

**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	)	Case No. 2022-00293
Extraordinary Expenses Incurred In Connection With	)	
June 2022 and July 2022 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 **September 30, 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 severe June 2022 and July 2022 “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).

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

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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 August 15, 2022 Certificate of Existence is attached as **EXHIBIT 1**.

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 **September 30, 2022** due to exigent circumstances specific to this Application.

5. As explained more fully below, on June 17, 2022 and July 28, 2022 Kentucky Power's service territory experienced two severe and destructive storms.

6. The resulting damage to the Company's transmission and distribution systems was significant:

#### **June 17, 2022 Thunderstorms and High Winds**

- a. Preliminary information indicates that the event caused 53 broken poles, 52 damaged cross arms, and 11 damaged transformers. Additionally, the Company repaired or replaced 605 spans of conductor, totaling more than 23.6 miles.
- b. In total, the Company restored approximately 29,957 customer outages resulting from the June thunderstorms. The restoration efforts took four days. Restoration crews and hundreds of employees and contractors from ten states assisted in restoring service to the Company's customers over the course of the four days.

July 28, 2022 Flood Event

- c. Preliminary information indicates that the July Floods caused 234 broken poles, 69 damaged cross arms, 33 damaged transformers, and 13 damaged cutouts. The Company repaired or replaced 608 spans of conductor, totaling more than 23.7 miles. Additionally, there were 10 damaged substations: Bonnyman, Bulan, Burton, Chavies, Engle, Falcon, Haddix, Shamrock and Engle Tap, Topmost, and Whitesburg. Topmost was the worst hit experiencing 5' of water throughout the entire station. **Exhibit 2** pages 21-24 provides pictures from Topmost Station and Burton Station.
- d. In total, the Company restored approximately 77,343 customer outages resulting from the July Floods. The restoration efforts took approximately two weeks. Restoration crews and approximately 1,168 employees and contractors from seven states assisted in restoring service to the Company's customers over the course of the two weeks.

7. The Company's best estimates at the time of this filing indicate that the total costs associated with the two storms could total approximately \$27-28 million. The below table provides current estimates for each event:

	<b>June 17, 2022 Storm</b>	<b>July 28, 2022 Storm</b>	<b>Combined</b>
<b>Total Cost</b>	4,967,271	23,453,984	28,421,255
<b>Jurisdictional Incremental O&amp;M<sup>2</sup></b>	3,088,343	15,889,447	18,977,790

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<sup>2</sup> Costs would not have been incurred but for the storms. See **Exhibit 3** for a detailed breakdown of each event.

8. 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>

9. The magnitude of the storm costs, the timing of the storms, and the significant effect of the storm costs on Kentucky Power's third quarter 2022 financial statements prepared in accordance with generally accepted accounting principles (GAAP), drives the Company's request for a ruling on this Application on or before September 30, 2022.

10. 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.

11. The Company must close its third quarter books on October 7, 2022 and issue its third quarter 2022 financial statements on October 27, 2022.

12. 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

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<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”).

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 third quarter 2022 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 recovery of these costs in the quarterly financial statements could negatively impact Kentucky Power's financing costs.

13. For example, Moody's Credit Services published an updated credit opinion of Kentucky Power on June 29, 2022 in which it indicated that Kentucky Power's credit metrics are also being impacted by storm activity. While this is likely in reference to the 2021 storms, the more recent storms will also likely impact the metrics going forward.

14. 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 its current rating. If Kentucky Power is not granted the approvals requested herein and instead is required to expense these storm costs in the financial statements, it could negatively impact both the quantitative and qualitative analysis that Moody's considers in rating a company.

15. A downgrade by Moody's could, in turn, impact the Company's financing costs. Kentucky Power has other financing activity that will occur in the next year which could also be negatively impacted if the Company were downgraded.

16. When the amount incurred for major storms are a fraction of the costs of the June 17, 2022 and July 28, 2022 storms, Kentucky Power could consider closing its interim financial

statements without making the accounting entries requested herein. Instead, the Company could include a disclosure in the quarterly financial statements indicating to financial statement users that the Company would be seeking leave to defer those costs.<sup>4</sup> However, due to the magnitude of the incremental storm expense associated with the June 17, 2022 and July 28, 2022 storms, a disclosure alone in this instance is insufficient.

