

Decision No. 34871

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 PACIFIC GAS AND ELECTRIC COMPANY, a
 corporation, for an order of the
 Railroad Commission of the State of
 California, approving an agreement
 entered into by and between applicant
 and Tide Water Associated Oil Company
 dated July 29, 1937 and relating,
 among other things, to the sale by
 the former to the latter of electric
 energy and steam.

Application No. 21396

R. W. DuVal for Applicant.

L. S. Ready for Water Project Authority
 of the State of California.

Whitsell, Commissioner:

O P I N I O N

Pacific Gas and Electric Company, a corporation, re-
 quests approval of a special contract it has negotiated with the
 Tide Water Associated Oil Company, which agreement makes provision,
 among other things, for (1) the construction and operation by the
 Pacific Company of a steam electric generating plant. (2) the
 sale and delivery of electric energy and steam to the oil company.
 (3) the purchase of fuel oil by the Pacific Company from the
 oil company for use in said steam plant, and (4) the delivery of
 feed water to the steam plant by the oil company; all subject to
 and upon the terms and conditions in said agreement, copy of
 which, marked Exhibit "A," is attached to and made a part of the

application. A public hearing on the application was held on August 20, 1937, and the matter was submitted.

It appears that the Associated Company has been supplied with electric service by applicant for many years and is presently supplied under its regularly filed Schedule P-30 pursuant to terms of a five-year contract dated March 30, 1935. The amount of electric energy so purchased by the Associated Company during the year 1936 was approximately 32,000,000 kilowatt hours, with a maximum demand of approximately 5,000 kilowatts. According to evidence adduced by applicant's witness, the Associated Company is increasing its steam and electric requirements and proposes to install its own electric generating plant unless a rate can be secured for electric power lower than that available to it under Schedule P-30, which at present affords the lowest filed rates for service furnished to this customer.

The Associated Company requires a substantial amount of steam for its refining processes, which needs are now generated in its own boiler plant. The electric power requirements of this company are, as stated above, supplied at the present time by the Pacific Company. The steam thus required can be more economically produced and used in conjunction with the production of electric energy, which constitutes serious competition in so far as the Pacific Company is concerned. The availability of refinery waste fuel, such as acid sludge, tars, waxes, and gases, with the fact that the consumer, by virtue of being in the general petroleum business, secures fuel at comparatively low costs, further increases the competitive aspects of the case. This situation creates the basis of the Associated Company's demand for a lower electric power rate, which receives further emphasis at this time because of expansion of steam requirements beyond the capacity of

its existing boiler plant. To fulfill present and increasing steam requirements, Associated Company must either increase its present boiler plant or secure additional steam by means of a steam electric generating plant privately owned or such as proposed by applicant.

According to testimony of applicant's witness, its engineers, with the hope of retaining the business of Associated Company and other customers of its particular class recognize that a lower electric rate could only be justified by utilizing all of the various economic features presented by the problem which results in the contract provisions proposed for selling both electric energy and steam to the oil company. This obviously requires the construction and operation of a steam electric generating plant adjacent to the oil refinery. The applicant proposes to construct such a plant to consist of a single 35,000 kilowatt Turbo generator unit and three 200,000 pounds per hour boilers, together with accessories, at a capital cost of approximately \$5,000,000. The estimated total annual usage of the Associated Company, according to testimony, will be 54,000,000 kilowatt hours of electric energy, with a maximum demand of 8,000 kilowatts and approximately 720,000,000 pounds of steam at 160 pounds pressure and 50 degrees F. of superheat, these usages representing substantial increases over present requirements.

There are two other oil companies, namely Union Oil Company and Shell Oil Company, operating refineries in the same vicinity and taking electric service from applicant. If negotiations with them are consummated, applicant will agree to construct two other similar steam electric plants. According to testimony of applicant's witness, the company's system load during the year 1939 will require the addition of generating capacity thus available to its general system. Estimates indicate a dry year generating capability of

1,189,000 kilowatts from existing plants and a load demand of 1,160,000 kilowatts, which in its opinion leaves an inadequate margin of excess generating capacity. Therefore, either these proposed plants or some other will be necessary to the applicant's operations. For the operation of these plants the Pacific Company will have available to it natural gas from its gas transmission system through connections to the line of Standard Pacific Gas Line, Inc. in addition to waste fuels heretofore referred to and fuel oil.

