

DECISION MEMORANDUM

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

FROM: DON HOWELL

DATE: DECEMBER 26, 2006

SUBJECT: IDAHO POWER'S APPLICATION SEEKING APPROVAL OF A
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 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 no later than December 19, 2006. The Commission received two comments: one from a customer and the other from the Commission Staff.

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

entities¹ have executed the Transformer Agreement. EEI stated these participating utilities own 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.

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.

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 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).

¹ Avista Utilities is one of the signatories to the Agreement.

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 timely 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 an 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 because the Company does not seek any ratemaking treatment at this time. Moreover, FERC has authorized single-issue ratemaking for the costs of participation. Comments at 5; *Declaratory Order* at ¶ 43.

COMMISSION DECISION

1. Does the Commission approve the Transformer Agreement?
2. Does the Commission find that the *Idaho Code* § 61-328 requirements are satisfied?



Don Howell

b1s/M:IPC-E-06-27_dh2