflects a summary of the outage counts over the course of the two ice storms:

**Start of first ice storm**

02/10/2021 at 11:00 p.m., approximately 1,953 customers interrupted.  
02/11/2021 at 7:00 a.m., approximately 23,098 customers interrupted.  
02/11/2021 at 6:00 p.m., approximately 24,200 customers interrupted.  
02/12/2021 at 11:00 a.m., approximately 21,801 customers interrupted.

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<sup>8</sup> See Governor Andy Beshear, Executive Order 202-093 (Feb. 11, 2021), *available at* [https://governor.ky.gov/attachments/20210211\\_Executive-Order\\_2021-093\\_SOE\\_Winter-Storm.pdf](https://governor.ky.gov/attachments/20210211_Executive-Order_2021-093_SOE_Winter-Storm.pdf) (last accessed Mar. 14, 2021).

<sup>9</sup> *Id.*

<sup>10</sup> See **EXHIBIT 2** for photographs of some of the damage caused by the February 10-11 and 15-16, 2021 ice storms.

02/12/2021 at 8:00 p.m., approximately 14,443 customers interrupted.  
02/13/2021 at 11:00 a.m., approximately 14,595 customers interrupted.  
02/13/2021 at 9:00 p.m., approximately 10,337 customers interrupted.  
02/14/2021 at 9:00 a.m., approximately 9,688 customers interrupted.  
02/14/2021 at 8:00 p.m., approximately 6,273 customers interrupted.  
02/15/2021 at 9:00 a.m., approximately 8,008 customers interrupted.  
02/15/2021 at 9:00 p.m., approximately 35,316 customers interrupted.

#### **Start of second ice storm**

02/16/2021 at 11:00 a.m., approximately 59,204 customers interrupted.  
02/16/2021 at 8:00 p.m., approximately 45,561 customers interrupted.  
02/17/2021 at 9:00 a.m., approximately 41,912 customers interrupted.  
02/17/2021 at 9:00 p.m., approximately 30,799 customers interrupted.

#### **B. The February 17, 2021 Snow Storm.<sup>11</sup>**

31. Many areas also received four to six inches of snow on February 17, 2021. In addition to snow, this storm brought rising temperatures, causing some of the ice from previous storms to melt, which resulted in additional trees breaking and falling on power lines. The combination of snow and melting ice therefore caused additional outages. It also further hampered restoration efforts due to the resulting hazardous road conditions.<sup>12</sup> Kentucky Power experienced both new and recurring outages over the course of this continuous winter weather cycle. There were 19,000,000 CMI associated with February 17, 2021 snow storm.

32. The following reflects a summary of the outage counts over the course of the snow storm.

#### **Start of accumulating snow that impeded restoration efforts**

02/18/2021 at 10:00 a.m., approximately 30,474 customers interrupted.  
02/18/2021 at 9:00 p.m., approximately 25,759 customers interrupted.  
02/19/2021 at 8:00 a.m., approximately 26,142 customers interrupted.  
02/19/2021 at 8:00 p.m., approximately 18,819 customers interrupted.  
02/20/2021 at 9:00 a.m., approximately 19,604 customers interrupted.  
02/20/2021 at 8:00 p.m., approximately 14,594 customers interrupted.

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<sup>11</sup> See generally [https://www.weather.gov/jkl/021821\\_Snow](https://www.weather.gov/jkl/021821_Snow).

<sup>12</sup> See **EXHIBIT 2** for photographs of some of the damage caused by the February 17, 2021 snow storm.

02/21/2021 at 9:00 a.m., approximately 13,476 customers interrupted.  
02/21/2021 at 9:00 p.m., approximately 12,464 customers interrupted.  
02/22/2021 at 8:00 a.m., approximately 10,678 customers interrupted.  
02/22/2021 at 9:00 p.m., approximately 6,511 customers interrupted.  
02/23/2021 at 9:00 a.m., approximately 6,360 customers interrupted.  
02/23/2021 at 9:00 p.m., approximately 4,698 customers interrupted.  
02/24/2021 at 9:00 a.m., approximately 4,573 customers interrupted.  
02/24/2021 at 9:00 p.m., approximately 2,710 customers interrupted.  
02/25/2021 at 9:00 a.m., approximately 2,584 customers interrupted.  
02/25/2021 at 9:00 p.m., approximately 1,274 customers interrupted.  
02/26/2021 at 9:00 a.m., approximately 857 customers interrupted.  
02/26/2021 at 9:00 p.m., approximately 226 customers interrupted.

