

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION )**  
**OF IDAHO POWER COMPANY FOR )** CASE NO. IPC-E-06-27  
**APPROVAL OF AN EXECUTORY SALE )**  
**AND TRANSFER OF UTILITY PROPERTY )**  
**PURSUANT TO A TRANSFORMER )** ORDER NO. 30211  
**SHARING AGREEMENT )**

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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 the 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 terrorist attack upon the nation’s electric infrastructure. The Company requested that this Application be processed under Modified Procedure.

On November 28, 2006, the Commission issued its Notice of Application and Modified Procedure. The Commission invited interested persons to file comments regarding the Application. The Commission received two comments: one from a customer and the other from the Commission Staff. After reviewing the Application and the comments, we approve the Application as set out in greater detail below.

**BACKGROUND**

On July 18, 2006, the Edison Electric Institute (EEI) on behalf of more than 40 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. *Order on Application for Blanket Authority for Transfers of Jurisdictional Facilities and Petition for Declaratory Order*, 116 F.E.R.C. R. 61,280 at ¶ 3 (September 22, 2006), *hereinafter* the “*Declaratory Order*.” In its FERC application, EEI indicated that 43 entities<sup>1</sup> have executed the Transformer Agreement. EEI stated these participating utilities own

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<sup>1</sup> Avista Utilities is one of the signatories to the Agreement.

more than 60% of the interstate bulk-power transmission system. *Id.* 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. 16 U.S.C. § 824b. This section requires that FERC approve the transfer 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 pool and 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.<sup>2</sup>

## 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. At present, the Agreement designates 20 classes of transformers. 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 the 230 kV-138 kV equipment class. Application at ¶ 7.

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<sup>2</sup> 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.

Idaho Power asserted that participating in the Agreement will lower its overall future costs to maintain spare transformers in its inventory, thereby benefiting ratepayers. Idaho Power will receive the benefit of access to transformers in a national emergency 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 that: (1) the transaction is consistent with the public interest; (2) the costs of and rates for supply and service will not be increased by reason of such transaction; and (3) the transaction will not adversely affect 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 stated 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.*

### **THE COMMENTS**

The Commission received two comments in response to its Notice of Modified Procedure. Peter Humm fully supported the Company's request to participate in the Transformer Agreement. He suggested that the Transformer Agreement should be expanded to include the shared pooling of other transmission equipment including phase shifters, tower structures, conductors, insulators, etc. He indicated that the Company's participation in the Agreement would assist Idaho Power in making quick repairs to its transmission network in the event of an outage.

The Staff also recommended the Commission approve the Transformer Agreement. The Staff maintained that the pooling agreement reduces the risk of long-term outages due to

transformer shortages. In essence, this Agreement would provide for a more timely restoration of service in the event of a terrorist attack. Staff Comments at 3. Echoing comments provided by Mr. Humm, Staff recommended that the Company participate in all classes where it can appropriately mitigate risks and the length of outages. *Id.* at 5. Finally, Staff concluded that the Transformer Agreement meets the criteria of *Idaho Code* § 61-328. Staff stated that the Transformer Agreement is in the public interest and will not increase the cost of providing service.

### **DISCUSSION**

After reviewing the Application and the two comments, we find it appropriate to authorize Idaho Power to participate in the Transformer Agreement. The pooling of essential transformers will make spare transformers more readily available and likely reduce the length of outages resulting from a terrorist attack. We further find that this Agreement meets the requirements of *Idaho Code* § 61-328. This section generally prohibits the transfer of electric equipment unless authorized by this Commission. We find that Idaho Power's participation in the Transformer Agreement is in the public interest and will not increase the Company's rates for electric service because the Company does not seek ratemaking treatment. We further find that participating in the Transformer Agreement will minimize the acquisition of spare transformers.

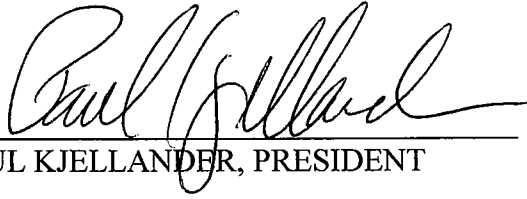
### **ORDER**

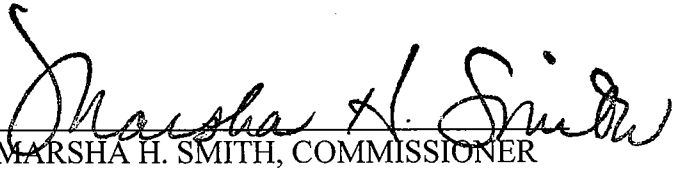
IT IS HEREBY ORDERED that Idaho Power Company's Application to participate in the Spare Transformer Sharing Agreement is approved.

IT IS FURTHER ORDERED that the Company advise the Commission if it is required to purchase additional transformers or if it expands the number of voltage classes in which it participates.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-06-27 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this case. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

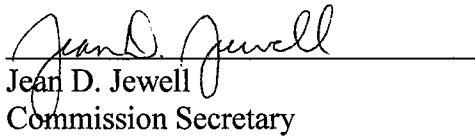
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 3<sup>rd</sup>  
day of January 2007.

  
PAUL KJELLANDER, PRESIDENT

  
MARSHA H. SMITH, COMMISSIONER

  
DENNIS S. HANSEN, COMMISSIONER

ATTEST:

  
Jean D. Jewell  
Commission Secretary

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