

STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held in the City of  
Albany on November 14, 2013

COMMISSIONERS PRESENT:

Audrey Zibelman, Chair  
Patricia L. Acampora  
Garry A. Brown  
Gregg C. Sayre  
Diane X. Burman

CASE 13-M-0047 - Proceeding on Motion of the Commission to  
Examine Utility Shared Critical Equipment and  
Supplies.

ORDER INSTITUTING A PROCESS FOR THE SHARING OF  
CRITICAL EQUIPMENT

(Issued and Effective November 19, 2013)

BY THE COMMISSION:

BACKGROUND

On February 13, 2013, we initiated a proceeding<sup>1</sup> to address recommendations made by Governor Cuomo to establish an inventory of long-term capital assets and critical equipment<sup>2</sup> for the mutual use of utilities during future emergency events. We directed the six investor-owned electric and gas and the three

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<sup>1</sup> Case 13-M-0047, et. al., Proceeding on Motion of Commission to Examine Utility Shared Critical Equipment and Supplies, Order Instituting and Directing Utility Filing (issued February 13, 2013).

<sup>2</sup> Critical equipment is defined as all commonly used and necessary materials needed by the utilities to restore service during storms and outage events (examples include wires, poles, transformers, pipes, and fittings).

investor-owned natural gas utilities (utilities),<sup>3</sup> to file on-hand equipment inventory and material handling procedures by April 15, 2013. The utilities were also directed to submit an inventory, by category of equipment used during the recovery from Hurricane Sandy, and identify the timing, extent, and nature of any shortages that occurred.

The Commission also directed the utilities to participate in a collaborative process with the Long Island Power Authority, the New York Power Authority, and the New York Independent System Operator (collectively referred to as the "collaborative parties") to review the feasibility, benefits, and costs of implementing a statewide mutual aid stockpile and equipment-sharing program. The collaborative parties with the assistance of Department of Public Service Staff (Staff) filed a report on June 3, 2013 containing the results of the process.

On June 18, 2013, we issued a Notice Soliciting Comments to obtain input on the *Utility Shared Critical Equipment and Supplies Collaborative Report*. The public comment period provided expired on August 12, 2013. There were no comments received.

#### UTILITY INVENTORY OF CRITICAL EQUIPMENT

In response to our February directive, the collaborative parties, in consultation with Staff, developed a template for filing on-hand inventory levels as of April 1, 2013

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<sup>3</sup> The investor-owned utilities consist of Consolidated Edison Company of New York, Inc. (Con Edison), Central Hudson Gas & Electric Corporation (Central Hudson), New York State Electric & Gas Corporation (NYSEG), Niagara Mohawk Power Corporation d/b/a National Grid (National Grid), Rochester Gas and Electric Corporation (RGE), Orange & Rockland Utilities, Inc. (Orange & Rockland), Brooklyn Union Gas Company d/b/a National Grid NY (KEDNY), Key Span Gas East Corporation d/b/a National Grid (KEDLI), and National Fuel Gas Distribution Corporation (National Fuel).

for items used during storm restoration or other emergencies. In addition to the inventory levels, each filing included the quantity of each item stored in reserve for storm response, the extent and nature of any material shortage that occurred during the Hurricane Sandy restoration efforts, the quantity of each item used during the Hurricane Sandy restoration, and existing material handling procedures.

Subsequent to the April 15 filings, the utilities' inventory lists were reviewed to identify items most likely to be needed during significant events and items that could be readily transferred and used. We believe that this new tool for identifying and stocking these high volume items will help ensure more efficient and timely sharing of equipment and supplies during major events and outages.

#### COLLABORATIVE PARTIES' REPORT

On June 3, 2013, the collaborative parties filed its report stating that a complex and multi-utility capital asset and critical equipment storage and delivery system already exists in New York. The collaborative parties believe, however, this system needs to be enhanced to further enable sharing between the utilities during future emergency events. The collaborative parties state that a statewide mutual aid stockpile and equipment sharing program managed by the utilities at multiple existing utility and vendor locations would provide the most efficient and flexible program to meet the utilities' restoration needs.

