

Decision No. 23067

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of SAN JOAQUIN LIGHT AND POWER  
CORPORATION and SOUTHERN CALIFORNIA  
EDISON COMPANY, Ltd., for an order  
of the Railroad Commission of the  
State of California authorizing  
applicants to enter into a written  
agreement in words and figures as  
written in the form therefor which  
is referred to in this petition.

ORIGINAL

Application No. 20501

C. P. Cutten, Esq., and R. W. DuVal, Esq.,  
appearing for San Joaquin Light and  
Power Corporation, Applicant.

Roy V. Reppy, Esq., B. F. Woodard, Esq.,  
and Gail C. Larkin, Esq., appearing for  
Southern California Edison Company, Ltd.,  
Applicant.

Earl Lee Kelly, Chairman, Charles G. Johnson,  
U. S. Webb, Edward Hyatt, Lester S. Ready,  
A. D. Edmonston, C. C. Carleton, Neal Chalmers,  
and Spencer Burroughs, for Water Project  
Authority of the State of California.

John J. O'Toole and Dion Holm, for the City and  
County of San Francisco.

John C. Beede and W. R. Farley, for Federal  
Power Commission.

HARRIS, Commissioner:

OPINION AND ORDER

In this application San Joaquin Light and Power Corporation

(hereinafter called San Joaquin)<sup>(1)</sup> and Southern California Edison Company, Ltd. (hereinafter called Edison) ask the Commission to authorize the execution by them of a written agreement for the interchange of electric power. A copy of the proposed agreement is attached to the application.

The essential features of this agreement are as follows:

A tie line to be known as the Magunden tie line is to be constructed at its expense by San Joaquin from its system to Edison's Magunden Substation. This will be a 3-phase, 60-cycle, 70,000-volt transmission line with an approximate carrying capacity of 60,000 Kva. This line should be ready for operation by July 1, 1937.

A tie line to be known as the Herndon tie line is to be constructed by both companies at equal cost, extending from Edison's Big Creek No. 3 Plant to San Joaquin's Herndon Substation near Fresno, and will be a 3-phase, 60-cycle, 220,000-volt transmission line with an approximate carrying capacity of 150,000 Kva. This line is to be ready for operation by July 1, 1937, or at such later date as may be agreed upon.

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1. The contract hereinafter referred to has this recital:

\*\*\*\*inasmuch as San Joaquin is now an integral part of an inter-connected electrical utility system, commonly called Pacific system, comprising the electrical properties of Pacific Gas and Electric Company and its divers subsidiaries, it will be mutually understood that whenever the name San Joaquin is used herein it will be deemed to comprehend said Pacific system;\*\*\*\*

An Engineering Board to be appointed by the parties will be responsible for the selection of proper locations for said tie lines and for such other interconnections as the Board shall determine desirable.

An Operating Board shall also be selected by the parties which will determine in the manner provided by the contract the costs of the respective parties in their operations under the contract and allocate said costs between the parties in the manner provided by it. This Board shall also "give consideration to the desirability of further interchange of energy between the two systems" and "may from time to time recommend to the parties hereto that in its opinion additional energy could be advantageously so interchanged." Edison agrees that for the 10-year period beginning July 1, 1937, it will maintain an assured capacity of 40,000 kilowatts and will deliver electric energy to San Joaquin if and as requested by it but not to exceed 40,000 kilowatts nor more than 280,000,000 kilowatt hours in any calendar year. San Joaquin agrees that during the life of the contract "it will defer the construction of its proposed 40,000 kilowatt steam electric generating plant."

By giving written notice of at least one and one-half years, Edison shall be released of its guaranty of assured capacity and "its obligation to supply said assured kilowatt capacity shall cease." "It is expressly agreed that no electric energy will be exchanged hereunder which shall have been generated outside the State of California." Unless extended by mutual consent, the agreement will terminate on June 30, 1947.

The evidence shows that San Joaquin will need additional power in 1937 and thereafter. In search for this power San Joaquin took into consideration all possible sources of supply including the construction of a steam plant and of a hydro plant, purchase from other sources, and interconnection with Edison. The latter plan was shown to be the most advantageous and economical. The next cheapest was the construction of a 40,000 Kw. steam plant at an estimated cost of four million dollars (\$4,000,000). Contrasted to this, the construction of both the Magunden and Herndon tie lines will cost both parties only about one million three hundred thousand dollars (\$1,300,000). It is clear that Edison will have the surplus required under the contract until about 1943 and perhaps for the full 10-year period. Edison will also benefit financially. The net result of the contract is that energy will be transferred from one company to another only when it can be transferred at a saving, that the savings will be divided equally between the companies, that these savings will be reflected in rates to the consumers, and that the construction of new production facilities will be indefinitely, if not entirely, postponed.

