

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, OCTOBER 4, 2018

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APPLICATION OF

APPALACHIAN POWER COMPANY, *et al.*

CASE NO. PUR-2018-00109

For approval pursuant to the Act Governing  
Regulation of Relations with Affiliate Interests,  
Virginia Code Sections 56-76 *et seq.*

ORDER GRANTING APPROVAL

On July 13, 2018, Appalachian Power Company ("APCo" or "Company"), AEP Transmission Holding Company, LLC ("AEPThCo"), and Grid Assurance LLC ("Grid Assurance") (collectively "Applicants") filed an application ("Application") with the State Corporation Commission ("Commission") under Chapter 4 of Title 56 of the Code of Virginia ("Code") for authority to enter into an agreement whereby Grid Assurance will provide emergency equipment supply services to APCo for the purpose of enhancing grid resilience. Along with the Application, the Applicants filed a Motion for Protective Ruling ("Motion").

The Application states that Grid Assurance, established in May 2016, is a Delaware limited liability company formed to address grid resiliency needs facing transmission-owning electric utilities, particularly the ability of electric utilities to ensure prompt restoration of the bulk power system in the wake of a catastrophic event such as a natural disaster or cyber-attack. The Applicants state that the initial investors in Grid Assurance are six major utility companies or their affiliates, including American Electric Power, Inc. ("AEP"), the parent company of APCo.<sup>1</sup>

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<sup>1</sup> The five other utility companies include Berkshire Hathaway Energy U.S. Transmission, LLC, Duke Energy, Edison Transmission, LLC, Eversource Energy, and Great Plains Energy, Inc.

The Application states that AEPThCo, an affiliate company of APCo, is an investor and owner of Grid Assurance. APCo, and other AEP transmission-owning entities, will be a subscribing party of Grid Assurance and, therefore, requests Commission approval to allow APCo to become a subscriber of Grid Assurance.

Pursuant to the subscription agreement ("Subscription Agreement"), Grid Assurance will provide emergency equipment supply services to APCo to enhance grid resiliency.<sup>2</sup> Grid Assurance will provide APCo with access to an optimized inventory of large power transformers ("LPT") and other critical long lead-time transmission equipment to assist APCo in recovering from catastrophic grid emergencies. In support of these services, Grid Assurance proposes to: (1) procure and maintain an optimized inventory of critical LPT spares, circuit breakers and related transmission equipment; (2) provide secure domestic warehousing of the inventory spares in strategic locations;<sup>3</sup> and (3) offer preplanned transportation and logistic support for prompt release and delivery of spare equipment to APCo as needed to respond to emergencies.<sup>4</sup>

The Applicants state that Grid Assurance will release inventory to its subscribers upon the occurrence of a qualifying event ("QE"). The Application defines QE as damage, destruction, or other material impairment of the safe operation of the electric transmission system of a subscriber caused by or resulting from: (a) an act of war, terrorism, rebellion, sabotage or a public enemy, or any other physical attack; (b) a cyberattack, whether or not in connection with an act of war, terrorism, or a public enemy; (c) an electromagnetic pulse or intentional

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<sup>2</sup> The Applicants anticipate that Grid Assurance's services will commence in late 2019.

<sup>3</sup> Applicants further clarified that Grid Assurance is currently evaluating and securing warehouses in the east and midwest.

<sup>4</sup> Collectively, these services are referred to as "Sparing Services."

electromagnetic interference; or (d) an act of God, a catastrophic event or a severe weather condition.

The Company further clarified that AEP Service Company ("AEPSC") will act as agent on behalf of APCo and other AEP affiliates to administer the Subscription Agreement. There will be no markup or pass through of incremental costs from AEPSC to APCo, and the allocation of Sparing Services costs will be based on APCo's costs relative to the total AEP costs for transformer and circuit breaker assets.

The Applicants represent that the proposed Subscription Agreement is in the public interest because Grid Assurance's pooling approach to providing emergency utility equipment and supply services will minimize APCo's costs while optimizing inventory for the collective resiliency needs of multiple utilities across the country.

NOW THE COMMISSION, upon consideration of the Application and the record herein, and having been advised by its Staff, is of the opinion and finds that the Applicants' request for the approval of the Subscription Agreements as described herein is in the public interest, subject to the requirements set forth in the Appendix attached to this Order. The Commission also finds that the Applicants' Motion is no longer necessary and, therefore, should be denied.<sup>5</sup>

Accordingly, IT IS ORDERED THAT:

(1) Pursuant to § 56-77 of the Code, the Applicants are hereby granted approval of the Subscription Agreements as described herein, subject to the requirements set forth in the Appendix attached to this Order.

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<sup>5</sup> The Commission held Petitioners' Motion in abeyance and has not received a request for leave to review the confidential information submitted in this proceeding. Accordingly, the Commission denies the Motion as moot but directs the Clerk of the Commission to retain the confidential information to which the Motion pertains under seal.

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(2) The Applicants' Motion is denied; however, we direct the Clerk of the Commission to retain the confidential information to which the Motion pertains under seal.

(3) This case is dismissed.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

Noelle J. Coates, Esquire, American Electric Power Service Corporation, 1051 East Cary Street, Suite 1100, Richmond, Virginia 23219; James R. Bacha, American Electric Power Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215; and C. Meade Browder, Jr., Senior Assistant Attorney General, Office of the Attorney General, Division of Consumer Counsel, 202 N. 9th Street, Floor 8, Richmond, Virginia 23219. A copy hereof shall also be delivered to the Commission's Office of General Counsel and the Divisions of Utility Accounting and Finance and Public Utility Regulation.

**APPENDIX**

- (1) The Commission shall approve the Subscription Agreement and the associated Sparing Services for five years, commencing as of the date Grid Assurance commences its services. Should the Applicants wish to extend the Subscription Agreement beyond that date, separate approval shall be required.
- (2) Once Grid Assurance commences offering services, the Applicants shall file with the Commission a Report of Action informing the Commission of the commencement date.
- (3) Once Grid Assurance secures its warehouses, the Applicants shall file with the Commission a Report of Action detailing the geographical location of the warehouse.
- (4) The Commission's approval shall have no accounting or ratemaking implications.
- (5) The Commission's approval shall not preclude the Commission from exercising its authority under Virginia Code § 56-76 *et seq.*, hereafter.
- (6) Separate Commission approval shall be required for any changes in the terms and conditions of the Subscription Agreement.
- (7) The Commission reserves the right to examine the books and records of APCo and any affiliate in connection with the approval granted in this case, whether or not such affiliate is regulated by this Commission.
- (8) APCo shall file with the Commission a signed and executed copy of the Subscription Agreement approved in this case within ninety (90) days after the effective date of the Subscription Agreement, subject to administrative extension by the Commission's Director of the Division of Utility Accounting and Finance ("UAF Director").
- (9) APCo shall include all transactions associated with the Subscription Agreement in its Annual Report of Affiliate Transactions ("ARAT") submitted to the UAF Director on May 1 of each year, subject to administrative extension by the UAF Director. The ARAT shall include:
  - (a) The case number in which the Subscription Agreement was approved;
  - (b) The names of all direct and indirect affiliated parties to the Subscription Agreement; and
  - (c) A calendar year annual schedule showing Sparing Service payments by month, FERC account, and amount.