The collaborative parties' report stated that keeping stockpiled and shared equipment and supplies at various locations throughout the State reduces risks. The utilities noted that centralizing stockpiling locations would increase vulnerability to damage and transportation interference.

The collaborative parties' report states that the storage of equipment and supplies should continue to be maintained and managed by the utilities at existing utility storerooms and supported by third-party vendor locations. This solution provides the greatest logistical benefits to the utilities, while minimizing the potential for increased ratepayer cost recovery. The collaborative report illustrates the locations of numerous existing utility storerooms throughout the State. The utilities propose using these locations to support the mutual aid stockpile process.

The utilities also have agreements with third-party vendors to hold and provide a quick turnaround of prearranged material within a predetermined timeframe to utility locations. For example, the utilities typically store a small quantity of frequently used materials such as poles, cross arms, plastic pipe, and fittings that are needed for projects and everyday maintenance. The utilities then rely on the vendors to deliver these materials to the job site when large quantities are needed for emergency events or large projects. Due to recent emergency events, the utilities report that they have made changes to their in-house material inventories, and prearranged vendor material arrangements:

- Central Hudson has increased its electric emergency surplus material inventories by 10.3% since November 2011.
- Con Edison has seven storm trailers that store 231 unique class/stock items used for the restoration of customers in its electric distribution network. Based on Con Edison's evaluation of recent events, its vendors now maintain a six-month supply of inventory with provisions for immediate delivery to facilitate emergency restoration efforts. Previously, only a three-month supply of inventory was held at the vendor's location.

- The Long Island Power Authority has increased its electric emergency material inventories for use in emergency storm kits by 30% since 2011.<sup>4</sup>
- National Grid has increased its electric emergency surplus material inventories by 20%.
- NYSEG and RGE have two additional storm trailers and increased electric emergency material inventories at vendor locations by 11% percent since February 2013.
- Orange & Rockland increased the number of unique class/stock items used in emergency restoration from 50 to 126. The company also increased the quantity of each item stocked by approximately five times the amount stocked pre-Sandy.

While the collaborative parties discussed the possibility of standardizing commonly used equipment and supplies between utilities, they concluded that this effort would be costly and place a large financial burden on ratepayers. They assert that standardizing equipment will require a detailed engineering review by each utility. Standardization also has the potential to create stranded inventory and unrecoverable costs.

The collaborative parties also proposed protocols and procedures to be used to compensate participants in the program when materials or equipment are transferred from a utility to the stockpile or are requested from the stockpile for use by a utility. Generally, they proposed that equipment and materials be transferred at replacement cost together with associated adders for applicable taxes, handling, and administrative costs.

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<sup>4</sup> Storm kits are provided to mutual assistance workers, and are containers that hold a variety of commonly used items, such as connectors, automatic splices, fuse links, and insulators.

Finally, the collaborative parties<sup>5</sup> sought pre-approval, or modified and lightened regulatory requirements, under Public Service Law (PSL)§ 70 for both materials and equipment purchased as an expense and placed in inventory and for "pre-capitalized" items that are capitalized and included in rate base when purchased.<sup>6</sup> The collaborative parties point out that there exists Commission precedent for such §70 pre-approval or lightened regulation,<sup>7</sup> and further note that such a approval process will reduce administrative costs and burdens, while more efficiently allow for prompt emergency response. The collaborative parties state that most of the material and equipment transferred would not surpass the §70 \$100,000 notification threshold, whereby Commission approval is granted by operation-of-law upon 90 days advance notice of the transfer.

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<sup>5</sup> To the extent NYPA and LIPA participate in this program, they would not be subject to the same degree of regulatory approval. In accordance with PSL §70, "...[n]o consent permission or approval otherwise required under this section shall be necessary for the sale of the franchise, works, system, stocks, or bonds by a gas or electric corporation to a duly constituted authority of the state."

