

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)	2025-00264
INCURRED BY KENTUCKY POWER COMPANY)	
IN CONNECTION WITH THE MAY 2025 MAJOR)	
EVENT STORMS)	

ORDER

On August 14, 2025, 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 occurring on May 16, 2025, and May 17, 2025,¹ in its service area. Kentucky Power requested to defer approximately \$3.1 million² in incremental O&M expenses of the \$5.1 million total restoration costs.³ No party sought to intervene in this proceeding. An Informal Conference (IC) was held on September 30, 2025.⁴ On October 23, 2025, Kentucky Power requested to submit the matter for decision on the record. Based upon the record and Kentucky Power's request, this case is submitted for a decision based on the written record.

¹ Application at 1.

² Application at 10.

³ Application at 2.

⁴ PSC Letter Filing IC Memo and Sign-in Sheet (Ky. PSC Oct. 21, 2025).

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. 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.⁵ Additionally, the Commission has established a requirement that utilities seek Commission approval before recording regulatory assets,⁶ and requirements regarding the timing for applications seeking such approval.⁷

⁵ 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.

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), Order at 9.

⁷ 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 storms, Kentucky Power asserted that it incurred extraordinary O&M costs to restore service after severe weather on May 16 and 17, 2025.⁸ Kentucky Power asserted that the storm meets the standard for a major event day under Institute of Electrical and Electronics Engineers (IEEE) Standard 1366, which, for 2025, is at least 4,467,511 Customer Minutes of Interruption (CMI).⁹

Kentucky Power provided preliminary damage reports and customer outage information for the storm.¹⁰ Kentucky Power also provided total restoration costs and incremental O&M expenses for each storm shown in the table below with a comparison to storm damage expense included in base rates.¹¹

	May 16 and 17, 2025 Storm		O&M Amount	% Amount
	Total Costs	Incremental O&M Expense	Included in Base Rates ¹	Included in Base Rates
Distribution	\$ 5,068,278	\$ 3,070,915	\$ 1,012,476	303.31%

¹ Approved in Case No. 2023-00159

Kentucky Power explained that, on May 16 and May 17, 2025, Kentucky Power's service area experienced severe thunderstorms that produced swaths of large to significant hail (approaching baseball size), localized damaging winds, and heavy rainfall. The storms caused in 53 broken poles, 41 damaged sets of cross arms, 25 damaged transformers, 446 spans of conductor, and 10,226 customer outages with a CMI of

⁸ Application at 2.

⁹ Application at 6.

¹⁰ Application at 6–7.

¹¹ Application, Exhibit 2.

18,763,565.¹² Kentucky Power asserted that restoration efforts lasted approximately three days and resulted in total costs of \$5.1 million, of which \$3.1 million was incremental O&M expense.¹³ Kentucky Power further asserted that approximately 729 internal and contract employees from nine different states assisted in restoration efforts.¹⁴ Kentucky Power also explained that there are no set monetary thresholds to determine whether or not Kentucky Power will seek a regulatory asset for storm damages, and it evaluates each weather event independently.¹⁵

The total estimated restoration costs are \$5.1 million, of which incremental O&M expenses of \$3.1 million are requested to be deferred.¹⁶ Kentucky Power's base rates include approximately \$1,101,000 in storm-related O&M expenses.¹⁷ Kentucky Power stated that the year-to-date storm damage O&M expenses, exclusive of the May 16 and 17, 2025 storm is approximately \$13 million.¹⁸ Kentucky Power asserted that the incremental O&M costs were extraordinary and sufficiently significant to satisfy the standard to establish a regulatory asset.¹⁹ Kentucky Power argued that the Commission evaluates whether to authorize a regulatory asset for storm costs based upon the

¹² Application at 6-7.

¹³ Application at 10.

¹⁴ Application at 7.

¹⁵ Kentucky Power's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Oct. 1, 2025), Item 5.

¹⁶ Application at 2 and Application at 10.

¹⁷ Application at 2.

¹⁸ Kentucky Power's Response to Staff's First Request, Item 2, PSCO_R_KPSC_1_2_Attachment1.

¹⁹ Application at 12.

