

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF

FROM: DON HOWELL

DATE: NOVEMBER 22, 2006

SUBJECT: IDAHO POWER COMPANY'S APPLICATION FOR APPROVAL OF A
"SPARE TRANSFORMER SHARING AGREEMENT", CASE NO. IPC-E-
06-27

On November 14, 2006, Idaho Power Company filed an Application requesting that the Commission approve a Spare Transformer Sharing Agreement ("Transformer Agreement") with nearly 50 of nation's other electric utilities. The Transformer Agreement provides that in the event of a deliberate act of terrorism disabling one or more utility substations, the participating utilities may be called upon to provide/sell spare electric transformers to the affected utility. Application at 1-2. In essence, the Transformer Agreement creates an industry-wide pool of spare electric transformers that can be transferred from one utility to another utility in the event of a coordinated terrorist attack upon the nation's electric infrastructure. The Company requests that this Application be processed under Modified Procedure.

BACKGROUND

On July 18, 2006, the Edison Electric Institute (EEI) on behalf of 41 participating utilities filed an application with the Federal Energy Regulatory Commission (FERC) seeking authorization for jurisdictional public utilities to engage in the future transfers of transformers. In its FERC application, EEI indicated that 43 entities have executed the Transformer Agreement. EEI stated these participating utilities own more than 60% of the interstate bulk-power transmission system. *Order on Application for Blanket Authority for Transfers of Jurisdictional Facilities and Petition for Declaratory Order*, 116 FERC ¶ 61,280 (September 22, 2006), *hereinafter* the "Declaratory Order." EEI asserted that the Transformer Agreement is "a prudent approach to making efficient use of the industry's existing spare transformers and fairly

allocating the responsibility to acquire a limited number of additional spares, while minimizing duplicative purchases of these costly assets.” *Id.* at ¶ 4 *citing* Application at 8-9.

EEI submitted its FERC application under Section 203 of the Federal Power Act. This section requires that FERC approve the disposition of jurisdictional transmission facilities when the value of such facilities exceeds \$10 million. Although the cost of many transformers is less than \$10 million, EEI expressed concern that the jurisdictional threshold may be met when a public utility disposes of a large transformer or when several smaller transformers collectively cost more than \$10 million. Declaratory Order at ¶ 18.

On September 22, 2006, FERC approved the request for blanket authorization of the Transformer Agreement. The FERC applauded the efforts of EEI and the participating utilities to share spare transformers. FERC noted that:

Without the [Transformer] Agreement, utilities would have to purchase substantially more transformers to achieve the same recovery capability, incurring substantially higher costs, or experience the inherent time delay associated with finding, negotiating for, ordering, transporting, and testing a replacement transformer. Furthermore, the Agreement establishes the obligation to share spare transformers with Participating Utilities if there is a Triggering Event. Accordingly, we find that the sharing arrangement in the Agreement is prudent.

Declaratory Order at ¶ 39.¹

THE APPLICATION

Under the Transformer Agreement, each participating utility is required to maintain, and if necessary, acquire a specific number of transformers in each voltage class in which it participates. The Agreement requires participating utilities to sell their spare transformers to another participating utility in its voltage class if there is a triggering event. Idaho Power anticipates that it will commit 400 megavolt-amperes (MVA) of spare transformers to the sharing pool in its 230 kV-138 kV equipment class. Application at ¶ 7.

Idaho Power asserts that it will lower its overall future costs to maintain spare transformers in its inventory, thereby benefiting ratepayers. By participating in the Transformer Agreement, Idaho Power receives the benefit of access to transformers in a national emergency

¹ A “triggering event” is defined as an act of terrorism that destroys or disables one or more substations and results in a declaration of a state of emergency by the President. Agreement at § 1.1.

without the added costs and risks of buying and carrying large surpluses of spare transformers in its inventory. *Id.* at ¶ 6.

Although Idaho Power believes the risk of having to sell a spare transformer under the Agreement to be very low, the possibility of such a sale would require this Commission's approval under *Idaho Code* § 61-328. This section provides in pertinent part that no electric utility may sell or transfer "any property located in this state which is used in the generation, transmission, distribution or supply of electric power and energy to the public or any portion thereof . . . except when authorized to do so by order of the public utilities commission." Before authorizing such a transaction, the Commission must find: (1) that the transaction is consistent with the public interest; (2) that the costs of and rates for supply and service will not be increased by reason of such transaction; and (3) that the transaction will not adversely effect the financial ability of Idaho Power to operate and maintain its facilities. *Idaho Code* § 61-328(3). The Commission may condition its authorization with such terms and conditions as in its judgment the public convenience and necessity may require. *Idaho Code* § 61-328(4).

Idaho Power states that because the possible transfer and sale of transformers is executory, "appropriate bookkeeping entries will be made at the time of any future transfer and sale" of transformers. Application at ¶ 9. At this time the Company does not seek approval of any ratemaking treatment for the Transformer Agreement fees and any new inventory required by the terms of the Agreement. *Id.*

STAFF RECOMMENDATION

Staff believes this case may be appropriately processed under Modified Procedure.

COMMISSION DECISION

Does the Commission agree that this case can be processed under Modified Procedure?



Don Howell

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