**C. Summary of Cumulative Damage and Restoration Information for the Two Ice Storms and the Snow Storm.**

33. The Company's preliminary records indicate approximately 2,148 internal and contract employees participated in storm restoration efforts during the restoration efforts. This includes mutual assistance personnel who traveled from ten different states: Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Ohio, Tennessee, and Texas.

34. All residential Kentucky Power Company customers that could receive service<sup>13</sup> were restored by 7:38 p.m. on Monday, March 1, 2021. The times and dates service was restored to all residential customers who could receive service in each of the Company's three districts were:

- (a) Pikeville District – Wednesday, February 24, 2021 at 3:18 p.m.
- (b) Hazard District – Wednesday, February 24, 2021 at 4:11 p.m.
- (c) Ashland District – Monday, March 1, 2021 at 7:38 p.m.

35. Preliminary records indicate the storms resulted in approximately 759 broken poles, 1,176 damaged cross arms, 412 damaged transformers, and 851 damaged cutouts. Additionally,

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<sup>13</sup> Service could not be restored to certain residential customers because customer-owned facilities, such as masts and service poles, were damaged.

thousands of spans of conductor, totaling approximately more than 116 miles (approximately 612,769 feet) were repaired or replaced in the course of Kentucky Power's storm restoration efforts.

### **The Amount to be Accumulated and Deferred**

36. 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 storm-related O&M expenses less the amount of storm-related O&M expenses currently in its base rates) of the extraordinary O&M expenses it incurred to repair damaged facilities and restore service to customers following the February 10-11, 2021 ice storm, the February 15-16, 2021 ice storm, and the February 17, 2021 snow storm.

37. Kentucky Power's base rates contain O&M major storm-related expenses totaling \$1,029,788.89.<sup>14</sup>

38. The total jurisdictional incremental O&M costs associated with the three February 2021 Major Event storms that would not have been incurred but for the storms is still being calculated at the time of this filing. This Application therefore includes the Company's best current high-level estimates. The Company will update the estimates contained in this Application to the actual amounts when actual costs are known, and will file the actual amounts with the Commission in the docket related to this Application.

39. The estimated total jurisdictional incremental O&M costs associated with the three February 2021 Major Event storms that would not have been incurred but for the storms could exceed \$45 million.<sup>15</sup> The Company's first quarter 2021 books have not been closed and its first

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<sup>14</sup> Prorated to reflect the first 13 days in January 2021:  $(1,498,582 * (13/365) + 1,012,476 [1,013,489 * 0.999 \text{ jurisdictional allocation factor}] * (352/365))$ .

<sup>15</sup> See **EXHIBIT 3**.

quarter 2021 financial statements have not been issued. Subject to Commission approval in this case, Kentucky Power proposes to defer for purposes of its yet to be issued 2021 quarterly financial statements the estimated total jurisdictional incremental O&M expenses associated with the three February 2021 Major Event storms. Kentucky Power's estimate will be developed in accordance with the Company's established accounting policy.<sup>16</sup> Further, the estimate will be subject to disclosure in the Company's quarterly financial statements, in accordance with ASC 275 – Risks and Uncertainties.

40. Estimated total jurisdictional incremental storm-related O&M expenses will be deferred at interim reporting periods and will be trued-up to net actual costs (total storm-related O&M expenses less the amount of storm-related O&M expenses currently in its base rates) prior to year-end 2021. As soon as is practicable after quarterly 2021 financial statements are issued, Kentucky Power will file an update in this docket to provide the Commission with the estimated expenses deferred to the requested regulatory asset. The estimated high-level incremental Major Event storm-related expenses for which the Company seeks authority to defer and establish as a regulatory asset in Account 182.3 could exceed \$45 million.

#### **Basis for the Requested Accounting Treatment**

41. 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:*

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<sup>16</sup> See **CONFIDENTIAL EXHIBIT 4**, which the Company is contemporaneously filing under seal.

- 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.<sup>17</sup>

42. 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 expenses 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.<sup>18</sup>

43. 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. The Commission has approved regulatory assets for such costs that it has found to be extraordinary<sup>19</sup> and

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<sup>17</sup> (Emphasis supplied).

<sup>18</sup> *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).

<sup>19</sup> *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*, Case No. 2009-00352 (Ky. P.S.C. Dec. 22, 2009) ("2009 Storm Case"); *In The Matter Of: Application Of Kentucky Power Company For An Order Approving Accounting Practices To Establish A Regulatory Asset Related To Extraordinary Expenses Incurred By Kentucky Power Company In Connection With Three 2020 Major Storm Events*, Case No. 2020-00368 (Ky. P.S.C. Feb. 5, 2021) ("2020 Storm Case").

