

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)	2024-00241
INCURRED BY KENTUCKY POWER COMPANY)	
IN CONNECTION WITH THE APRIL 2, 2024 AND)	
MAY 26, 2024 MAJOR EVENT STORMS)	

ORDER

On July 29, 2024, Kentucky Power Company (Kentucky Power) filed an application pursuant to KRS 278.030, KRS 278.040, and KRS 278.220 requesting authorization to establish a regulatory asset for Kentucky Power’s net operation and maintenance (O&M) expenses arising from severe weather on April 2, 2024, and May 26, 2024, in its service area. Kentucky Power requested to defer approximately \$4,343,979 in incremental O&M costs of the \$8,051,393 total restoration costs.

Kentucky Power requested that the Commission enter an order on or before September 30, 2024, because obtaining an order by that date will permit Kentucky Power sufficient time to record the storm costs on its third quarter 2024 financial statements, which are expected to close on October 3, 2024.

There are no intervenors in this proceeding. This case is submitted for a decision based on the written record.

LEGAL STANDARD

KRS 278.220 provides that the Commission may establish a uniform system of accounts (USoA) for utilities and in Kentucky Power'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. 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 parameters for expenses that qualify for regulatory asset treatment; the Commission has approved 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.¹ Additionally, the Commission has established a requirement that utilities seek Commission approval before recording regulatory assets,² and requirements regarding the timing for applications seeking such approval.³

¹ 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.

² 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), Order at 9.

³ Case No. 2016-00180, Dec. 12, 2016 Order at 5.

REQUEST FOR REGULATORY ASSET

In support of the request to establish a regulatory asset for O&M costs related to windstorms, Kentucky Power asserted that it incurred extraordinary O&M costs to restore service after severe thunderstorms and tornadic activity on April 2, 2024, and May 26, 2024. Kentucky Power asserted that both storms meet the standard for a major event day under IEEE Standard 1366, which for 2024 is at least 4,365,013 customer minutes of interruption (CMI).⁴

Kentucky Power explained that, on April 2, 2024, Kentucky Power's service area experienced severe thunderstorms and tornadic activity that resulted in 95 broken poles, 33 damaged cross arms, 29 damaged transformers, 268 spans of damaged or destroyed conductor, and 12,535 customer outages with a CMI of 16,043,445.⁵ Kentucky Power asserted that restoration efforts lasted four days and resulted in total costs of \$3,376,743, of which \$1,574,309 is incremental O&M expense.⁶ Kentucky Power further asserted that approximately 354 internal and contract employees assisted in restoration efforts.⁷

Kentucky Power also explained that, on May 26, 2024, Kentucky Power's service area experienced a severe thunderstorm and high winds that resulted in at least 51 broken poles, 73 damaged cross arms, 20 damaged transformers, 357 spans of damaged or destroyed conductor, and 13,894 customer outages with a CMI of 27,764,128.⁸ Kentucky Power asserted that restoration efforts lasted approximately four days and

⁴ Application at 5.

⁵ Application at 5–6.

⁶ Application at 3 and 6.

⁷ Application at 6.

⁸ Application at 7.

resulted in total costs of \$4,674,650, of which \$2,769,671 was incremental O&M expense.⁹ Kentucky Power further asserted that approximately 500 internal and contract employees assisted in restoration efforts.¹⁰

The total estimated restoration costs are \$8,051,393, of which incremental O&M expenses of \$4,343,979 are requested to be deferred.¹¹ Kentucky Power's base rates include \$1,101,000 in storm-related O&M expenses.¹² Kentucky Power stated that, through June 2024, storm damage restoration costs related to storms, not classified as major event days, totaled \$2,432,483, of which \$1,480,484 was incremental O&M expense.¹³

Kentucky Power asserted that the incremental O&M costs were extraordinary and sufficiently significant to satisfy the standard to establish a regulatory asset.¹⁴ Kentucky Power argued that the Commission evaluates whether to authorize a regulatory asset for storm costs based upon the magnitude of the expense as compared to storm-related costs in the utility's rate base and the effect on the utility's current year financial results if the regulatory asset was denied.¹⁵ Kentucky Power maintained that the incremental costs

⁹ Application at 3 and 7.

¹⁰ Application at 7.

¹¹ Application at 3.

¹² Application at 12.

¹³ Application at 3.

¹⁴ Application at 11–12.

¹⁵ Application at 11–12.

would represent 13.2 percent of Kentucky Power's net income for the twelve months ending December 31, 2023.¹⁶

DISCUSSION AND FINDINGS

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that with regard to Kentucky Power'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 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 storms.

IT IS THEREFORE ORDERED that:

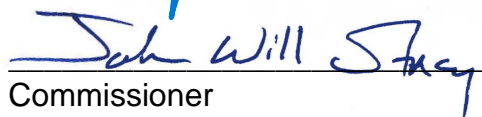
1. Kentucky Power is authorized to establish regulatory assets for the incremental actual costs of extraordinary O&M expenses related to the storms as described in its application.
2. The regulatory asset accounts established in this case are for accounting purposes only.
3. The amount, if any, of the 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.

¹⁶ Application at 12.

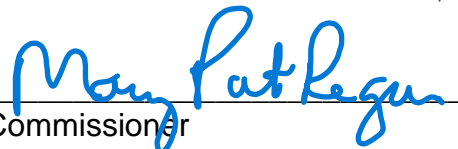
PUBLIC SERVICE COMMISSION



Chairman



Commissioner



Commissioner

ENTERED
SEP 27 2024
rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



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