ORDER NO. 16 328

ENTERED AUG 30 2016

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UP 342

In the Matter of PACIFICORP, dba PACIFIC POWER, Application for an Asset Exchange Agreement with Western Area Power Administration.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on August 30, 2016, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:

Kristi Collins
Commission Secretary

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

ORDER NO. 16 328

ITEM NO. CA5

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 30, 2016

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** N/A

DATE: August 18, 2016

TO: Public Utility Commission

FROM: Matt Muldoon and Scott Gibbens

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: PACIFIC POWER: (Docket No. UP 342) Requests approval of a Transmission Property Exchange with WAPA.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve the exchange of transmission assets between PacifiCorp (PAC or Company) and the Western Area **Power** Administration (WAPA) subject to the following conditions:

1. The Company shall notify the Commission in advance of any substantive changes to the transfer of properties, 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. The Company shall provide to the Commission, within 60 days after the transaction closes, the final book entries relating to the transaction.
3. The Commission reserves the right to review for reasonableness all financial aspects of this transaction in any rate proceeding or earnings review under an alternate form of regulation.

DISCUSSION:

Issue:

Whether the Commission should approve the cash-free exchange of transmission assets between PacifiCorp and WAPA located each on the other's substation in Wyoming as outlined in the Asset Exchange Agreement attached to the Company's application.

Attachments A and B show California and Wyoming Commission approvals.

Applicable Law and Orders

Under ORS 757.480(1):

> A public utility doing business in Oregon shall not, without first obtaining the Public Utility Commission's approval of such transaction:
>
> (a) Except as provided in subsection (5) of this section, sell, lease, assign or otherwise dispose of the whole of the property of such public utility necessary or useful in the performance of its duties to the public or any part thereof of a value in excess of $100,000, [. . .].

In support of a request for approval of a property sale, the utility must provide the information and documentation listed in OAR 860-027-0025. OAR 860-027-0025(1)(l) states that the applicant must show that the property sale will be consistent with the public interest.

The *Commission* has interpreted the phrase "consistent with the public interest" to require a showing of "no harm." *See, e.g., In the Matter of Portland General Electric Company*, Docket No. UP 292, Order No. 13-372 (2013).

The Commission has reserved the right to review any or all financial aspects of a transaction in a general rate case or other proceeding, and may condition approval of a sale on *receiving* notice in advance of any substantive changes to the sale and transfer of the property including any material change in price. *See* Docket No. UP 235, Order No. 06-651; and Docket No. UP 57, Order No. 90-433.

Background

PacifiCorp owns transmission assets itemized in response to Staff Information Request (IR) 1 with a book value of approximately $769,000 as of December 31, 2015.[1] These assets located within WAPA's Spence Substation in Wyoming were capitalized from 1988 to 1991 and are in need of upgrade this summer.

Similarly, WAPA owns substation equipment located in PacifiCorp's Thermopolis substation in Wyoming, of like value and vintage, also needing upgrade. The transmission equipment to be exchanged consists of: relays, controls, circuit breakers, switches, transformers, insulators and supporting structures and buswork. Both sets of assets support a 230 kV transmission line, and have like net book value.

[1] See the Company's application on page 2, paragraph 2 for a discussion of book value.

Discussion and Analysis

At issue is whether this exchange is in the public interest, i.e. whether the cash-free transfer can be accomplished without harm and preferably to the benefit of ratepayers.

Book vs. Market Price: Normally, PacifiCorp would be expected by the Commission to identify the current market price for transmission assets prior to selling or exchanging them. Schedules 1 and 2 attached to the Company's application provide a list of assets PacifiCorp and WAPA intend to exchange. Staff was concerned that the Company had not created a robust mechanism to better identify the current fair market value of these assets. Because this due diligence was omitted, Staff also submitted information requests to WAPA. While WAPA noted that as a Federal agency, it is not subject to State regulation or jurisdiction, WAPA as a courtesy answered Staff's inquiries.

Staff's concerns are alleviated by the Company's and WAPA's response to the 21 multi-part information requests. The Company's spreadsheet detail provided in response to Staff IR 1 show that the assets were largely capitalized in 1991. In fact, the assets to be exchanged are generally 25 years old and not in a state where either PacifiCorp or WAPA could guarantee performance and reliability. The assets which WAPA would receive require imminent upgrade this summer. The assets that the Company would receive have greater flexibility on upgrade but still need to be substantially maintained in the near future.

WAPA delayed replacement and upgrades to the transmission assets it would acquire for two years while it and the Company negotiated the proposed transaction. Now, WAPA must upgrade circuit breaker 586 at an immediate cost of $250,000 plus installation costs. If the transaction is approved by the Commission those costs shift from PacifiCorp to WAPA's responsibility. PacifiCorp faces similar upgrade requirements but can take the time to better negotiate replacement costs given less immediacy to reliability upgrades. And again since this is an exchange of facilities of similar vintage and in need of repair, this too further warrants support of selling the facilities at net book value.

Logistics and Operational Costs: Absent the proposed transaction, both the Company and WAPA pay the other for maintenance on a cost plus basis. Were the Commission to approve the transaction, each party will have a lower direct maintenance cost going forward. Elimination of a federal matrix administration and general overhead cost is in ratepayer's interest.

Other Avoided Costs: Were PacifiCorp to refurbish its equipment to a state that it was hypothetically marketable, the Company would need to incur dismantling, rigging and heavy haul transport charges or find a buyer willing to incur such costs. The in-place exchange of assets avoids logistics costs to remote points in Wyoming. Such costs would also be incurred for housing and other heavy apparatus were PacifiCorp to sell its Wyoming transmission assets in question and then purchase like replacement

components at the other remote Wyoming substation. The proposed exchange precludes a variety of logistics costs.

