

Agenda Date: November 8, 2006  
Item Number: A2

**Docket:** UE-061415  
Company: Avista Corporation dba Avista Utilities

Staff: Roland Martin, Regulatory Analyst

### **Recommendation**

Issue an order authorizing Avista Corporation dba Avista Utilities to transfer or acquire spare transformers to or from other utility companies under the terms of the Edison Electric Institute (EEI) Spare Transformer Sharing Agreement and authorize the related accounting treatment.

### **Discussion**

On September 1, 2006, Avista Corporation dba Avista Utilities (“Avista”) filed a petition with this Commission under RCW 80.12.020 and WAC 480-143-120 seeking an order authorizing Avista to transfer spare transformers from its inventory to other utility under the terms of the EEI Spare Transformer Sharing Agreement (“Sharing Agreement”) and the related accounting treatment. On April 13, 2006, Avista entered into a standard Sharing Agreement, provided as Exhibit A to the petition, with other utility companies across the United States to implement a sharing program that will maintain the integrity of the transmission system in the event of an act or coordinated acts of deliberate, documented terrorism (Triggering Event) that results in the destruction or long-term disabling of a participating utility’s electric transmission substations. The Sharing Agreement establishes protocols that are intended to guarantee rapid access to spare transformers for expeditious recovery of destroyed transmission systems, resulting in faster restoration of electric service.

According to the petition, in the event that Avista suffers from a Triggering Event that destroys one or more of its transformers, the Sharing Agreement provides secure and rapid access to replacement transformers that would otherwise require advanced lead time and overseas production. Avista states that the protocols within the Sharing Agreement are in the public interest because such actions will enhance the reliability of the electric transmission grid.

As a participant, Avista is required to commit, maintain and if necessary, acquire or replace a specific number of transformers in various voltage classes. Avista’s obligation under the protocols of the Sharing Agreement in terms of transformer(s) availability will be met through its existing and anticipated inventory levels. These levels, initially designed for Avista’s potential use, do not require additional purchases or additional maintenance requirements that would not have been otherwise performed as part of its regularly scheduled maintenance plans. If Avista transfers a transformer to a utility in need, such utility must pay for the transformer at a price equal to replacement cost or net book value, at seller’s option, and Avista would use the funds to purchase a replacement transformer to replenish its inventory.

Avista requests advance authorizations required under RCW Chapter 80.12 and WAC Chapter 480-143 for the transfer or acquisition of spare transformers if required per the terms of the Sharing Agreement.

Staff reviewed the petition and supporting documents and requested Avista to provide additional information and clarification regarding certain aspects of the filing. After review, staff raised certain concerns related to filing requirements associated not only with property transfers but also with property acquisitions from another public service company. On November 1, 2006, Avista filed a supplemental letter that expressed the company's agreement to certain suggestions by staff that will address the concerns which were raised. Specifically, Avista amended its request to include authorization to acquire spare transformers from other participating utility companies if necessary per the terms of the Sharing Agreement. In addition, Avista will provide, in satisfaction of WAC 480-143-120 and WAC 480-143-130, final transfer or acquisition details initially within 30 days of each transaction occurring under the terms of the Sharing Agreement and to supplement such initial reporting with any subsequent final documents. Regarding the proposed accounting treatment, Avista also revised its accounting proposal with an appropriate accounting alternative that is more responsive to the intent of the Sharing Agreement.

Although it is uncommon for the commission to grant advance authorization for property transfers and acquisitions, staff believes that the underlying basis for the petition warrants favorable consideration and recommendation. Advance authorization enables the company to transfer equipment without delay for the quick restoration to operation of a disabled system and without violation of property transfer statutes and rules. The revised accounting proposal is reasonable and the reporting requirements provide the commission the necessary facts and details related to actual transactions for cost recovery determination in an appropriate proceeding.

On September 22, 2006, the Federal Energy Regulatory Commission (FERC) issued an order in Docket Nos. EC06-140-000 and EL06-86-000.<sup>1</sup> As a matter of relevance to Avista's filing, the FERC order granted EEI's request, on behalf of the electric companies that entered the Sharing Agreement, for blanket authorizations under Section 203 of the Federal Power Act (FPA) to engage in future transfers of transformers pursuant to the Sharing Agreement. FERC found "that the industry's efforts to voluntarily coordinate the sharing of spare transformers will enhance the reliability of the transmission system and security of our energy supply infrastructure in the event of an act of deliberate destruction." FERC encouraged other transformer owners to participate and participating utilities to expand the scope of emergency situations, such as natural disasters, where sharing will be required.

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<sup>1</sup> Order on Application for Blanket Authorization for Transfers of Jurisdictional Facilities and Petition for Declaratory Order, 116 FERC ¶ 61,280, Docket Nos. EC06-140-000 and EL06-86-000, September 22, 2006.

**Conclusion**

Staff concludes that granting Avista's petition is consistent with the public interest. Therefore, staff recommends the commission issue an order authorizing in advance Avista Corporation dba Avista Utilities to transfer to or acquire from other utility companies spare transformers as required under the EEI (Edison Electric Institute) Spare Transformer Sharing Agreement and authorize the related accounting treatment.