

**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)	Case No. 2021-00402
Kentucky Power Company In Connection With The)	
March 1, 2021 Major Storm Event)	

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 **on or before January 5, 2022** 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 the March 1, 2021 “Major Flood Event” storm 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 1919.¹ 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.

¹ 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 October 20, 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 165,000 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.

Kentucky Power's Distribution Facilities

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

5. Kentucky Power's service territory includes some of the most rugged and difficult topography in the Commonwealth. Its distribution facilities in particular cross mountainous terrain that is prone to mudslides, landslides, and flooding.

The February 2021 Ice and Snow Storms

6. Between February 10, 2021 and February 17, 2021, Kentucky Power's service territory experienced three ice and snow storms that caused extensive damage and widespread power outages in the Company's Ashland, Hazard, and Pikeville Districts. The storms brought down power lines and ice-laden trees causing extensive debris and damage that required a massive cleanup effort. 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.²

7. Kentucky Power requested and was authorized to establish regulatory assets for the incremental actual costs of O&M expenses related to the February 2021 snow and ice storms.³ At the time of the Application, the Company estimated that the incremental storm-related expenses could exceed \$45 million.⁴ The actual incremental O&M costs for these storms is still being calculated. The estimated deferral recorded as of September 30, 2021 in connection with the Company's third quarter 2021 financial statements was \$42,582,003.⁵

The Major Flood Event

8. 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").

² See *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 The Extraordinary Expenses Incurred By Kentucky Power Company In Connection With Three February 2021 Major Storm Events*, Case No. 2021-00129, Application at 8 (March 18, 2021).

³ See *id.*, Order at 4 (Ky. P.S.C. April 5, 2021).

⁴ *Id.*, Application at 13 (March 18, 2021).

⁵ *Id.*, Post-Case Correspondence File, November 2, 2021 Update Letter.

9. While the Company was still engaged in recovery efforts after the three February 2021 ice and snow storms, beginning late Friday night February 26, 2021 and continuing through March 1, 2021, Kentucky Power's service territory experienced a heavy rain event, resulting in severe flooding, which qualified as a Major Event Day as defined by IEEE Standard 1366 (the "Major Flood Event").

10. Within 72 hours most of Kentucky Power's service territory received 3.5 inches to 5.8 inches of rainfall. In select areas the service territory received 3.6 inches to 4.7 inches of rainfall within 24 hours.

11. The Major Flood Event caused extensive flooding, damage, and widespread power outages mostly in the Company's Pikeville District. The Hazard and Ashland Districts also experienced flooding, damage, and power outages as a result of the Major Flood Event. At the peak of the outages, approximately 8,287 customers were without electric service. The total number of customers without electric service as a result of the Major Flood Event was 19,784.

12. On February 28, 2021, Governor Andy Beshear issued Executive Order 2021-135 declaring a state of emergency throughout the Commonwealth as a result of the severe weather system that generated heavy rain across the Commonwealth causing flash flooding, flooding, high wind gusts, mudslides, and landslides.⁶ By the morning of March 1, 2021, eight counties and two cities in Kentucky Power's service territory declared states of emergency.⁷ On March 3, 2021, Boyd County issued a Declaration of Emergency following "relentless winter storms and heavy rain that resulted in extensive damage and flooding."⁸ In connection with the announcement that

⁶ "Gov. Beshear Declares State of Emergency Due to Heavy Rainfall Across the Commonwealth." The Office of the Governor (March 1, 2021). <https://kentucky.gov/Pages/Activity-stream.aspx?n=GovernorBeshear&prId=637>

⁷ *Id.*

⁸ Snyder, A. "Boyd issues Declaration of Emergency: Led by ER Assist, clean-up efforts to begin immediately." *The Daily Independent* (March 3, 2021). <https://www.dailyindependent.com/news/boyd-issues-declaration-of->

a private disaster recovery service would be engaged, Boyd County Judge Executive Eric Chaney said, “The disaster is so broad, we need to ... be able to manage everything, every ounce and piece of debris.”⁹ According to a March 2, 2021 report by The Daily Independent in Ashland, 10 people required rescue and transport to safety by first responders as a result of the flooding in the Company’s service territory.¹⁰

13. Kentucky Power Company personnel and business partners immediately began restoring customer service. The Company’s restoration process was suspended Sunday, February 28, 2021 at nightfall until daylight hours the following morning due to safety concerns with high waters. Upon restoration efforts resuming the Company experienced significant access issues due to high flood waters and mudslides. These mudslides persisted even once the flood waters subsided. Accordingly, outside resources were brought in to assist with restoration efforts.