Environmental Costs and Other Risks: A transmission asset swap can involve new responsibility for undocumented environmental issues such as polychlorinated biphenyls (PCBs) once widely deployed as dielectric and coolant fluids in electrical apparatus. Typically it would be cost prohibitive and impracticable for a prospective owner to do a full environmental assessment prior to acquisition.

PacifiCorp addresses Staff concerns in response to Staff IRs 7 and 8. The Company states that it has been part of operations at these sites since the transmission equipment was placed in service, and that there are no unknown environmental risks or other hidden risk factors.

Conclusion

No Harm: Staff finds based on the age and characteristics of the equipment to be exchanged that there was no better practicable market for the Company's equipment than the proposed like-kind exchange. A sale would have triggered the need for installation of higher cost new foundational equipment and accompanying rigging and heavy haul costs.

In addition, removing third party federal ownership of equipment at PacifiCorp's Wyoming substation provides the Company with the opportunity to control jurisdictional utility spending and alleviate administrative burdens to coordinate maintenance and capital replacement activities, inclusive of the costs of reliability reporting to the North American Electric Reliability Corporation (NERC).

In light of the foregoing, Staff finds that the exchange of transmission assets between PacifiCorp and WAPA as requested is in the public interest. The exchange will not impair PacifiCorp's ability to serve customers in a safe and reliable manner. Rather, the proposed transaction reduces the Company's and indirectly ratepayers' ongoing operational and maintenance costs, at minimal risk.

The Company has reviewed this memo and agrees with Staff's findings.

PROPOSED COMMISSION MOTION:

Approve the requested Transmission Property Exchange between PacifiCorp and WAPA subject to Staff's recommended conditions.

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

August 2, 2016

Advice Letter 542-E

Cathie Allen
Regulatory Manager
PacifiCorp
825 NE Multnomah, Suite 2000
Portland, OR 97232

SUBJECT: Property Transaction Regarding Exchange of Certain Transmission Facilities, Request for Approval Under Section 851

Dear Ms. Allen:

Advice Letter 542-E is effective as of July 29, 2016.

Sincerely,

Edward Randolph

Edward F. Randolph, Director
Energy Division

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR AN ORDER AUTHORIZING THE EXCHANGE OF CERTAIN TRANSMISSION ASSETS WITH WESTERN AREA POWER ADMINISTRATION	))))))	Docket No. 20000-496-EA-16 (Record No. 14389)

ORDER
(Issued August 9, 2016)

This matter is before the Wyoming Public Service Commission (Commission) upon the Application of Rocky Mountain Power (RMP or the Company) for approval to exchange certain transmission assets with Western Area Power Administration (WAPA) (collectively the Parties), as more fully described below.

1. RMP is a public utility as defined in Wyo. Stat. § 37-1-101(a)(vi)(C), subject to the Commission's jurisdiction pursuant to Wyo. Stat. § 37-2-112.

2. RMP filed its Application on May 9, 2016, requesting the Commission approve an Asset Exchange Agreement (Agreement) the Company entered into with WAPA on April 14, 2016. The Agreement is designed to align the ownership of assets with the ownership of certain substations between RMP and WAPA. Specifically, RMP owns the Thermopolis substation, but WAPA owns certain transmission assets in that substation, some of which need to be upgraded this summer. Similarly, WAPA owns the Spence Substation and RMP owns certain assets in that Substation. The Company's acquisition of WAPA assets through this transaction will eliminate the need for the Parties to pay each other for upgrades and allow the Parties to maintain all assets within their respective substations. The Company intends to acquire from WAPA certain switches, transformers, relays, insulators, and a circuit breaker. WAPA intends to acquire from the Company certain switches, transformers, insulators, circuit breaker, and Supervisory Control and Data Acquisition equipment.

3. In support of its Application, RMP states the exchange of transmission assets is consistent with the public interest, the impact to customer's rates will be neutral, and each Party has the financial ability to operate and maintain the assets. It will resolve transmission operational issues to ensure safe and reliable electric service. RMP states it is unaware of any adverse impact to another utility or customers that would result from the transaction.

4. On May 11, 2016, the Commission issued a *Notice of Application* setting a deadline of June 10, 2016, for interested persons to file a statement, intervention petition, protest, or request for a public hearing. A public notice was published in newspapers in the Company's service territory. No protests, requests for intervention or hearing were filed.

5. RMP's Application was heard by the Commission pursuant to due notice at its open meeting on July 28, 2016. Stacy Splittstoesser, Wyoming Regulatory Affairs Manager, appeared

in person for RMP. Kevin Freestone, Director of Substation Operations, and Patrick Canon, Senior Attorney, appeared by telephone for the Company. Splittstoesser presented the Application and provided a summary generally describing the information contained in paragraphs 2 and 3 above. Commission Staff recommended approval of the Application, effective immediately.

6. Based on the Application, the facts and representations presented by RMP and the analysis and recommendations of Commission Staff, the Commission finds that the Company has supported its request for approval of the Agreement. Therefore, the Commission finds RMP's Application should be approved.

IT IS THEREFORE ORDERED:

1. Pursuant to open meeting action taken on July 28, 2016, Rocky Mountain Power's Application for approval of its Asset Exchange Agreement with Western Area Power Administration, is approved.

2. This *Order* is effective immediately.

MADE and ENTERED at Cheyenne, Wyoming, on August 9, 2016.

PUBLIC SERVICE COMMISSION OF WYOMING

WILLIAM F. RUSSELL, Deputy Chairman

KARA BRIGHTON, Commissioner

PUBLIC SERVICE COMMISSION OFFICIAL SEAL (SEAL) WYOMING

Attest:

JOHN S. BURBRIDGE, Assistant Secretary