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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

MICHELE BECK
Director

To: Utah Public Service Commission

From: Office of Consumer Services
Michele Beck, Director
Béla Vastag, Utility Analyst
Cheryl Murray, Utility Analyst

Date: August 8, 2014

Re: In the Matter of Rocky Mountain Power's Application for Approval to Advance Authorization to Transfer Spare Transformers Pursuant to a Sharing Agreement. Docket No. 14-035-64

Background

On May 21, 2014, Rocky Mountain Power (Company) filed with the Public Service Commission (Commission) an Application for Approval (Application) of Advance Authorization to Transfer Spare Transformers Pursuant to a Sharing Agreement (Sharing Agreement). On June 3, 2014, the Commission held a scheduling conference in this matter and issued a scheduling order and notice of technical conference setting the following schedule: Technical conference, July 8, 2014; parties to file comments on August 8, 2014; and reply comments on August 22, 2014. Following are the initial comments of the Office of Consumer Services (Office).

Discussion

The Spare Transformer Equipment Program (STEP) was the result of FERC approval of an application filed by Edison Electrical Institute (EEI) on behalf of then participating utilities. The Company's Application describes STEP as "an electric industry program that strengthens the sector's ability to restore the nation's transmission system more quickly in the event of a terrorist attack" or a "triggering event".

On December 6, 2013, the Company entered into the Sharing Agreement but will not become a full participating member of STEP until the Company receives all required state regulatory approvals. The Company is currently seeking approval in all six of its jurisdictions.

Triggering Event

The STEP Sharing Agreement takes effect under conditions of a triggering event which is defined in The Spare Transformer Sharing Agreement (page 8) as:

“Triggering Event” means an act or coordinated acts of deliberate, documented terrorism, as defined in the Homeland Security Act of 2002, 6 U.S.C. §101(15), as the same may be amended from time to time, resulting in (1) the destruction or long-term disabling of one or more electric transmission substations, and (2) the declaration of a state of emergency by the president of the United States pursuant to the National Emergencies Act, 50 U.S.C. §1601 et seq., as the same may be amended from time to time.

Since the Triggering Event guidelines are quite stringent, it is clear that the Company would not be called upon to fulfill its commitments or receive benefits under the STEP Sharing Agreement except in very extreme circumstances.

Extent of Participation

At this time the Company has elected to participate in two Equipment Classes (EC).¹ The Company states it currently maintains a spare transformer for each of the two ECs and based on preliminary information from EEI it believes its obligation will be two spare transformers; one rated 500-230 kV and 193 MVA and one rated 345-238 kV and 141 MVA. The Office notes that the Spare Transformer Sharing Agreement indicates that the “relevant Equipment Sub-Committee shall determine the Required Obligation for each Participating Utility” therefore it is possible that the spare transformer requirement could change. If the extent of the Company’s participation changes, the Office recommends that the Company file a notice with the Commission informing parties of the change.

Cost of Participation

In addition to an enrollment fee of \$10,000 the Company will be required to pay annual dues of approximately \$7,500.² In response to OCS data request 2.2 the Company stated:

“The annual participation fee is \$7,500 for each company. If the company is affiliated with another STEP member, the annual dues for the additional companies are \$3,000 annually. PacifiCorp is one of three Berkshire

¹ Currently there are eight (8) Equipment Classes but participating members can add additional classes if desired.

² The Company’s Application indicated that the annual participation fee would be approximately \$5,000.

Hathaway Energy organizations to join STEP. Mid-American Energy and NV Energy are the other two organizations.

It has yet to be determined how the total dues for all three companies (\$7,500 + \$3,000 + \$3,000) will be allocated amongst the organizations. PacifiCorp's share will not exceed \$7,500."

In addition to the annual participation fee there will be travel expenses associated with a PacifiCorp representative's attendance at the semi-annual STEP meetings. The Office expects that the total amount required for participation in the STEP sharing agreement will be allocated across all PacifiCorp service territories. Therefore, the amount to be assigned to the Utah Jurisdiction will be minimal and based on these levels of anticipated annual costs the Office does not see cost as a barrier to the Company's participation in the Agreement.

Withdrawal from STEP Sharing Agreement

A party may withdraw from the Agreement by providing written notice of its intention to withdraw to each Equipment Committee and the relevant Equipment Sub-Committee two years prior to its desired withdrawal date. If the Company were to experience large increases in the cost of participation it does have the ability to withdraw from the Agreement under Article X the withdrawal provision. Should the fees or other costs of participation increase substantially the Office expects the Company to re-evaluate the value of its continued participation.

Replacement of Transformers

In the case of a Triggering Event the affected utility (buyer) may use its call rights to obtain needed transformers from a member utility or utilities in the same EC. The providing utility (seller) has the option of setting the purchase price for the transformer at either the replacement cost or the net book value of the qualified spare transformer. Additionally, all costs³ associated with shipment and delivery of the transformers are to be borne by the affected utility. The Company has indicated that if it were called upon to provide transformers both options would be considered but it would most likely seek replacement costs. The Office views this as a reasonable approach to cost recovery.

Potential Risks and Benefits

In the unlikely event that a triggering event were to occur in PacifiCorp's service territory the Company would have access to certain transformers more quickly than if it had to order replacements which, according to the Company, can take 6 – 18 months to manufacture and deliver.⁴ On the other hand, there is a risk that the Company could be called upon to

³ These costs may include any costs of the seller to remove the transformer from its pad, test and empty it of oil, any freight and other transportation costs associated with delivering the transformer to the buyer as well as any tax liability.

⁴ The Company is not required to obtain needed transformers from the EC and can go the market for better pricing, if available.

provide a required transformer through the Sharing Agreement and then have need of a replacement transformer for its own use due to a problem other than a triggering event. The resulting delay in obtaining a replacement transformer does pose some risk to the Company and its customers. However, the Office does not view this scenario as substantial enough to offset the potential benefit of participation in the STEP Sharing Agreement.

Although the ability to more promptly receive needed transformers in case of a triggering event is the obvious benefit of participation in the Sharing Agreement the Office believes there are additional potential benefits such as:

- Regular interaction of members may facilitate the sharing of transformers and other equipment in emergency situations that do not qualify as triggering events.
- Discussions among member utilities may help determine more efficient and timely means of transport for these large, difficult to move pieces of equipment.

The Office believes that the costs and potential risks of participation in the STEP Sharing Agreement are adequately offset by potential benefits.

Recommendations

The Office recommends that the Commission approve the Company's Application for Approval to Advance Authorization to Transfer Spare Transformers Pursuant to a Sharing Agreement. The Office also recommends that the Commission require the Company to file notice when there are any substantial changes to the Company's participation in STEP, including changes in cost.

Copies to:

Rocky Mountain Power

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