Mr. J. S. Moulton, witness for San Joaquin, explains the contract as follows:

"The agreement is so worked out that whenever one company has a surplus of energy which it can deliver to the other company more cheaply than that company can generate it or secure it from another source, that energy will normally be transferred and the resulting saving will be divided on a 50-50 basis. That same principle of interchange applies not only in the case of kilowatt hours, but also if one company needs additional assured capacity and the other company can guarantee to supply it. The agreement doesn't contemplate that in this interchange of energy or capacity and the division of the savings.

resulting from that interchange on a 50-50 basis, that either company, by reason of the division or saving, could or would install any capacity specifically to supply the other company; in other words, it is the utilization of the capacity which one or the other company could have, above its own load, and which for a time it might find itself able to use in helping the other company supply its load." (Tr., Vol. I, pp. 25-26)

Edison in its brief states its view of the contract as follows:

"It is obvious from the testimony in the record, almost self-evident in fact, that Edison Company's reason for entering into the proposed agreement is that thereby Edison Company will find a market for surplus capacity which, except for the agreement, would remain entirely idle and without any return therefrom. Consumers on the Edison system will obviously derive benefit from the additional income to the Company provided through this contract, which under this Company's rate policy will find reflection in acceleration of rate reductions which are from time to time being made in accordance with that policy." (Brief, pp. 1-2)

The Water Project Authority of the State of California appeared, making statements through Earl Lee Kelly, its Chairman, and U. S. Webb, a member of the Authority and Attorney-General of the State.

The Water Project Authority was created by the California Legislature of 1933 by an Act known as the "Central Valley Project Act of 1933." The Authority is directed by the Act to construct and administer the Central Valley Project. The project is a water conservation plan for that portion of the State embraced in the Sacramento and San Joaquin valleys and upper San Francisco Bay region. It contemplates the construction of storage and conveyance units for the regulation and distribution of the waters of Sacramento and San Joaquin rivers. These units are inter-related and constitute one project. They will furnish water sup-

plies for existing agricultural, industrial, and municipal development. The principal water supply will be the Sacramento River and the key unit will be Kennett Dam on the Sacramento River a few miles above Redding. Here also hydro-electric power plants will be operated, capable of producing on an average annually one and one-half billion kilowatt hours of electric energy. The project is constituted as a self-supporting and self-liquidating enterprise. It has been approved for construction as a Federal reclamation project. Congress has authorized an appropriation of twelve million dollars (\$12,000,000) in the construction of Kennett Dam. Construction work will be conducted by the United States Bureau of Reclamation. The Project Authority estimates that construction will proceed at a rate that will make power from Kennett available within five years, or by 1941. The Water Project Authority under cooperative agreement with the United States will make contracts for the disposal of water and power, each of which will yield about one-half the amount required to cover the cost of the project. The Project Authority estimates that from eight to ten years will be required to absorb the full output of Kennett power which must be disposed of in northern and central California.

Mr. Kelly, in the course of his statement, said:

"The Central Valley Project offers the only possibility of adequately meeting the problems of water shortage by furnishing the urgently needed water supplies which are required to save the large investments and production of the developed agricultural areas and related commercial and industrial activities. The project is fundamentally a water conservation development which is of paramount importance and necessity to the economic and social welfare of northern California." (Tr., Vol. I, p. 11)

Attorney-General Webb spoke as follows:

\*\*\*\*It is not the desire of the Water Project Authority to in any fashion hamper the proposed objects to be accomplished under the proposed contract, unless that contract be so framed or so construed or hereafter so applied that within a period of three or four years or five years the utilities through that contract will absorb the field which it was designed that the Kennett dam should cover. In other words, we realize that those now producing power, represented in the contract, are equipped to go rapidly forward, while the State of California and the Federal Government, proceeding as rapidly as may be, will not be in possession of Kennett dam for something like four or five years. But we do hope that whatever permission this Commission may give now, will take cognizance of the development that is now on its way so that when the State project enters the production field, and it is necessary to pay for the cost of construction and operation, it will not find, by contract authorized by this Commission, the field to be closed through such contracts or that increased production of power by utilities will have taken care of the then market.