<sup>6</sup> Typically, "pre-capitalized" items are more expensive items (e.g., transformers, meters, etc...).

<sup>7</sup> Case 07-E-0683, Petition of Niagara Mohawk to Transfer Certain Utility Property and For Related Relief, Order Approving Future Transfers of Spare Transformers (issued December 20, 2007) [Commission pre-approval to transfer large transformers during emergencies, subject to certain notice and proposed accounting and ratemaking treatment. The Commission noted that pre-approval was appropriate given the emergency nature to expedite the transfer and the inability to identify the equipment until after a request was received]; and, Case 02-M-1288, Joint Petition of Niagara Mohawk and National Grid Communications, Inc. for Approval to Attach Wireless Facilities, Order Approving Procedure (issued April 14, 2004) [Commission approval of a process to expedite the review and approval of wireless attachments to utility transmission towers, subject to certain documentary requirements].

For the "pre-capitalized" items, the collaborative parties propose that the transfers would be subject to an annual accounting and detailed explanation of ratemaking treatment, which could be provided as part of each utilities' annual storm reporting requirements under 16 N.Y.C.R.R Part 105.

#### DISCUSSION AND CONCLUSION

Overall, the collaborative parties' recommendations are consistent with our analysis and review, and we direct the utilities to proceed with many of the recommendations. We agree that building on the utilities' existing equipment storage and delivery system produces a greater benefit for the State at the least cost. By storing the equipment and supplies at multiple locations, the risk of a single location being adversely affected during an event is minimized and logistically the rate at which materials can be delivered is increased. We believe for the purpose of this sharing arrangement that the utilities should focus on their key storeroom locations. We recognize, however, that many utilities have smaller regional storerooms; those storerooms should continue to operate to meet more localized needs.

We acknowledge the equipment compatibility concerns raised by the collaborative parties and recognize that each utility's respective operating system will continue to influence design requirements<sup>8</sup> and equipment inventories for many years. We, therefore, support further review and refinement of inventory lists to identify additional items that could be readily shared. While each utility may have different design requirements, sharing specifications could result in a part number cross reference list or a potential to substitute

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<sup>8</sup> All design requirements and design standards meet State and Federal Regulations and Safety Codes.

equipment and supplies. Continual review and refinement of inventory lists may provide a larger pool of equipment and supplies to pull from during an event, as well as reveal opportunities for standardization. We expect this to reduce the lead-time needed to locate suitable replacements and facilitate emergency restoration.

We note that the collaborative report is focused strictly on New York utilities, which was consistent with our initial request. Staff advises us that utilities that have footprints that go beyond New York State (i.e., National Grid and Iberdrola) would be able to bring in resources from other parts of their companies. Staff also reports that the utilities are working to incorporate material needs as part of the nationwide effort to enhance mutual assistance. We encourage the utilities to continue to expand the scope of this sharing arrangement, especially with neighboring states.

While we are not requiring standardization at this time, we urge the utilities to continue to work towards standardizing their most common materials. National Grid and Iberdrola standardized many materials and/or practices after their respective mergers to gain efficiencies. The collaborative parties should apply these same principles where possible to improve utility efficiency statewide.

We also recommend that the collaborative parties implement uniform accounting practices for the sale of utility shared critical equipment and supplies. This uniform accounting should be consistent with the principles of cost causation and produce an outcome that would hold the selling utility harmless when compared to its position prior to the transactions.

To implement this accounting, the selling utility would sell inventory or pre-capitalized equipment at its anticipated replacement cost. The sales price would also

reflect any incremental costs associated with the equipment sold such as shipping, handling, transportation/freight, and applicable taxes. The resulting gain or loss on inventory or depreciable plant in service sold would be charged or credited to the respective inventory or depreciation reserve accounts. This would result in plant and inventory values that were in place prior to these transactions.

