

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	
UTILITIES COMPANY AND LOUISVILLE GAS)	CASE NO.
AND ELECTRIC COMPANY FOR AN ORDER)	2024-00181
APPROVING THE ESTABLISHMENT OF)	
REGULATORY ASSETS)	

ORDER

On June 14, 2024, Kentucky Utilities Company (KU) and Louisville Gas and Electric Company (LG&E) (jointly, LG&E/KU) filed an application pursuant to KRS 278.030, KRS 278.040, and KRS 278.220 requesting authorization to establish regulatory assets for extraordinary operating and maintenance (O&M) expenses related to storm damage restoration activities caused by severe weather on May 26 and May 27, 2024. LG&E/KU estimated that their combined distribution and transmission storm-related O&M and capital costs will be approximately \$40.9 million.¹ The storm-related O&M costs are estimated to be approximately \$5.5 million for KU, and \$4.8 million for LG&E.²

LG&E/KU requested that the Commission enter an order on or before July 3, 2024, to record the regulatory assets on their second quarter 2024 financial statements, which are expected to close on July 9, 2024.³ By Order dated July 2, 2024, LG&E/KU were

¹ Application at 5.

² Application at 5–6.

³ Application at 7.

granted authority to provisionally record the regulatory assets and a procedural schedule was established. LG&E/KU responded to one request for information from Commission Staff.⁴ On August 8, 2024, LG&E/KU requested a decision on the record and there are no intervenors in this proceeding. This case is submitted for a decision on the written record.

LEGAL STANDARD

KRS 278.220 sets out that the Commission may establish a uniform system of accounts (USoA) for utilities, and in LG&E/KU's case, that the system of accounts shall conform as nearly as practicable to the system adopted or approved by the Federal Energy Regulatory Commission (FERC). The FERC USoA provides for regulatory assets, or the capitalization of costs that would otherwise be expensed but for the actions of a rate regulator. The Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, which was codified as Accounting Standards Codification (ASC) 980, Regulated Operations, provides the criteria for recognition of a regulatory asset.⁵ Pursuant to ASC

⁴ LG&E/KU's Response to Commission Staff's First Request for Information (Staff's First Request) (filed July 18, 2024).

⁵ ASC 980-340-25-1 provides, in full, as follows:

25-1 Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity 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 inclusion of that cost in allowable costs for rate-making purposes.

980, it must be probable that the utility will recover approximately equal revenue through the inclusion of these costs for ratemaking purposes, with the intent to recover the previously incurred cost not a similar future cost.

The Commission has established: (1) parameters for expenses which may qualify for regulatory asset treatment; (2) a requirement of Commission approval before recording regulatory assets;⁶ and (3) requirements regarding the timing for applications seeking such approval.⁷ While not determinative, it is illustrative to recognize that previously the Commission has approved regulatory assets when 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

b. Based on 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.

⁶ Case No. 2016-00180, *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 Nov. 3, 2016), final Order at 9.

⁷ Case No. 2016-00180, Dec. 12, 2016 Order at 5.

⁸ Case No. 2008-00436, *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.

REQUEST FOR REGULATORY ASSET

On May 26 and 27, 2024, LG&E/KU's service areas experienced severe wind, hail, and tornadic activity which was declared a state of emergency by the governor. The storm damage resulted in at least 275 broken poles, 2,000 downed wires, and 209 distribution circuit outages.⁹ LG&E/KU stated that approximately 780 off-system resources assisted in restoration efforts.¹⁰ Restoration efforts lasted approximately six days and resulted in total estimated costs of \$40.9 million, of which \$10.3 million was O&M expense.¹¹ KU's estimated incremental O&M expenses were \$5.5 million and LG&E's were \$4.8 million.¹² LG&E/KU asserted that the incremental O&M costs were extraordinary and exceed the costs embedded in base rates, thus argued that it satisfied the standard to establish a regulatory asset.¹³

For KU, the total estimated restoration costs are \$16.8 million, of which incremental O&M expenses of \$5.5 million are requested to be deferred.¹⁴ KU estimated that normal operations during the storm would amount to \$396,178, which will be used to reduce the

⁹ Application at 4.

