

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: September 2, 2014

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

DATE: August 18, 2014

TO: Public Utility Commission

FROM: Brian Bahr <sup>BB</sup>  
<sub>F</sub> *MF for MB* *MF*

THROUGH: Jason Eisdorfer, Maury Galbraith, and Marc Hellman

SUBJECT: PACIFICORP: (Docket No. UP 301) Requests approval to participate in the Edison Electric Institute Spare Transformer Equipment Program.

**STAFF RECOMMENDATION:**

The Public Utility Commission of Oregon (Commission) should approve the application by PacifiCorp dba Pacific Power (PacifiCorp or Company) to participate in the Edison Electric Institute (EEI) Spare Transformer Equipment Program (STEP or Agreement), subject to the following condition:

1. Company shall notify the Commission in advance of any substantive changes to the Agreement, including any material changes in price. Any changes to the Agreement terms that alter the intent and extent of activities under the agreement from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate form) in this docket.

**DISCUSSION:**

PacifiCorp filed its application for approval to participate in the STEP on June 6, 2014, in accordance with ORS 757.485 and OAR 860-027-0025. STEP is an electric industry program approved by the Federal Energy Regulatory Commission (FERC) on September 22, 2006, with the goal of improving the sector's ability to restore the nation's transmission system more quickly in the event of a terrorist attack. PacifiCorp signed the Agreement on December 6, 2013, but does not become a fully participating member until all regulatory approvals have been obtained by the Company.

Under the Agreement, each participating electric utility is required to maintain and, if necessary, acquire a specific number of spare transformers. STEP requires each

participating utility to sell its spare transformers if requested to any other participating utility that suffers a triggering event, which is generally defined as an act of terrorism resulting in the destruction or disabling of a transmission substation. The Agreement was negotiated among more than 50 utilities, and unlike a voluntary assistance program, grants the participating utilities the legal right to access spare transformer capacity.

PacifiCorp is requesting with this application approval to participate in the STEP. In review of the application, Staff issued five data requests and had several discussions with the Company via telephone.

#### Issues

Staff investigated the following issues:

1. Scope and Terms of the Asset Purchase Agreement
2. Allocation of Gain
3. Public Interest Compliance
4. Records Availability, Audit Provisions, and Reporting Requirements

#### Scope and Terms of the Asset Purchase Agreement

The Agreement contains definitions of standard terms used therein, the requirements to become a participant, the obligations and rights of participants, and other clauses relating to the administration of the Agreement. Staff's review of the Agreement did not identify any unusual or restrictive terms or conditions.

#### Allocation of Gain

Should the Company's spare transformers committed to the STEP be sold to a utility that experienced a triggering event, the Agreement specifies that the equipment should be sold at replacement cost, which includes a replacement transformer, delivery and transportation, and tax liabilities. The Oregon-allocated gain on sale of the transformer, should there be one, would be passed through to customers through the property sales balancing account, Schedule 96. Should the Company be in the position in which it must purchase a spare transformer from another participating utility, the appropriate ratemaking treatment of that cost would be considered through standard regulatory proceedings such as a general rate case.

#### Public Interest Compliance

To participate in the Agreement, the Company was charged a \$10,000 enrollment fee. An additional fee of approximately \$5,000 will be charged annually. PacifiCorp has stated in its response to Staff's Data Request No. 5 that the fees will be paid from the

Company's existing operating budget and allocated amongst its jurisdictions according to its existing transmission allocation factors.

Participating in the STEP allows PacifiCorp to increase its resources for responding to potential terrorist attacks. The Company's commitment to STEP is expected to be two spare transformers, both of which are already owned by the Company and maintained for potential future use. The Agreement does not prohibit the Company from using the transformers it has committed so long as they are replaced within 18 months. In this way, PacifiCorp's ability to respond to its own maintenance and outage requirements will not be compromised.

The Commission customarily applies a no harm standard with regard to the public interest compliance of property sales. By participating in the Agreement, the Company increases its ability to respond to potential emergency situations, which is a benefit to customers. Additionally, the Company's obligations under the Agreement do not reduce its ability to provide customers with safe and reliable service. The cost of participating in the Agreement is marginal. Because customers are not harmed by this transaction, Staff concludes that the sale is in the public interest.

Records Availability, Audit Provisions, and Reporting Requirements

Staff notes that the Commission retains the ability to review all property sales of the Company through general rate case filings. Staff's recommended condition provides for documentation of this Agreement. The Company has reviewed this memo and has no objections or concerns.

**PROPOSED COMMISSION MOTION:**

PacifiCorp's application for approval to participate in the Edison Electric Institute Spare Transformer Equipment Program be approved subject to Staff's recommended condition.