

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY KENTUCKY,) CASE NO.
INC. FOR AN ORDER APPROVING THE) 2008-00476
ESTABLISHMENT OF A REGULATORY ASSET)

O R D E R

On November 17, 2008, Duke Energy Kentucky ("Duke Kentucky") filed an application seeking authority to establish a regulatory asset based on its operation and maintenance ("O&M") costs incurred in connection with restoring electric service to its customers following the September 14, 2008 windstorm that hit much of Kentucky in the wake of Hurricane Ike. Duke Kentucky states that it documented approximately 148,500 sustained outages (greater than 5 minutes in length) due to damage caused by the storm and that more than two-thirds of its approximately 134,000 customers were without power as a result of the storm. It also states that, at their peak, the service restoration efforts of Duke Kentucky and its parent company, Duke Energy Ohio, Inc., involved more than 1,200 employees and contractors and that an additional 450 employees worked in the call centers taking calls from customers and local government officials.

A procedural schedule was established providing for two rounds of discovery. The Commission Staff issued two rounds of data requests to Duke Kentucky. There are no intervenors in this proceeding. The case now stands submitted for decision.

DUKE KENTUCKY'S POSITION

At the time of its application, Duke Kentucky estimated that its Hurricane Ike-related O&M costs would slightly exceed \$4.9 million. Citing the magnitude of these costs, Duke Kentucky requests permission to record its actual Hurricane Ike-related costs as a regulatory asset and defer such costs for future rate recovery. Duke Kentucky contends that the measures it took to restore service, and the related costs, were reasonable and prudent and should be recoverable as a necessary cost of providing electric service to its customers.

Duke Kentucky relies on two previous Commission decisions granting similar accounting treatment for extraordinary events and permitting deferral and amortization of significant and extraordinary expenses. In Case No. 2003-00434,¹ Kentucky Utilities Company was allowed to defer and amortize a portion of its 2003 ice storm damage expenses. In Case No. 2006-00472,² East Kentucky Power Cooperative, Inc. was authorized to defer and amortize forced outage-related expenses due to the significant and extraordinary nature of the event.

In the instant case, Duke Kentucky claims that such accounting treatment will allow it to make appropriate adjustments on its books and, therefore, not record its extraordinary storm-related costs as expenses on its books in calendar year 2008.

¹ Case No. 2003-00434, An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company (Ky. PSC June 30, 2004).

² Case No. 2006-00472, General Adjustment of Rates of East Kentucky Power Cooperative, Inc. (Ky. PSC Dec. 7, 2007).

Duke Kentucky initially requested approval of its request by no later than December 31, 2008 to avoid inaccuracies in its financial statements for 2008 and 2009. If its request was not granted until 2009, Duke Kentucky claimed that it would “have to record the expenses in 2008, artificially depressing its operating income in that year and artificially increasing it in the calendar year 2009.” In response to Commission Staff’s data requests, Duke Kentucky stated that it would have adequate time to record any accounting entries related to its request for calendar year 2008 if it received a Commission ruling by January 7, 2009.³

DISCUSSION

Duke Kentucky's Hurricane Ike-related storm damage and service restoration costs are clearly extraordinary in nature and could have a significant impact on its financial results, depending on the accounting treatment they are afforded. The number of customers without service – more than two-thirds of its total electric customers – dictated an extraordinary effort on the part of Duke Kentucky to restore service, an effort which resulted in an extraordinary level of costs. Based on the results of operations for the 12 months ended September 30, 2008, Duke Kentucky's estimate of \$4.92 million in storm-related costs is equal to more than 15 percent of its utility operating income for the period. Given the nature and impact of these costs on Duke Kentucky's 2008 financial statements, the Commission will authorize Duke Kentucky to establish a regulatory asset for accounting purposes based on its actual storm-related costs for its damages and service restoration incurred as a result of the Hurricane Ike-related storm.

³ See Duke Kentucky's response to Item 4 of Commission Staff's Initial Data Request, filed December 1, 2008.

SUMMARY

The Commission concludes that Duke Kentucky should be allowed to create and record a regulatory asset for accounting purposes in the amount of \$4.92 million, which it proposed in its application. Duke Kentucky stated in data responses that the actual costs incurred through December 11, 2008 were \$4.66 million. It also stated that it anticipated that the majority of invoices would be paid by year-end and that its actual total costs would be within 5 percent of its original estimate. A downward adjustment to the amount of the regulatory asset will be necessary if total actual costs are less than the \$4.92 million asset authorized herein. In the event total actual costs exceed that amount, the amount of the regulatory asset will be capped at the \$4.92 million authorized by this Order. The Commission would not be meeting its regulatory responsibilities if, under the circumstances of unusual or extraordinary storm damage costs, it were to authorize the creation of an "open-ended" regulatory asset that did not limit the amount that could be included in the asset.

FINDINGS AND ORDERS

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. Duke Kentucky's request for authority to establish a regulatory asset based on the costs it incurred for storm damages and service restoration due to the windstorm which much of Kentucky experienced on September 14, 2008, in the aftermath of Hurricane Ike, is reasonable and should be approved.

2. Duke Kentucky may establish a regulatory asset in the amount of \$4.92 million for its Hurricane Ike-related costs. This amount may be adjusted downward if

Duke Kentucky's final actual costs are less than \$4.92 million, but this is the maximum that may be included in the regulatory asset in the event the final actual costs exceed \$4.92 million.

3. Duke Kentucky shall file with the Commission the accounting entries it makes to establish and record the regulatory asset. Duke Kentucky shall file these entries in the record of this case no later than January 31, 2009.

4. The issues of amortization and rate recovery of the regulatory asset authorized by the Order should be considered in a future Duke Kentucky electric base rate case.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky is authorized to establish a regulatory asset in the amount of \$4.92 million based on its costs for storm damages and service restoration due to the windstorm of September 14, 2008, in the aftermath of Hurricane Ike.

2. As its total actual Hurricane Ike-related costs become known, Duke Kentucky shall adjust the amount of the asset downward if the total is less than \$4.92 million.

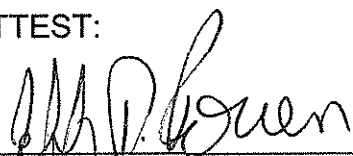
3. Duke Kentucky shall file the accounting entries it makes to establish and record the regulatory asset authorized herein as described in Finding No. 3 of this Order.

4. The issues of amortization and rate recovery of the regulatory asset authorized herein will be considered in a future Duke Kentucky electric base rate case.

Done at Frankfort, Kentucky, this 7th day of January, 2009.

By the Commission

ATTEST:



Executive Director

Rocco O D'Ascenzo
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