"We do not wish to limit the utilities' activities, but we feel that this proposed development, directed by the Government itself, directed by the people of the state, can supply their demands as cheaply and as economically as the utilities will be able to do, and while power is not the primary object of the construction, power still is necessary in order to finance the other project, and the incidental benefits of the completion of that project are so tremendous that we are keenly anxious that any action of the Commission now or hereafter during the construction of that productive capacity will not hamper its usefulness to its fullest when finally completed." (Tr., Vol. I, pp. 20-21)

Because of the vast importance of this project, the Water Project Authority opposes any development which may cause power to flow into the northern California market in such volume as to prevent or delay the absorption of the Central Valley Project power. At the same time the Authority does not question the need of that area during the next ten years for more power than is now available from San Joaquin's existing facilities including current obligations to purchase power from other sources and opposes the proposed contract only in so far as operations under it may "hinder or delay directly or indirectly the program

for the development and disposal of Kennett power." The proposed contract measured by its own terms is limited to interchange of power produced by existing facilities and purchase obligations of the two companies as appears from the following provisions:

\*\*\*\*San Joaquin will at times during the next ten or more years require electric energy and/or an assured kilowatt capacity greater than that which is now available to it from its existing generating facilities and under its current obligations to purchase from other sources, and rather than to construct additional generating plants at this time San Joaquin may desire during that time to purchase part or all of such requirements, both electric energy and/or kilowatt capacity, from Edison if and when and to the extent that the latter can supply same; and

\*\*\*\*Edison will during said period or longer have electric energy and assured kilowatt capacity in its existing facilities and/or which it is under existing obligation to purchase from other sources over and above its own utility requirements and is willing to obligate itself to supply portions thereof to San Joaquin;\*\*\*\* (Appl. No. 20501, Ex. "A")

The record shows that the existing facilities and purchase obligations of the two companies cannot be made to produce sufficient power over and above their own requirements to constitute the threat suggested. It also appears that the applicants have no such intention and do not construe the contract as permitting it.

Mr. Fred B. Lewis, Vice President of the Southern California Edison Company, Ltd., expressed very definitely that he considered the agreement would be a benefit to the Central Valley Project.

On page 88 of the Transcript the following testimony is reported:

"Mr. Ready: Well, is your policy not to do anything that will interfere with the Central Valley Project procedure?



Mr. Lewis: We not only believe we are not doing anything to interfere with the Central Valley, but honestly believe that we are doing something that is a benefit to the Central Valley Project.

Mr. Ready: Well, you are doing this with that intent?

Mr. Lewis: Certainly."

Mr. James S. Moulton testifying for the San Joaquin Light and Power Corporation also stated in effect that in his judgment the contract would be an aid to utilization of Central Valley Project power and was designed with the Central Valley Project in mind.

On page 98 of the transcript questions by Mr. Ready and answers by Mr. Moulton are as follows:

"Mr. Ready: So I gather from your observations in your judgment this contract will make it more easy, or easier, for the absorption of power in northern California than if the contract is not approved?

Mr. Moulton: Yes.

Mr. Ready: That, in a sense, the company is, by this agreement, in a much better position to absorb the output of the Central Valley Project than it otherwise would be?

Mr. Moulton: Yes."

Again on page 111 of the transcript Mr. Moulton further stated:

"I can say this, Mr. Ready, in reply to your question, that during the time this contract was being negotiated, the Edison Company asked that when the Pacific Gas and Electric Company's consolidated system required assured capacity in excess of this 40,000 kilowatts that we be obligated to take that additional capacity from the Edison Company, if they had it available, and we flatly refused to consider any such arrangement because we said that we could not tell what the situation in our territory might be regarding additional power supply, having in mind particularly the Central Valley project power, and we did not want to have our hands tied up here by having to take additional capacity from the Edison Company when it would be to the advantage of our own territory to assist in the absorption of power up here."

The Water Project Authority requests that the project be safeguarded from such use or interpretation of the proposed contract as shall hinder, delay, or prevent the construction of the project, or the sale or use or disposal of its power, or so as to adversely affect the price of the same. This request may best be met by the amendment to the contract hereinafter required and by reservation of jurisdiction by this Commission.

We conclude that the agreement is fair and reasonable and that the application should be granted subject to conditions and reservations as hereinafter provided.

San Joaquin Light and Power Corporation and Southern California Edison Company, Ltd., having applied to the Commission for an order authorizing applicants to enter into a written agreement all as hereinbefore described, public hearing having been held, the matter being submitted and now ready for decision, and good cause appearing therefor,

The Railroad Commission of the State of California hereby authorizes applicants to enter into a written agreement in the form set forth in the application, provided, however, that said agreement contains the following paragraphs:

The Railroad Commission of the State of California shall have power to review, approve or disapprove any and all of the acts or findings hereunder of the parties hereto or either of them or of any of the boards provided for in this agreement. Said boards at such times and in such manner as directed by the Commission shall report to it, their and each of their actions and plans.

This agreement shall at all times be subject to such changes and/or modifications by the Railroad Commission of the State of California as said Commission may from time to time direct in the exercise of its jurisdiction.

The Commission also reserves jurisdiction in this matter with power to reopen the same at its discretion.

Dated at San Francisco, California, this 17<sup>th</sup> day of August, 1936.

M. B. Harris  
Leon O. Whipple  
W. L. Quinn  
W. H. Moore  
Frank R. Levin  
Commissioners