17. 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>5</sup> Kentucky Power is seeking similar relief here because the extraordinary nature and amount of the June 17, 2022 and July 28, 2022 storm expenses render it critical that the Company's third 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 September 30, 2022.**

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<sup>4</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."

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

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

18. As of August 23, 2022, Kentucky Power owned approximately 1,263 circuit miles of transmission lines. Kentucky Power's transmission system is designed and constructed to meet heavy loading criteria. The transmission system comprises approximately 2,273 metal structures and 4,410 wooden structures.

19. The Company also owns approximately 10,050 circuit miles of distribution lines as of January 12, 2022. Of these, approximately 183 circuit miles are underground. Kentucky Power's distribution system is designed and constructed to meet medium loading criteria.

20. 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.

### **"Major Event Day" Storms**

21. 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 2022  $T_{med}$  threshold is 4,546,781 customer minutes of interruption ("CMI").

22. On June 17, 2022 and July 28, 2022, Kentucky Power’s service territory experienced storms involving Major Event Days as defined by IEEE Standard 1366.

**A. The June 17, 2022 Thunderstorms and High Winds.**

23. The June 17, 2022 thunderstorms resulted in widespread wind gusts in the 40-65 mph range with several localized gusts of 65 to 80 mph. Some of the most extensive power outages were in Elliott, Martin, Johnson, and Floyd Counties.<sup>6</sup>

24. The thunderstorms caused extensive damage and widespread power outages in the Company’s Ashland, Hazard, and Pikeville Districts. At the peak of the storm outages, approximately 24,847 customers were without electric service. The storm damage was of such a magnitude and so extensive that outside resources were brought in to assist in restoration efforts. This includes mutual assistance personnel who travelled from ten different states: Alabama, Arkansas, Georgia, Indiana, Michigan, Missouri, North Carolina, Ohio, Pennsylvania and Virginia.

25. The following reflects a summary of the outage counts over the course of the storm:

- 06/17/22 2:00 p.m., approximately 23,773 customers interrupted
- 06/17/22 8:00 p.m., approximately 18,957 customers interrupted
- 06/18/22 2:00 a.m., approximately 12,384 customers interrupted
- 06/18/22 8:00 a.m., approximately 12,542 customers interrupted
- 06/18/22 2:00 p.m., approximately 8,747 customers interrupted
- 06/18/22 8:00 p.m., approximately 5,383 customers interrupted
- 06/19/22 2:00 a.m., approximately 4,644 customers interrupted
- 06/19/22 8:00 a.m., approximately 4,628 customers interrupted
- 06/19/22 2:00 p.m., approximately 3,349 customers interrupted
- 06/19/22 8:00 p.m., approximately 1,877 customers interrupted
- 06/20/22 2:00 a.m., approximately 1,670 customers interrupted
- 06/20/22 8:00 a.m., approximately 1,680 customers interrupted
- 06/20/22 2:00 p.m., approximately 1,034 customers interrupted
- 06/20/22 8:00 p.m., approximately 347 customers interrupted

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<sup>6</sup> [Severe Thunderstorms on Friday 6/17/2022 Produce Damaging Wind Gusts Across Much of Eastern KY \(weather.gov\)](https://www.weather.gov).



26. All of the Company's customers were restored by 5:30 p.m. on June 21, 2022. A summary of the time of restoration by district is as follows:

- a. Ashland District: June 19, 2022 at 10:15 p.m.;
- b. Hazard District: June 18, 2022 at 4:28 p.m.; and
- c. Pikeville District: June 21, 2022 at 5:30 p.m.

27. Preliminary records indicate that approximately 858 internal and contract employees participated in the restoration efforts.