¹⁰ Application at 5.

¹¹ Application at 5.

¹² Application at 5–6.

¹³ Application at 8.

¹⁴ Application at Exhibit 1.

deferral.¹⁵ KU's base rates include \$3.2 million in storm-related O&M expense¹⁶ and it has incurred \$2.6 million in other storm damage expenses through June 30, 2024.¹⁷

For LG&E, the total estimated restoration costs are \$24.1 million, of which incremental O&M expenses of \$4.8 million are requested to be deferred.¹⁸ LG&E estimated that normal operations during the storm would amount to \$228,452, which will be used to reduce the deferral.¹⁹ LG&E's base rates include \$4.6 million in storm-related O&M expense²⁰ and has incurred \$2.7 million in other storm damage expenses through June 30, 2024.²¹

DISCUSSION AND FINDINGS

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that, with regard to LG&E/KU's request for authorization to establish regulatory assets for the repair and restoration of the storms, the costs to repair the damaged assets are extraordinary, nonrecurring, and could not have been reasonably anticipated or included in LG&E/KU's planning. The amounts for which LG&E/KU have requested regulatory asset treatment are material and exceed the expenses recovered in base rates. The Commission finds that LG&E/KU should be authorized to establish, for accounting purposes only, regulatory assets based on the jurisdictional incremental costs

¹⁵ LG&E/KU's Response to Staff's First Request, Item 6.

¹⁶ Application at 8.

¹⁷ LG&E/KU's Response to Staff's First Request, Item 1.

¹⁸ Application at Exhibit 1.

¹⁹ LG&E/KU's Response to Staff's First Request, Item 7.

²⁰ Application at 8.

²¹ LG&E/KU's Response to Staff's First Request, Item 2.

of extraordinary O&M expense incurred by LG&E/KU as a result of the storms. The Commission further finds that LG&E/KU shall file the actual deferral amounts after the amounts are known.

IT IS THEREFORE ORDERED that:

1. LG&E/KU are authorized to establish regulatory assets for the incremental actual costs of extraordinary O&M expenses related to the storms as described in their application.

2. LG&E/KU shall file with this Commission, within 30 days from the date final actual costs amounts are known, a statement setting forth the total costs incurred, amounts deferred to a regulatory asset, and amounts determined to be normal operations.

3. The regulatory asset accounts establish in this case are for accounting purposes only.

4. The amount, if any, of the regulatory assets authorized herein that is to be amortized and included in rates shall be determined in LG&E/KU's next base rate case.

5. Any documents filed in the future pursuant to ordering paragraph 2 herein shall reference this case number and shall be retained in the post-case correspondence file.

6. This case is closed and removed from the Commission's docket.

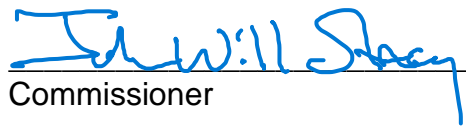
PUBLIC SERVICE COMMISSION



Chairman



Commissioner

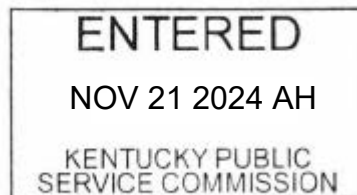


Commissioner

ATTEST:



Executive Director



*Honorable Allyson K Sturgeon
Vice President and Deputy General Counsel-
LG&E and KU Energy LLC
220 West Main Street
Louisville, KENTUCKY 40202

*Rick LoveKamp
Kentucky Utilities Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40202

*Robert Conroy
Vice President, State Regulation and Rates
LG&E and KU Energy LLC
220 West Main Street
Louisville, KENTUCKY 40202

*Kentucky Utilities Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40232-2010

*Louisville Gas and Electric Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40232-2010

*Sara Judd
Senior Corporate Attorney
LG&E and KU Energy LLC
220 West Main Street
Louisville, KENTUCKY 40202