

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	)	CASE NO.
RELATED TO THE EXTRAORDINARY	)	2021-00135
EXPENSES INCURRED BY KENTUCKY	)	
POWER COMPANY IN CONNECTION WITH	)	
THE DECEMBER 24-25, 2020 SNOW STORM	)	

ORDER

On March 24, 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 restore service outages in connection with a snow storm on December 24 through 25, 2020 (2020 Major Event Day).

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General) is the only intervenor. 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 Kentucky Power seeking government funds to mitigate storm damage expense. The matter now stands submitted for a decision.

## BACKGROUND

Pursuant to ordering paragraph 3 of the Commission's December 12, 2016 Order in Case No. 2016-00180,<sup>1</sup> Kentucky Power provided notice to the Commission via letter dated December 29, 2020, that it intended to establish a regulatory asset for accounting purposes in connection with the 2020 Major Event Day and would file an application within 90 days for approval of the regulatory asset. The Commission finds that the notice provided by Kentucky Power satisfies the requirements previously established by its Order.

In support of the request to establish regulatory assets for the restoration expenses related to the 2020 Major Event Day, Kentucky Power stated the storms caused widespread power outages in Kentucky Power's service area, including 9,063 customers without electrical service at the peak of the storm.<sup>2</sup> Kentucky Power indicates there were 12,475,755 customer minutes of interruption<sup>3</sup> which classifies this as a major event as defined by IEEE Standard 1366.<sup>4</sup> As of the date of the filing of the application, the estimated cost associated with the storm was \$1,537,340, of which the total incremental operation and maintenance (O&M) expense was \$1,165,851.<sup>5</sup> Kentucky Power notes the

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<sup>1</sup> Case No. 2016-000180, *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* (Ky. PSC Dec. 12, 2016) at 5.

<sup>2</sup> Application at paragraph 9.

<sup>3</sup> *Id.* at paragraph 7.

<sup>4</sup> *Id.* at paragraph 13.

<sup>5</sup> *Id.* at paragraph 17.

total jurisdictional O&M costs associated with the 2020 Major Event Day that would not have been incurred but for the snow storm were \$1,043,892.<sup>6</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 and the amortization period to be determined in a future case, which the Attorney General reserves 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 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

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<sup>6</sup> *Id.* at paragraph 20.

nonrecurring expense that over time will result in a saving that fully offsets the cost.<sup>7</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 restoration costs associated with the 2020 Major Event Day, the costs to restore electrical service 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.

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.

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<sup>7</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) final Order at 3–4.

IT IS THEREFORE ORDERED that:

1. Kentucky Power is authorized to establish regulatory assets for the incremental actual costs of extraordinary O&M expenses up to the amount of \$1,043,892, related to the 2020 Major Event Day.
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.

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By the Commission



ATTEST:

  
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