Additionally, we see no reason to not grant the collaborative parties request for PSL §70 approval now, prior to the transferred items being identified. We believe such approval is ultimately necessary to efficiently effectuate a material and equipment sharing program. Further, our approval should aid in the resolution of all remaining issues, including accounting and ratemaking treatment, by removing any regulatory barriers to the ongoing sharing process. Therefore, we approve these transfers under PSL §70, subject to the utilities' proposed annual reporting requirement and the requirements and conditions in this order.

We also believe security is an integral part of insuring the integrity of a statewide equipment-sharing program. Maintaining the confidentiality of location and inventory information remains a concern of ours, particularly as it impacts upon security and public safety. Disclosure could disrupt critical storage centers and delay or impede restoration activities. Accordingly, the utilities should ask for trade secret protection under our regulations, 16 NYCRR §6-1.1, et seq., and the Public Officers Law, as necessary.

The utilities are directed to form a Material Sharing Group consisting of key individuals from each of the utilities and key individuals from supporting entities. The objective of the group is to formulate detailed procedures and protocols for sharing equipment and supplies between utilities during normal

working events and major storm events. Procedures and protocols at a minimum must include:

- Uniform Accounting Policies for the sharing of critical equipment and supplies consistent with the principles previously set forth.
- A documented plan for communicating inventory levels and material changes that occur throughout the year.
- An amended list of critical equipment and supply storeroom locations. Utilities should also take into consideration their proximity to potential neighboring utility locations.
- A detailed breakdown of equipment vendor involvement, including a list of vendors who will be invited to participate during emergency events.
- Provisions for periodic meetings of the parties to continuously discuss and develop best practices.

The collaborative parties expressed their commitment to refine and improve the inventory and mutual aid stockpile process through monitoring and the development of best practices. Through this process, the utilities will share information, update inventory and equipment records, and will establish and refine processes to facilitate material sharing, in a manner that will minimize costs. We encourage the New York Power Authority, the New York Independent System Operator and the Long Island Power Authority to continue to participate in the Material Sharing Group.

The utilities should continue to work together with Staff refining processes to facilitate the sharing of equipment and supplies. The Material Sharing Group is directed to finalize and implement the protocols and procedures outlined in the collaborative report and this order. The Material Sharing Group shall file its protocols and procedures with the Secretary to the Commission on or before December 16, 2013.

The Commission orders:

1. Consolidated Edison Company of New York, Inc., Central Hudson Gas & Electric Corporation, New York State Electric & Gas Corporation, Niagara Mohawk Power Corporation d/b/a National Grid, Rochester Gas and Electric Corporation, Orange & Rockland Utilities, Inc., Brooklyn Union Gas Company d/b/a National Grid NY, Key Span Gas East Corporation d/b/a National Grid, and National Fuel Gas Distribution Corporation shall finalize the protocols, procedures and plans for sustaining a shared equipment and supplies stockpile. The procedures and protocols shall be filed on or before December 16, 2013 as described in the body of this Order.

2. Consolidated Edison Company of New York, Inc., Central Hudson Gas & Electric Corporation, New York State Electric & Gas Corporation, Niagara Mohawk Power Corporation d/b/a National Grid, Rochester Gas and Electric Corporation, Orange & Rockland Utilities, Inc., Brooklyn Union Gas Company d/b/a National Grid NY, Key Span Gas East Corporation d/b/a National Grid, and National Fuel Gas Distribution Corporation are granted, subject to the conditions and requirements set forth in the body of this Order, Public Service Law §70 approval of equipment transfers completed pursuant to the procedures and protocols set forth herein..

3. The Secretary may extend the deadlines set forth in this order upon good cause shown, provided the request for such extension is in writing and filed on a timely basis, which should be on at least one day's notice.

4. This proceeding is continued.

By the Commission,

KATHLEEN H. BURGESS  
Secretary