

Agenda Date: November 8, 2006  
Item Number: A1

**Docket:** UE-061382  
Company: Puget Sound Energy, Inc.

Staff: Roland Martin, Regulatory Analyst

### **Recommendation**

Issue an order authorizing Puget Sound Energy, Inc., 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 August 28, 2006, Puget Sound Energy, Inc. ("PSE") filed a petition under RCW 80.12.020 and WAC 480-143-120 requesting authorization of the transfer of spare transformers to other utilities under the terms of the EEI Spare Transformer Sharing Agreement ("Sharing Agreement") and related accounting treatment. On March 9, 2006, PSE 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, the Sharing Agreement will result in about 40 or more spare transformers being on hand to help a damaged utility in the event of a disaster. This would greatly assist in recovering from a Triggering Event because transformers typically must be special ordered and can take several months to manufacture and deliver.

As a participant, PSE is required to maintain and if necessary, acquire a specific number of transformers in various voltage classes. PSE believes that its initial obligation under the Sharing Agreement is to store one or two spare transformers. PSE states that it will be able to meet this obligation through its existing and anticipated inventory that it would in any case maintain for its potential use. If PSE 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 PSE would use the payment to replenish its inventory.

PSE requests advance authorization to transfer transformers to another utility if required per the terms of the Sharing Agreement because the transfer of property statute and commission rules prohibit dispositions of necessary or useful assets without commission approval.<sup>1</sup>

Staff reviewed the petition and requested PSE 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 October 17, 2006, PSE filed a supplemental letter that expressed the company's agreement to certain suggestions by staff that will address the concerns which were raised. Specifically, PSE amended its proposed commission order to include authorization to acquire spare transformers from other participating utility companies if necessary per the terms of the Sharing Agreement. In addition, PSE 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. After further discussion with staff, PSE also agreed to modify the proposed accounting description for clarity.

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 PSE 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 proposed accounting 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>2</sup> As a matter of relevance to PSE'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

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<sup>1</sup> PSE stated that it is seeking commission authorization in an abundance of caution, noting that commission authorization may not be necessary because WAC 480-143-180 exempts from the requirement for commission approval of property transfers items that are substituted with or replaced by items of equal or greater value or usefulness. However, PSE prefers to inform the commission of the Sharing Agreement and obtain authorization for such transfers and related accounting treatment rather than filing an application for commission determination that such transformers are not "necessary or useful" for purposes of the property transfer restriction. *See* WAC 480-143-180.

<sup>2</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.

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.

**Conclusion**

Staff concludes that granting PSE’s petition is consistent with the public interest. Therefore, staff recommends the commission issue an order authorizing in advance Puget Sound Energy, Inc., to transfer to or acquire from other utility companies spare transformers as required under the EEI Spare Transformer Sharing Agreement and the related accounting treatment.