A plant site at satisfactory cost and duration of time is made available to applicant in a lease agreement with the Associated Company at the latter's refinery located near Avon, Contra Costa County, California. Satisfactory cooling water conditions are also provided for in this lease agreement. In addition to the rates provided in the contract for the sale and purchase of electric energy and steam, and the delivery of fuel in exchange for electric energy and steam, the more important features of the agreement are:

1. Obligations of Associated Company:

- (a) To take all electric energy requirements from Pacific Company up to 15,000 kilowatts, exclusive of that which may be generated from Associated Company's existing small plant, which it stipulates will not be enlarged.
- (b) To maintain and operate its electric energy consuming equipment so that the delivery of energy under the contract shall be at a power factor of at least 85 per cent.
- (c) To take all steam requirements from Pacific Company at a pressure of 160 pounds per square inch and 50 degrees F. superheat, and at a rate not to exceed 275,000 pounds per hour, in excess of that which Associated may at its option generate in its existing boilers.
- (d) That it shall not utilize high pressure steam for generation of either electric or mechanical power if it becomes necessary for Associated to install its own steam generating plant to fulfill needs in excess of those specified in the contract.

- (e) To deliver quantity of feed water at its expense to Pacific Company, equal in pounds to the pounds of steam received from the latter.

2. Obligations of Pacific Company:

- (a) To operate and maintain Turbo generator as a standby unit at all times when it is not being used for generation.
- (b) To accept substitute fuel when offered by Associated Company in exchange for electric energy and steam.
- (c) To purchase at least 375,000 barrels of fuel oil during each three-year period for the operation of said plant, at the average posted price thereof, or to pay Associated Company 12 cents per barrel for the deficiencies of such purchases.
- (d) To combine demands for electric energy at Avon substation and steam plant for purposes of determining the maximum demand to be used for billing purposes.

The length of the term of the contract, which appears important to the economic success of this project, in view of the construction of the substantial investment in the steam electric plant, assures the applicant of the Associated Company's business and use of a plant site for a long period of time to the benefit of both parties.

Lester S. Ready, who appeared in behalf of the Water Project Authority of California, interposed no objection to the granting of the authorization requested in the application.

It appears reasonably clear that the rates offered by the contract for electric service, approval of which is sought, are necessary to meet the competitive condition and to retain the business of the oil company. The electric and steam service to be performed at the rates provided in the contract must be viewed as an electric service only and the total revenue therefrom should be considered as electric revenue of this utility.

It further appears reasonably clear that the construction and operation of the steam electric plant and the retention of the business of the Tide Water Associated Oil Company at the contract

rates and under the other contract provisions will not constitute a burden upon other consumers. We are of the opinion, therefore, that an Order should be made authorizing applicant to enter into the proposed agreement filed in this proceeding as Exhibit "A."

I recommend the following form of Order:

O R D E R

Pacific Gas and Electric Company having filed the within application for an Order approving that certain agreement described in the foregoing Opinion, public hearing having been held on said application and good cause appearing therefor,

IT IS HEREBY ORDERED that the Pacific Gas and Electric Company be and it is hereby authorized to execute an agreement containing the same terms and provisions as the agreement filed in this proceeding as Exhibit "A."

IT IS HEREBY FURTHER ORDERED that the Pacific Gas and Electric Company, until otherwise directed by the Railroad Commission, shall on its records and in reports to the Railroad Commission, record the revenues, both electric and steam, derived under said agreement, under the appropriate electric operating revenue accounts.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 28th day of August, 1937.

Walter W. Brown
Frank P. Brown
Ray A. Rice
Commissioners