



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

RELIABILITY & SECURITY

IN THE MATTER OF THE JOINT VERIFIED PETITION)
OF ATLANTIC CITY ELECTRIC COMPANY, JERSEY)
CENTRAL POWER & LIGHT COMPANY, PUBLIC)
SERVICE ELECTRIC AND GAS COMPANY &)
ROCKLAND ELECTRIC COMPANY FOR THE)
APPROVAL OF THE SALE OF TRANSFORMERS)
PURSUANT TO A SPARE TRANSFORMER SHARING)
AGREEMENT & ASSOCIATED MATTERS)

ORDER

DOCKET NO. EM06110802

(SERVICE LIST ATTACHED)

BY THE BOARD:

On November 14, 2006, a joint petition was filed on behalf of Atlantic City Electric Company ("ACE"), Jersey Central Power & Light Company ("JCP&L"), Public Service Electric and Gas Company ("PSE&G") and Rockland Electric Company ("RECO") (collectively, "Petitioners") to obtain approval pursuant to N.J.S.A. 48:3-7 of the sale by the Petitioners of certain spare electric transformers pursuant to a Spare Transformer Sharing Agreement ("Agreement") as part of the Spare Transformer Equipment Program. In addition, in so far as the sale of these spare electric transformers pursuant to the Agreement might occur between related electric utilities, the Petitioners seek approval that these transactions will be deemed in compliance with Affiliate Relations Standards under N.J.A.C. 14:4-5.1 et seq.

Under the Agreement, a participating Utility may be called upon to provide transformers to another participating utility if an act of terrorism ("Triggering Event") results in the destruction or long-term disabling of that utility's electric transmission substations. Petitioners allege that their

ability to assist another utility that is recovering from such a Triggering Event will be significantly delayed if they are required to seek approval for the sale of a transformer when a Triggering Event occurs.¹ Therefore, Petitioners request pre-authorization for the sale of such transformers and pre-determination that such sales will comply with the Board's Affiliate Relations Standards.

BACKGROUND

Large substation transformers are a component of an electric utilities transmission system because they convert high voltage electricity to lower voltage electricity. In order to enable electric utilities to more quickly replace a transformer, national utilities have cooperated to establish the Spare Transformer Equipment Program (STEP), which creates a national pool of spare transformers that can quickly be sold between electric utilities in the event of a disruption. The STEP is a national electric utility transformer sharing agreement created by the Edison Electric Institute ("EEI") and developed by the electric utilities to create a national pool of spare transformers. Pursuant to the Agreement, participating electric utilities commit to maintain a calculated number of spare transformers within a specific transmission voltage class which can be quickly sold to another utility following a "Triggering Event." A "Triggering Event", as defined in the agreement, 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)...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. § 1601et seq...."

Signatories to the agreement are obligated to sell their committed spares to the affected utility at the "Purchase Price". The Purchase Price is defined under the Agreement as replacement cost or net book value, at the seller's option, plus equipment preparation and transportation costs and taxes. ACE, JCP&L and PSE&G are signatories of the agreement. RECO is not a signatory to the STEP agreement but seeks similar consideration should RECO join STEP at a later date.

The Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel") filed comments on the petition explaining that Rate Counsel does not object to the relief requested by Petitioners, with certain conditions. Rate Counsel recommends that the price for such transformers be set at a level that adequately compensates ratepayers and further recommends that authorization be conditioned on Petitioners satisfying ongoing reporting requirements concerning the Agreement, the transfer of the assets and proceedings at the Federal Energy Regulatory Commission ("FERC").

¹ The Board notes that there are other permitted transfers of transformers under the Agreement. However, the Board's understanding is that Petitioners are only seeking pre-authorization of sales of transformers that would take place because of a Triggering Event.

DISCUSSION AND FINDINGS

STEP is designed to assist transmission systems to restore electric service in the event of an act of terrorism. Participation in this program creates a streamlined process to quickly acquire transformers in the event of a terrorist attack, which would not otherwise be possible without the existence of the Agreement. The Agreement sets forth a method to determine the Purchase Price but provides the seller the option to set the price, as explained above. The Board agrees that the price should adequately compensate New Jersey ratepayers so that a replacement transformer may be obtained at the lowest possible total cost to New Jersey ratepayers. Therefore, the Board FINDS that the excess of the purchase price over book value should be applied to the cost of purchasing a replacement transformer to meet the utility's required obligation under the Agreement. The Board also FINDS that the proposed sale of transformers under the Agreement are in the public interest and will not negatively impact the Petitioners' ability to render safe, adequate and proper service.

The Board's Affiliate Relations Standards establish standards for transactions between an electric or gas utility and affiliates and are designed to prevent anti-competitive behavior and cross-subsidization. Petitioners allege that because the Agreement establishes specific conditions under which the transactions are to occur and sets the price at which the transformers are to be sold, the Affiliate Relations Standards are not violated. The Board agrees and FINDS that the proposed transactions do not violate its Affiliate Relations Standards.

The Board has carefully reviewed the STEP agreement and accordingly, HEREBY APPROVES pursuant to N.J.S.A. 48:3-7, the sale of transformers by the signatories of the Spare Transformer Sharing Agreement in accordance with the terms and conditions of said agreement and that these transactions will be deemed in compliance with Affiliate Relations Standards under N.J.A.C. 14:4-5.1 et seq.

The Board's approval is subject to the following conditions:

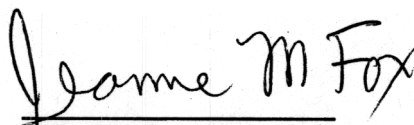
- 1) The excess of the purchase price over book value shall be applied to the cost of purchasing a replacement transformer to meet the utility's required obligation under the Agreement, as explained above;
- 2) The Petitioners shall maintain accounting records sufficient to separately track all expenses associated with the STEP; and
- 3) The Petitioners shall immediately notify the Board and Rate Counsel of any proposed conveyance of their transformers pursuant to the Agreement.

The Board does not grant any approval to RECO, in so far as RECO is not a signatory to the Agreement. In the event RECO becomes a signatory to the Agreement or other similar obligations, RECO would be required to file a petition with the Board and it shall be given expedited consideration of the matter.

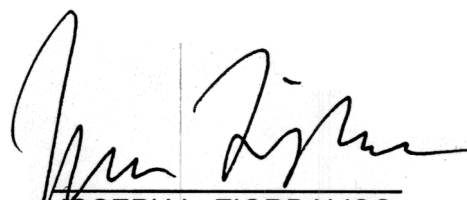
This Order shall not affect or in any way limit the exercise of the authority of this Board with respect to rates, services, capitalization, depreciation, or in any other matters affecting the Petitioners.

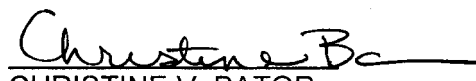
DATED: 7/12/07

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER

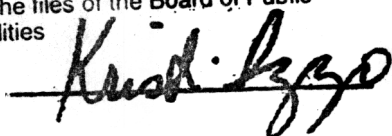

JOSEPH L. FIORDALISO
COMMISSIONER


CHRISTINE V. BATOR
COMMISSIONER

ATTEST:


CARMEN DIAZ
ACTING SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



In the Matter of the Joint Verified Petition of
Atlantic City Electric Company, Jersey Central Power & Light Company,
Public Service Electric and Gas Company and Rockland Electric Company
For the Approval of the Sale of Transformers Pursuant to a
Spare Transformer Sharing Agreement and Associated Matters

Docket No. EM06110802

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