**B. The July 28, 2022 Flood Event.<sup>7</sup>**

28. On July 28, 2022, Kentucky Power's service territory experienced complexes of thunderstorms which brought heavy rain, deadly flash flooding, mudslides, and landslides. At times rainfall rates exceeded four inches an hour with an estimated 14-16" of rainfall during the five-day catastrophic event. Most of the rainfall occurred during the evening of July 27, 2022 and morning of July 28, 2022.

29. Flash flooding presents the most dangerous kind of floods as it combines destructive power with incredible speed. Unsurprisingly, record flash flooding was exhibited across Eastern Kentucky. For instance, in Letcher County the North Fork Kentucky River exceeded its all-time record from January 1957 by six feet and rose to approximately 18 feet in ten hours from its typical one to two-foot depth.<sup>8</sup>

30. 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 storm. The Company initiated its Incident Command System at 08:00 a.m., on Thursday, July 28, 2022. The storm damage was of such a magnitude and so

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<sup>7</sup> See generally <https://www.weather.gov/jkl/July2022Flooding> and <https://www.nssl.noaa.gov/education/svrwx101/floods/>

<sup>8</sup> <https://weather.com/storms/severe/news/2022-07-28-kentucky-flooding-rain-record-flood-facts>

extensive that outside resources were brought in to assist in restoration efforts. This includes mutual assistance personnel who travelled from seven different states: Indiana, Kentucky, Michigan, Ohio, Tennessee, Virginia, and West Virginia.

31. Restoration crews faced serious access issues as some roads and bridges were entirely washed away, flooded or blocked by debris. **Exhibit 2** illustrates these accessibility issues along with the destruction wrought by the storm.<sup>9</sup>

32. Governor Beshear on July 28, 2022 declared a State of Emergency across Kentucky due to the severe flooding.<sup>10</sup> The order activated the state’s Emergency Operations Center and allowed the Adjutant General of Kentucky to mobilize the National Guard.<sup>11</sup> All seven counties which declared states of emergency on July 28, 2022 (Breathitt, Clay, Floyd, Letcher, Owsley Perry, and Pike) are within Kentucky Power’s service territory.<sup>12</sup>

33. The following reflects a summary of the outage counts over the course of the storm:

07/26/2022 at 4:00 p.m., approximately 3,821 customers interrupted  
07/27/2022 at 12:00 a.m., approximately 902 customers interrupted  
07/27/2022 at 8:00 a.m., approximately 3,041 customers interrupted  
07/27/2022 at 4:00 p.m., approximately 2,086 customers interrupted  
07/28/2022 at 12:00 a.m., approximately 2,992 customers interrupted  
07/28/2022 at 8:00 a.m., approximately 19,931 customers interrupted  
07/28/2022 at 11:00 a.m., approximately 23,272 customers interrupted  
07/28/2022 at 4:00 p.m., approximately 22,649 customers interrupted  
07/29/2022 at 12:00 a.m., approximately 20,632 customers interrupted  
07/29/2022 at 8:00 a.m., approximately 21,567 customers interrupted  
07/29/2022 at 4:00 p.m., approximately 18,677 customers interrupted  
07/30/2022 at 12:00 a.m., approximately 15,653 customers interrupted  
07/30/2022 at 8:00 a.m., approximately 15,909 customers interrupted  
07/30/2022 at 4:00 p.m., approximately 14,858 customers interrupted  
07/31/2022 at 12:00 a.m., approximately 11,366 customers interrupted  
07/31/2022 at 8:00 a.m., approximately 11,504 customers interrupted

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<sup>9</sup> Also see <https://www.kentucky.com/news/state/kentucky/article263978166.html>.

<sup>10</sup> See Governor Andy Beshear, Executive Order 2022-457 (Jul. 28, 2022), available at [https://governor.ky.gov/attachments/20220728\\_State\\_of\\_Emergency\\_Eastern\\_Kentucky\\_Flooding.pdf](https://governor.ky.gov/attachments/20220728_State_of_Emergency_Eastern_Kentucky_Flooding.pdf)

<sup>11</sup> *Id.*

<sup>12</sup> <https://www.fema.gov/disaster/4663/designated-areas#individual-assistance> provides the Kentucky disaster declaration as of August 19, 2022.