14. The Company’s preliminary records indicate approximately 436 internal and contract employees participated in storm restoration efforts. This includes mutual assistance personnel from Kentucky and Ohio.

15. Service was restored by 3:19 p.m. on Thursday, March 4, 2021 to all residential customers except those with damaged customer owned-facilities such as masts and service poles. The times and dates service was restored to all residential customers whose service was restored in each of the Company’s three districts by March 4, 2021 were:

- a) Ashland District - Wednesday, March 3, 2021 at 6:12 p.m.
- b) Hazard District - Thursday, March 4, 2021 at 12:40 p.m.

[emergency-led-by-er-assist-clean-up-efforts-to-begin-immediately/article_f154362c-7c8e-11eb-a308-cf44ff716cec.html](https://www.dailyindependent.com/news/emergency-led-by-er-assist-clean-up-efforts-to-begin-immediately/article_f154362c-7c8e-11eb-a308-cf44ff716cec.html) (last accessed October 21, 2021).

⁹ *Id.*

¹⁰ Romans, C. and Culvyhouse, H. “High water leads to rescues.” *The Daily Independent* (March 2, 2021). https://www.dailyindependent.com/news/high-water-leads-to-rescues/article_0548e71a-7bb1-11eb-a19b-478a28189cb2.html (last accessed October 21, 2021).

c) Pikeville District - Thursday, March 4, 2021 at 3:19 p.m.

16. The following reflects a summary of the event:

2/28/2021, 9:00 p.m., approximately 1,555 customers interrupted
3/01/2021, 9:00 a.m., approximately 8,287 customers interrupted
3/01/2021, 9:00 p.m., approximately 2,505 customers interrupted
3/02/2021, 11:00 a.m., approximately 4,140 customers interrupted
3/02/2021, 11:00 p.m., approximately 2,757 customers interrupted
3/03/2021, 11:00 a.m., approximately 5,938 customers interrupted
3/03/2021, 11:00 p.m., approximately 3,549 customers interrupted
3/04/2021, 11:00 a.m., approximately 482 customers interrupted

17. Preliminary records indicate the Major Flood Event resulted in approximately 12 broken poles, 33 pole relocations caused by mud slides, 17 damaged cross arms, and 68 downed spans of wire.

The Amount to be Accumulated and Deferred

18. Kentucky Power's base rates in effect in March 2021 contained O&M major storm-related expenses totaling \$1,029,789¹¹.

19. The total jurisdictional incremental O&M costs associated with the February 28th Flood that would not have been incurred but for the storm were \$826,495¹².

20. The total O&M major storm-related expenses already authorized to be accumulated and deferred for recovery as a result of previous Major Event storms in 2021 reflect Kentucky Power's incremental actual costs of extraordinary O&M expenses related to the February 10, February 15, and February 17, 2021 Major Event Day Storms. The actual incremental O&M costs

¹¹ Prorated to reflect the first 13 days in January 2021: $(1,498,582 * (13/365) + 1,012,476 [1,013,489 * 0.999 \text{ jurisdictional allocation factor}] * (352/365))$.

¹² See Exhibit 3 at Row 13 of the Summary tab.

for these storms is still being calculated. The estimated deferral recorded as of September 30, 2021 in connection with the Company's third quarter 2021 financial statements was \$42,582,003.¹³

21. Subject to Commission approval in this case, Kentucky Power proposes to defer for purposes of its financial statements the total jurisdictional incremental O&M expenses associated with the Major Flood Event.