“sufficiently significant.”<sup>20</sup> These determinations in turn involve consideration of the collective magnitude of the storm expenses,<sup>21</sup> in relation to the amount of storm-related costs built into the utility’s base rates,<sup>22</sup> and the effect a refusal to authorize a deferral would have on the utility’s current year financial results.<sup>23</sup>

44. The estimated high-level incremental Major Event storm-related expenses for which the Company seeks deferral could exceed \$45 million, an amount nearly 44 times the \$1,029,788.89 in O&M major storm-related expenses included in Kentucky Power’s base rates.

45. Further, for comparison purposes, Kentucky Power’s 2020 operating income was \$69.9 million, and its net income was \$41 million.<sup>24</sup> Thus, the estimated high-level incremental Major Event storm-related expenses for which the Company seeks deferral *for these three storms alone* could constitute as much as 64% of the Company’s operating income and as much as 110% of its net income for 2020.

46. Based upon Commission precedent, Kentucky Power seeks Commission approval to create a regulatory asset in connection with its yet to be issued 2021 quarterly financial statements deferring the estimated incremental Major Storm-related expenses, as described in paragraphs 36 through 40 above. Estimated total jurisdictional incremental storm-related O&M

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<sup>20</sup> *In The Matter Of: Application Of Kentucky Utilities Company For An Order Approving The Establishment Of A Regulatory Asset*, Case No. 2008-00457, Order at 5 (Ky. P.S.C. Dec. 22, 2008) (“2008 KU Storm Case”).

<sup>21</sup> *2009 Storm Case*, Order at 3 (“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.”).

<sup>22</sup> *Id.*; *2020 Storm Case*, Order at 3 (“The cost of these storms amount to over seven times Kentucky Power’s O&M expense budgets for storm damage of approximately \$1.5 million, which are currently embedded in Kentucky Power’s base rates.”).

<sup>23</sup> *2008 KU Storm Case*, Order at 5-6.

<sup>24</sup> See Kentucky Power 2020 income statement, which can be accessed at: <https://www.aep.com/Assets/docs/investors/Filings/docs/2020subsidiaries/4Q20-KPCo.pdf>

expenses will be deferred at interim reporting periods and will be trued-up to net actual costs prior to year-end 2021.

47. In accordance with FASB ASC 980-340-25-1 and Commission precedent, Kentucky Power requests that the Commission 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 its extraordinary and nonrecurring expenses incurred by the Company in repairing damage and restoring service in connection with the three February 2021 Major Event storms. If the requested relief is granted, Kentucky Power will record the regulatory asset in FERC Account No. 182.3.

#### **Exhibits**

48. The following exhibits are incorporated in this application:
- a. The Company's March 15, 2021 Certificate of Existence **[EXHIBIT 1]**;
  - b. Photographic examples of damage caused by the three February 2021 Major Event storms **[EXHIBIT 2]**;
  - c. Breakdown of estimated distribution and transmission costs associated with the three February 2021 Major Event storms as of the date of this Application **[EXHIBIT 3]**; and
  - d. The Company's storm work order accounting procedure **[CONFIDENTIAL EXHIBIT 4]**.

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

1. Authorizing Kentucky Power Company in accordance with FASB ASC 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 incremental and extraordinary O&M expenses incurred by the Company in repairing damage and restoring service in connection with the three February 2021 Major Event storms. The estimated high-level incremental Major Event storm-related expenses for which the Company seeks authority to defer and establish as a regulatory asset in Account 182.3 could exceed \$45 million;

2. Authorizing Kentucky Power to record the deferred amount as a regulatory asset to be recorded in FERC Account No. 182.3; and

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

This 18th day of March, 2021.

Respectfully submitted,



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**VERIFICATION**

The undersigned, Brian K. West, being duly sworn, deposes and says he is Vice President, Regulatory & Finance for Kentucky Power Company that he has personal knowledge of the matters set forth in the forgoing application and the information contained therein is true and correct to the best of his information, knowledge and belief after reasonable inquiry.

  
\_\_\_\_\_  
Brian K. West

State of Indiana        )  
                              ) ss       Case No. 2021-00129  
County of Allen        )

Subscribed and sworn to before me, a Notary Public, in and for said County and State, Brian K. West this 18<sup>th</sup> day of March, 2021.