07/31/2022 at 4:00 p.m., approximately 10,603 customers interrupted  
08/01/2022 at 12:00 a.m., approximately 9,047 customers interrupted  
08/01/2022 at 8:00 a.m., approximately 12,103 customers interrupted  
08/01/2022 at 4:00 p.m., approximately 9,794 customers interrupted  
08/02/2022 at 12:00 a.m., approximately 7,349 customers interrupted  
08/02/2022 at 8:00 a.m., approximately 8,260 customers interrupted  
08/02/2022 at 4:00 p.m., approximately 6,009 customers interrupted  
08/03/2022 at 12:00 a.m., approximately 4,566 customers interrupted  
08/03/2022 at 8:00 a.m., approximately 5,132 customers interrupted  
08/03/2022 at 4:00 p.m., approximately 3,578 customers interrupted  
08/04/2022 at 12:00 a.m., approximately 2,527 customers interrupted  
08/04/2022 at 8:00 a.m., approximately 2,554 customers interrupted  
08/04/2022 at 4:00 p.m., approximately 2,328 customers interrupted  
08/05/2022 at 12:00 a.m., approximately 1,142 customers interrupted  
08/05/2022 at 8:00 a.m., approximately 1,111 customers interrupted  
08/05/2022 at 4:00 p.m., approximately 2,335 customers interrupted  
08/06/2022 at 12:00 a.m., approximately 342 customers interrupted

34. Ninety-five percent of customers were restored by August 4, 2022. All of the Company's customers who could receive service were restored by 6:55 p.m. on August 11, 2022.<sup>13</sup>

A summary of the time of restoration by district is as follows:

- a. Ashland District: Not applicable;
- b. Hazard District: August 11, 2022 at 6:55 p.m.; and
- c. Pikeville District: August 3, 2022 at 12:50 p.m.

35. Preliminary records indicate that approximately 1,168 internal and contract employees participated in the restoration efforts.

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

**C. Summary of Cumulative Damage**

36. The below table provides a preliminary summary of the damage for the two storms:

	<b>June 17, 2022 Storm</b>	<b>July 28, 2022 Storm</b>	<b>Combined</b>
<b>Broken Poles</b>	53	234	287
<b>Damaged Cross Arms</b>	52	69	121
<b>Damaged Transformers</b>	11	33	44
<b>Damaged Cutouts</b>	-	13	13
<b>Damaged Substations</b>	-	10	10
<b>Spans of Conductor Repaired or Replaced</b>	605	608	1,213
<b>Damaged Meters</b>	-	1,684	1,684

**The Amount to be Accumulated and Deferred**

37. 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 June 17, 2022 and July 28, 2022 storms.

38. Kentucky Power's base rates contain O&M major storm-related expenses totaling \$1,012,476<sup>14</sup>.

39. The total jurisdictional incremental O&M costs associated with the June 17, 2022 and July 28, 2022 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

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<sup>14</sup> Retail jurisdictional amount of 1,012,476: (1,013,489 \* 0.999 jurisdictional allocation factor)

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.

40. The estimated total jurisdictional incremental O&M costs associated with the June 17, 2022 and July 28, 2022 Major Event storms that would not have been incurred but for the storms could be as high as approximately \$18 million.<sup>15</sup> The Company's third quarter 2022 books have not been closed and its third quarter 2022 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 quarterly financial statements the estimated total jurisdictional incremental O&M expenses associated with the June 17, 2022 and July 28, 2022 Major Event storms. Kentucky Power's estimate will be developed in accordance with the Company's established accounting policy. Further, the estimate will be subject to disclosure in the Company's quarterly financial statements, in accordance with ASC 275 – Risks and Uncertainties.

41. 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 first quarter-end 2023. As soon as is practicable after quarterly 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 total as high as \$18 million.

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

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

42. 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.<sup>16</sup>

43. 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>17</sup>

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<sup>16</sup> (Emphasis supplied).

<sup>17</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).