22. Kentucky Power therefore seeks authorization from the Commission to accumulate and defer for review and recovery in Kentucky Power's next base rate proceeding the total incremental storm-related O&M expenses incurred to repair damaged facilities and restore service to customers following the Major Flood Event.

Basis for the Requested Accounting Treatment

23. 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

¹³ *Id.*, Post-Case Correspondence File, November 2, 2021 Update Letter.

be recognized as a regulatory asset when it does meet those criteria at a later date.¹⁴

24. 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.¹⁵

25. 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 extraordinary¹⁶ and “sufficiently significant.”¹⁷ These determinations in turn involve consideration of the collective magnitude of the storm expenses,¹⁸ in relation to the amount of storm-related costs built into the

¹⁴ (Emphasis supplied).

¹⁵ *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).

¹⁶ *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”).

¹⁷ *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”).

¹⁸ Order, *2009 Storm Case* 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.”).

utility's base rates,¹⁹ and the effect a refusal to authorize a deferral would have on the utility's current year financial results.²⁰

26. The actual incremental Major Event storm-related expenses for which the Company seeks deferral is \$826,495. This amount, along with the incremental O&M from the February 2021 Ice Storm, authorized for regulatory asset treatment and deferral in Case No. 2021-00129, is in addition to the \$1,029,789 in O&M major storm-related expenses included in Kentucky Power's base rates.

27. Based upon Commission precedent, Kentucky Power seeks Commission approval to create a regulatory asset in connection with its yet to be issued 2021 year-end financial statements deferring the incremental Major Storm-related expenses, as described above. This amount, combined with the amount authorized for deferral in Case No. 2021-00129, represents approximately 96% of Kentucky Power's third quarter 2021 year-to-date net income²¹.

28. 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 Major Flood Event. If the requested relief is granted, Kentucky Power will record the regulatory asset in FERC Account No. 182.3.

¹⁹ *Id.*; Order, *2020 Storm Case* 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.”).

²⁰ Order, *2008 KU Storm Case* at 5-6.

²¹ Kentucky Power’s third quarter 2021 year-to-date net income was \$44.831 million. See <https://aep.com/Assets/docs/investors/Filings/docs/2021subsidiaries/3Q21-KPCo.pdf>

Exhibits

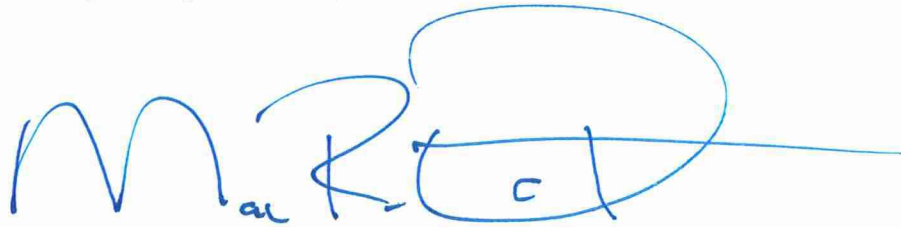
29. The following exhibits are incorporated in this application:
- a. The Company's October 20, 2021 Certificate of Existence [EXHIBIT 1];
 - b. Photographic examples of damage caused by the Major Flood Event [EXHIBIT 2]; and
 - c. Breakdown of distribution costs associated with the Major Flood Event [EXHIBIT 3].

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 Major Flood Event. The actual incremental Major Event Day storm-related expenses for which the Company seeks authority to defer and establish as a regulatory asset in Account 182.3 is \$826,495;
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 5th day of November, 2021.

Respectfully submitted,



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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: 256632

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 20th day of October, 2021, in the 230th year of the Commonwealth.



Michael G. Adams

Michael G. Adams
Secretary of State
Commonwealth of Kentucky
256632/0028317

Exhibit 2

Ashland Area*



* Pictures courtesy of Kentucky Transportation Cabinet for District 9 and District 12

<https://www.facebook.com/KYTCDistrict9>

<https://www.facebook.com/KYTCDistrict12>



Pikeville and Hazard