Regiana M.            )  
Sistevaris            ) Digitally signed by Regiana M.  
                              ) Sistevaris  
                              ) Date: 2021.03.18 08:54:07 -04'00'

\_\_\_\_\_  
Regiana M. Sistevaris, Notary Public

My Commission Expires: January 7, 2023

Exhibit 1

**Commonwealth of Kentucky**  
**Michael G. Adams, Secretary of State**

Michael G. Adams  
Secretary of State  
P. O. Box 718  
Frankfort, KY 40602-0718  
(502) 564-3490  
<http://www.sos.ky.gov>

**Certificate of Existence**

Authentication number: 243806  
Visit <https://web.sos.ky.gov/ftshow/certvalidate.aspx> to authenticate this certificate.

I, Michael G. Adams, Secretary of State of the Commonwealth of Kentucky, do hereby certify that according to the records in the Office of the Secretary of State,

**KENTUCKY POWER COMPANY**

is a corporation duly incorporated and existing under KRS Chapter 14A and KRS Chapter 271B, whose date of incorporation is July 21, 1919 and whose period of duration is perpetual.

I further certify that all fees and penalties owed to the Secretary of State have been paid; that Articles of Dissolution have not been filed; and that the most recent annual report required by KRS 14A.6-010 has been delivered to the Secretary of State.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 15<sup>th</sup> day of March, 2021, in the 229<sup>th</sup> year of the Commonwealth.



*Michael G. Adams*

Michael G. Adams  
Secretary of State  
Commonwealth of Kentucky  
243806/0028317

