

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)	CASE NO.
TO THE EXTRAORDINARY EXPENSES)	2020-00368
INCURRED BY KENTUCKY POWER COMPANY)	
IN CONNECTION WITH THREE 2020 MAJOR)	
STORM EVENTS)	

ORDER

On November 13, 2020, Kentucky Power Company (Kentucky Power) filed an application, pursuant to KRS 278.220, requesting authorization to establish regulatory assets to account for expenses incurred to repair damage and restore service caused by high wind events and severe thunderstorms that occurred on January 11, April 8-9, and April 12, 2020 (2020 Major Event Day Storms).

BACKGROUND

In support of the request to establish regulatory assets for the restoration expenses related to the 2020 Major Event Day Storms, Kentucky Power stated that the storms caused extensive and widespread damage to its distribution facilities and were major events as defined by IEEE Standard 1366.¹ Kentucky Power stated that as a result of the January 11, 2020 high wind storm, there were a total of 253 outages in its distribution system.² As of the date of the filing of the application, the actual total distribution system

¹ Application at paragraphs 7-8.

² *Id.* at paragraph 11.

cost to restore service to customers was \$1,038,054, of which \$647,126 was incremental operation and maintenance (O&M) expense attributable to the storm.³ The April 8-9, 2020 thunderstorms resulted in 208 outages in Kentucky Power's distribution system. In addition to these outages, there were four forced transmission line outages in the Ashland, Pikeville, and Hazard areas.⁴ As of the date of the filing of the application, the actual distribution and transmission costs were \$666,335 and \$260,645, respectively, of which \$478,203 was incremental O&M expense attributable to the storms.⁵ The April 12, 2020 straight-line wind storm caused a total of 1,098 outages in Kentucky Power's distribution system, and 14 forced transmission outages.⁶ The actual costs to restore service to customers as of the date of the filing of the application were \$15,185,740 for Kentucky Power's distribution system, and \$2,999,277 for its transmission system, of which \$9,912,587 was incremental O&M expense attributable to the storm.⁷

DISCUSSION

As the Commission noted in Case No. 2008-00436:

A regulatory asset is created when a rate-regulated business is authorized by its regulatory authority to capitalize an expenditure that under traditional accounting rules would be recorded as a current expense. The reclassification of an expense to a capital item allows the regulated business the opportunity to request recovery in future rates of the amount capitalized. The authority for establishing regulatory assets arises under the Commission's plenary authority to regulate utilities under KRS 278.040 and the Commission's authority

³ *Id.*, paragraph 13.

⁴ *Id.*, paragraph 18.

⁵ *Id.*, paragraph 20.

⁶ *Id.*, paragraph 24.

⁷ *Id.*, paragraph 26.

to establish a system of accounts under KRS 278.220. Historically, the Commission has exercised its discretion to approve regulatory assets where a utility has incurred: (1) an extraordinary, nonrecurring expense 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 or nonrecurring expense that over time will result in a saving that fully offsets the cost.⁸

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that with regard to Kentucky Power's request for authorization to establish deferral accounting for the repair and restoration of the 2020 Major Event Day Storms, the costs to repair the damaged assets are extraordinary and nonrecurring and could not have been reasonably anticipated or included in Kentucky Power's planning. Accordingly, the Commission finds that Kentucky Power should be authorized to establish, for accounting purposes only, regulatory assets based on the jurisdictional incremental costs of extraordinary O&M expenses incurred by Kentucky Power as a result of the 2020 Major Event Day Storms. The Commission notes that the combined effect of these three storms caused extensive and widespread damage that resulted in Kentucky Power incurring approximately \$10.9 million, on a combined basis, in incremental O&M expenses to repair and restore service.⁹ 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,¹⁰ which are currently embedded in Kentucky Power's base rates.

⁸ Case No. 2008-00436, *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* (Ky. PSC Dec. 23, 2008) final Order at 3-4.

⁹ Application at paragraph 29.

¹⁰ *Id.*, paragraph 31.

IT IS THEREFORE ORDERED that:

1. Kentucky Power is authorized to establish regulatory assets for the incremental actual costs of extraordinary O&M expenses in the amount of \$9,465,952, incurred to repair and restore service during the 2020 Major Event Day Storms.
2. The regulatory asset accounts established in this case are for accounting purposes only.
3. The amount, if any, of the regulatory assets authorized herein that is to be amortized and included in rates, shall be determined in Kentucky Power's next base rate case.
4. This case is closed and removed from the Commission's docket.

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By the Commission



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