

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 14, 2014**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: September 22, 2014

TO: Public Utility Commission

FROM: Linnea Wittekind *LW*

THROUGH: Jason Eisdorfer *J.E.* and Marc Hellman *MH*

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UP 306) Requests approval to participate in the Spare Transformer Equipment Program.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve the application by Portland General Electric (PGE or Company) to participate in the Edison Electric Institute (EII) 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.
2. Any gains from sales or transfers of spare transformers shall be placed in the property sales balancing account for later disbursement to customers.

DISCUSSION:

PGE filed its application for approval to participate in the STEP on July 31, 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. PGE signed the Agreement on July 28, 2014, 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.

PGE is requesting with this application approval to participate in the STEP. In review of the application, Staff issued three data requests.

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. Any gain from such sale will be placed in the property sales balancing account for later disbursement to customers. 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 \$7,500 will be charged annually. PGE does not seek

approval of any ratemaking treatment for the sharing agreement fees and any new inventory required by the terms of the agreement.

Participating in the STEP allows PGE to increase its resources for responding to potential terrorist attacks. The Company's commitment to STEP is expected to be one spare transformer, which is 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, PGE'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.

PROPOSED COMMISSION MOTION:

PGE's application for approval to participate in the Spare Transformer Equipment Program be approved subject to Staff's recommended conditions.