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 denied.²⁰

DISCUSSION AND FINDINGS

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that Kentucky Power's request for authorization to establish regulatory assets for the repair and restoration of storm-related damages, including the costs to repair the damaged assets, represent O&M expenses that are extraordinary, 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, a regulatory asset based on the jurisdictional incremental costs of extraordinary O&M expenses incurred by Kentucky Power as a result of the storms.

In Case No. 2023-00159, Kentucky Power's last base rate case, the Commission approved Kentucky Power's proposal to reduce the level of total distribution major and non-major storm project expense in the test year from \$7.3 million to approximately \$1.0 million and maintain the actual test-year level of transmission major and non-major storm project expense of \$0.1 million.²¹ Although the reduction was approved, the Commission expressed concerns specifically stating:

[T]hat interpretation [that a utility is entitled to a regulatory asset simply because an expense significantly exceeds amounts included in base rates] of when a regulatory asset

²⁰ Application at 12.

²¹ Case No. 2023-00159, *Electronic Application of Kentucky Power Company for (1) a General Adjustment of its Rates for Electric Service; (2) Approval of Tariff and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) A Securitization Financing Order; and (5) All other Required Approvals and Relief* (Ky. PSC Jan. 19, 2024), Order at 33.

should be permitted would allow a utility to create de facto true-ups with carrying charges by setting an expense low in base rates and receiving a regulatory asset each year for the difference as Kentucky Power has done with storm damage expense in each of the last four years. Such de facto true-ups would reduce incentives for utilities to monitor costs and would likely ultimately result in customers paying more due to carrying charges and potentially increased expenses.²²

In part to address this concern, in that case, the Commission noted it “will examine each application for a regulatory asset thoroughly to ensure that the costs are reasonable and prudently incurred, regardless of the amount, and will not find that an expense is extraordinary simply because it exceeds the test-year amount.”²³ In the present case, in addition to providing information regarding why the event was extraordinary, Kentucky Power provided documentation of its cost mitigation efforts and contractor selection process.²⁴

In this instance, the Commission finds Kentucky Power has provided sufficient evidence that the storm damages from the May 16 and May 17 storm event are an extraordinary, nonrecurring expense that could not have reasonably been anticipated or included in its planning.

IT IS THEREFORE ORDERED that:

1. Kentucky Power is authorized to establish a regulatory asset for the incremental actual costs of extraordinary O&M expenses related to the storms as described in its application.

²² Case No. 2023-00159, (Ky. PSC Jan. 19, 2024), Order at 34.

²³ Case No. 2023-00159, (Ky. PSC Jan. 19, 2024), Order at 35.

²⁴ Application at 7–9.

2. The regulatory asset accounts established in this case are for accounting purposes only and is not a final approval of the individual expenses for ratemaking purposes.


3. The amount, if any, of the regulatory asset herein that is to be amortized and included in rates shall be determined in Kentucky Power's next base rate case. Kentucky Power shall maintain records, and provide the same in its rate case application, in sufficient detail to provide justification of all recorded expenses within the regulatory asset as prudent and necessary.

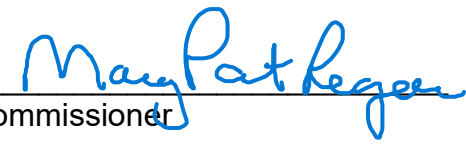
4. Kentucky Power is allowed to record expenses for storms occurring in any quarter of the fiscal year as a regulatory asset for accounting purposes only, subject to Kentucky Power providing the Commission with notice within five days of the establishment of the regulatory asset and subject to Kentucky Power filing an application within 90 days of the occurrence of the storm seeking Commission approval for such authority.

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

PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:


Executive Director



*Hector Garcia Santana
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Post Office Box 16631
Columbus, OH 43216

*Harlee P. Havens
Stites & Harbison
250 West Main Street, Suite 2300
Lexington, KY 40507

*Kentucky Power Company
1645 Winchester Avenue
Ashland, KY 41101

*Kenneth J Gish, Jr.
Stites & Harbison
250 West Main Street, Suite 2300
Lexington, KY 40507

*Katie M Glass
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY 40602-0634

*Michael J. Schuler
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Post Office Box 16631
Columbus, OH 43216