Exhibit 2























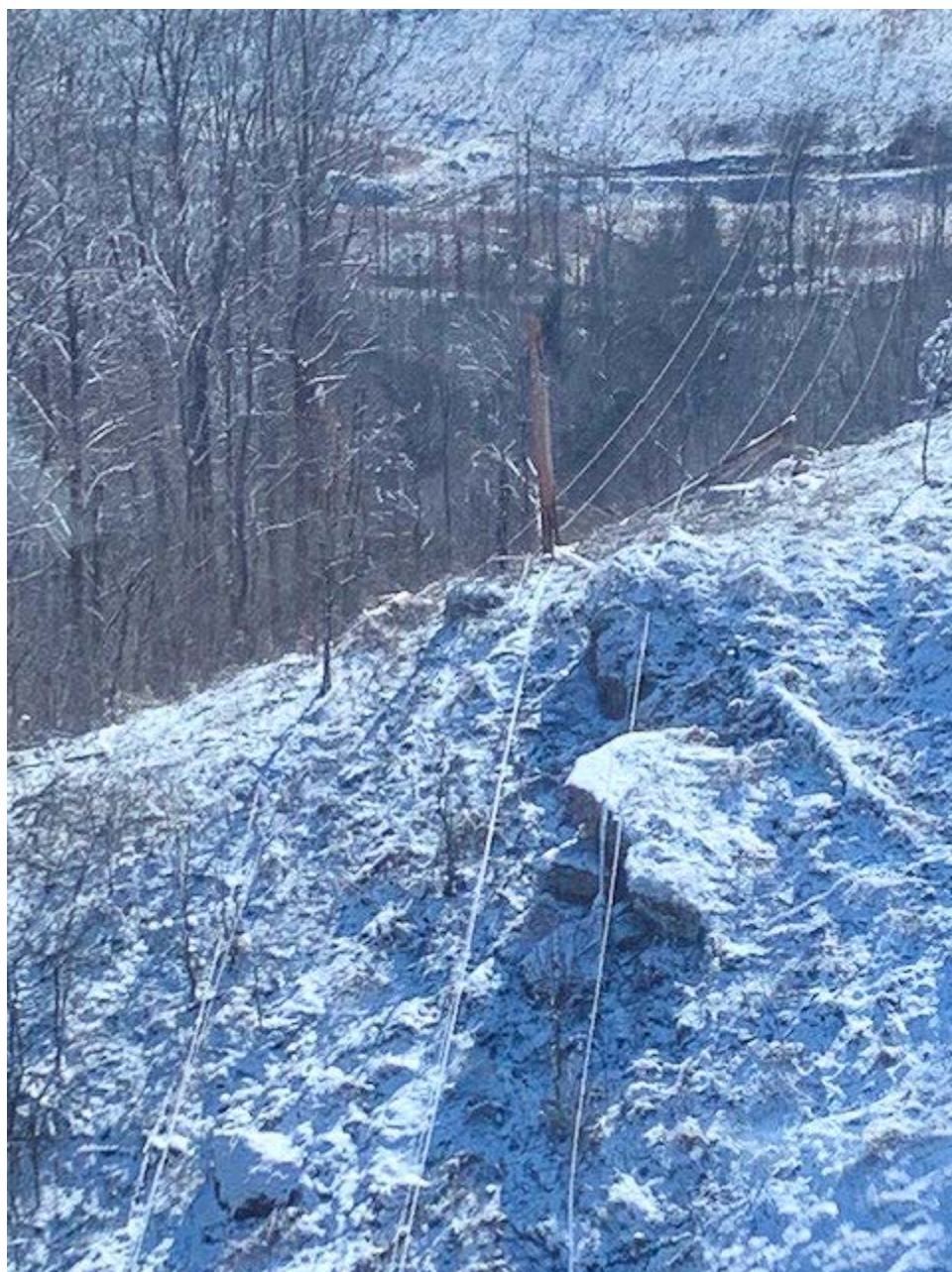


































































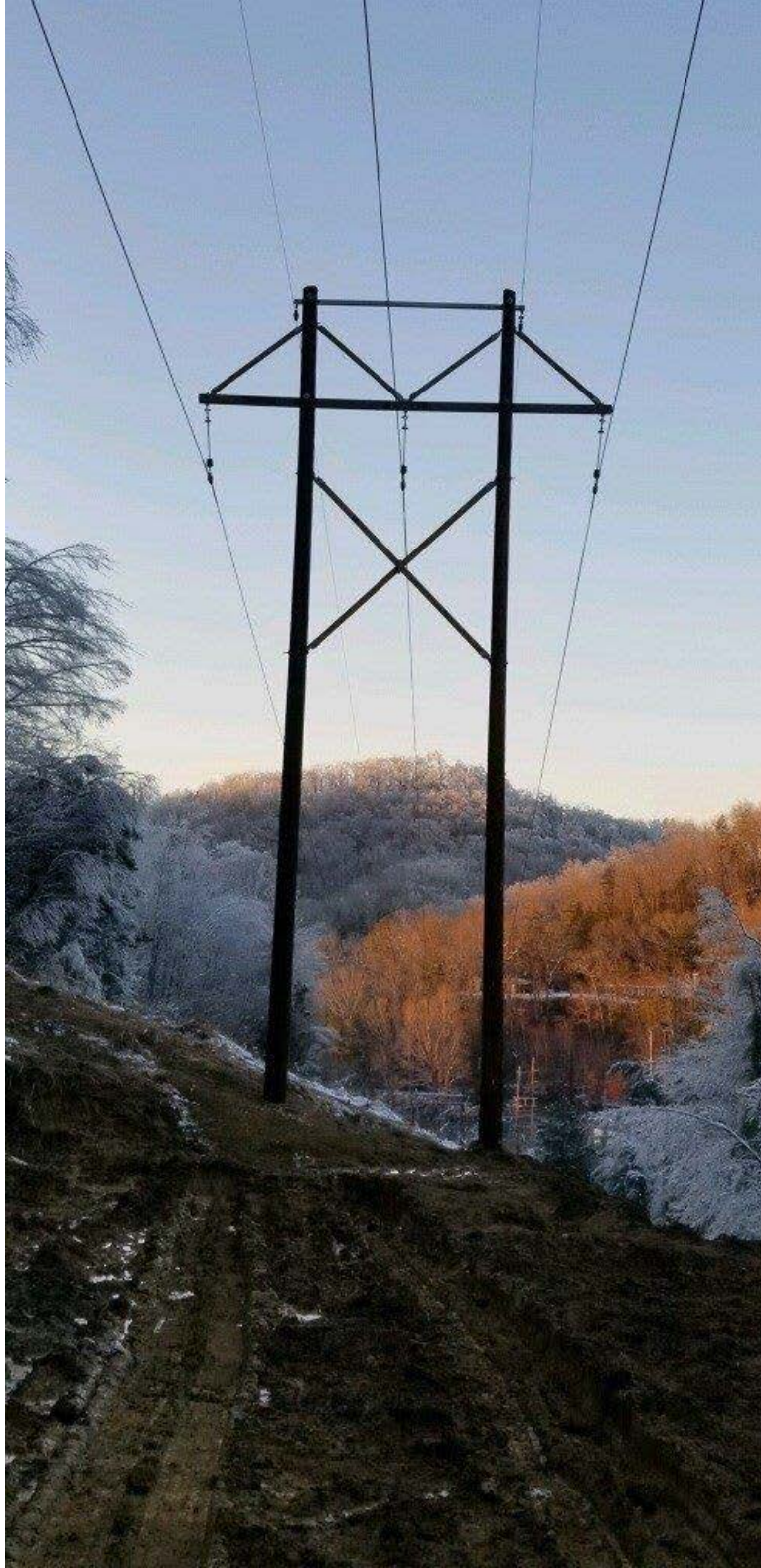


























































Exhibit 4 has been redacted in its entirety.