44. 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>18</sup> and “sufficiently significant.”<sup>19</sup> These determinations in turn involve consideration of the collective magnitude of the storm expenses,<sup>20</sup> in relation to the amount of storm-related costs built into the utility’s base rates,<sup>21</sup> and the effect a refusal to authorize a deferral would have on the utility’s current year financial results.<sup>22</sup>

45. The estimated high-level incremental Major Event storm-related expenses for which the Company seeks deferral could total as high as \$18 million, an amount nearly 18 times the \$1,012,476. in O&M major storm-related expenses included in Kentucky Power’s base rates.

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<sup>18</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 Regulatory Assets And Liabilities Related To The Extraordinary Expenses Incurred By Kentucky Power Company In Connection With Four 2012 Major Storm Events*, Case No. 2012-00445 (Ky. P.S.C. Jan. 7, 2013) (“2012 Storm Case”); *In The Matter Of: 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 Event*, Case No. 2016-00180 (Ky. P.S.C. Dec. 12, 2016) (“2015 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”); *In The Matter Of: 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 (Ky. P.S.C. Apr. 5, 2021).

<sup>19</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>20</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>21</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>22</sup> *2008 KU Storm Case*, Order at 5-6.

46. Further, for comparison purposes, Kentucky Power’s operating income and net income for the twelve months ended June 30, 2022 was \$65 million.<sup>23</sup> Thus, the \$18 million estimated high-level incremental Major Event storm-related expenses for which the Company seeks deferral *for these storms alone* could constitute as much as 28% of the Company’s operating income and as much as 28% of its net income for the twelve months ending June, 2022.

<b>Line No.</b>	<b>Reporting Period</b>	<b>Operating Income</b>	<b>Net Income</b>	
1	Three Months Ended March 31, 2021	12	14	
2	Three Months Ended June 30, 2021	14	10	
3	Three Months Ended September 30, 2021	17	21	
4	Three Months Ended December 31, 2021	9	5	
5	2021 Year to Date	52	50	
6	Six Months Ended June 30, 2022	39	39	
7	Twelve Months Ended June 30, 2022	<b>65</b>	<b>65</b>	= Ln 3 + Ln 4 + Ln 6

47. Based upon Commission precedent, Kentucky Power seeks Commission approval to create a regulatory asset in connection with its yet to be issued quarterly financial statements deferring the estimated incremental Major Storm-related expenses, as described in paragraphs 37 through 41 above. 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 prior to first quarter-end 2023.

48. 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

<sup>23</sup> See Kentucky Power 2021 and 2022 income statements, which can be accessed at: <https://aep.com/investors/financial/kypowerco>



its extraordinary and nonrecurring expenses incurred by the Company in repairing damage and restoring service in connection with the June 17, 2022 and July 28, 2022 Major Event storms. If the requested relief is granted, Kentucky Power will record the regulatory asset in FERC Account No. 182.3.

### **Exhibits**

49. The following exhibits are incorporated in this application:
  - a. The Company's August 15, 2022 Certificate of Existence [**EXHIBIT 1**];
  - b. Photographic examples of damage caused by the July 28, 2022 Major Event storm [**EXHIBIT 2**]; and
  - c. Breakdown of estimated distribution and transmission costs associated with the June 17, 2022 and July 28, 2022 Major Event storms as of the date of this Application [**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 June 17, 2022 and July 28, 2022 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 total as high as \$18 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 30<sup>th</sup> day of August, 2022.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'M. Overstreet', with a large, stylized flourish at the end.

---

Mark R. Overstreet  
Katie M. Glass  
STITES & HARBISON, PLLC  
421 West Main Street  
P.O. Box 634  
Frankfort, Kentucky 40602-0634  
Telephone: (502) 223-3477  
Facsimile: (502) 779-8349  
[moverstreet@stites.com](mailto:moverstreet@stites.com)  
[kglass@stites.com](mailto:kglass@stites.com)



**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: 275676

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 August, 2022, in the 231<sup>st</sup> year of the Commonwealth.



*Michael G. Adams*

Michael G. Adams  
Secretary of State  
Commonwealth of Kentucky  
275676/0028317





















































