

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	)	CASE NO.
ASSET RELATED TO THE EXTRAORDINARY	)	2021-00129
EXPENSES INCURRED BY KENTUCKY	)	
POWER COMPANY IN CONNECTION WITH	)	
THREE FEBRUARY 2021 MAJOR STORM	)	
EVENTS	)	

ORDER

On March 18, 2021, 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 three severe ice and snow storms that occurred on February 10, February 15, and February 17, 2021 (2021 Major Event Day Storms). Kentucky Power requested that the Commission render a decision on or before April 5, 2021.

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General) and Kentucky Industrial Utilities Customers, Inc. (KIUC) are intervenors in this proceeding. An informal conference was held on March 26, 2021, at the request of the Attorney General for the purpose of encouraging Kentucky Power to seek government funds to mitigate the storm damage expense. Kentucky Power responded to one round of discovery from the Attorney General. The parties filed a Stipulation and Settlement Agreement (Agreement) on April 1, 2021,

pertaining to seeking government funds to mitigate storm damage expense. This matter now stands submitted for a decision.

### BACKGROUND

In support of the request to establish regulatory assets for the restoration expenses related to the 2021 Major Event Day Storms, Kentucky Power stated the storms caused extensive and widespread damage to its transmission and distribution systems.<sup>1</sup> Kentucky Power stated the storms were major events as defined by IEEE Standard 1366. Kentucky Power stated the three storms caused 759 broken poles, 1,176 damaged cross arms, 412 damaged transformers, 851 damaged cutouts, and replacement of roughly 116 miles of conductor. In total, Kentucky Power indicates there were a total of 141,625 customer outages in its distribution system.<sup>2</sup> As of the date of the filing of the application, the estimated total costs associated with the three storms were approximately \$70 million to \$80 million, of which an estimated \$45 million is incremental operation and maintenance (O&M) expense attributable to the storm.<sup>3</sup> Kentucky Power's base rates include \$1,029,789 in major storm-related O&M expenses.<sup>4</sup>

### STIPULATION AND SETTLEMENT AGREEMENT

On April 1, 2021, the parties filed an Agreement in which the parties: (1) agree that Kentucky Power's request to establish a regulatory asset be approved for accounting purposes only, with the amount of the storm damage expense authorized for recovery

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<sup>1</sup> Application at paragraphs 5–6.

<sup>2</sup> *Id.* at paragraph 7.

<sup>3</sup> *Id.* at paragraph 8.

<sup>4</sup> *Id.*

and the amortization period to be determined in a future case, which the Attorney General and KIUC reserve the right to challenge; and (2) require Kentucky Power to use reasonable efforts to seek available funds from government sources to mitigate the rate impact of the storm damage expenses, with the Attorney General and KIUC agreeing to use reasonable efforts to support Kentucky Power's efforts to obtain said government funds.

### 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 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.<sup>5</sup>

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 2021 Major Event Day

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<sup>5</sup> 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), Order at 3-4.

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 2021 Major Event Day Storms.

Regarding the Agreement, although the Commission does not oppose the effort to mitigate the storm damage expense, the Agreement pertains to an unrelated matter that should be negotiated separately between the individual parties and has no bearing on a determination that Kentucky Power's application satisfies the legal and accounting standards to establish a regulatory asset, based on the case record. The Agreement is superfluous to this proceeding and contributes nothing to our finding authorizing Kentucky Power to establish, for accounting purposes only, the regulatory assets as set forth above. We, therefore, decline to address the Agreement.

IT IS THEREFORE ORDERED that:

1. Kentucky Power is authorized to establish regulatory assets for the incremental actual costs of extraordinary O&M expenses related to the 2021 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 herein that is to be amortized and included in rates, shall be determined Kentucky Power's next base rate case.
4. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:

  
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