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Decision No. 33001.

ORIGINAL

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.

Application No. 20501.

- Roy V. Reppy by G. C. Larkin, for the Southern California Edison Company Ltd.
- R. W. DuVal, for the Pacific Gas and Electric Company.
- Earl Warren, Attorney General, A. D. Edmonston, Acting Secretary, Raymond Matthew, Hydraulic Engineer, and Spencer Burroughs, for the Water Project Authority of the State of California.
- E. W. Kramer, for the Federal Power Commission.

WAKEFIELD, COMMISSIONER:

FIRST SUPPLEMENTAL OPINION

In this First Supplemental Application, Southern California Edison Company Ltd., hereinafter sometimes referred to as Edison, and Pacific Gas and Electric Company, hereinafter referred to as Pacific, and successor to San Joaquin Light and Power Corporation, hereinafter referred to as San Joaquin, ask for an Order of the Railroad Commission authorizing Applicants to enter into a First Supplemental Agreement for the purchase and sale of electric energy. A copy of the proposed First Supplemental Agreement is attached as Exhibit "A" to the pending First Supplemental Application.

The Original Agreement, authorized by Decision No. 29067, was dated September 3, 1936, and provided for an exchange of power and covered the delivery by Edison to San Joaquin up to but not exceeding 40,000 kilowatts and no more than 280 million kilowatt-hours in any calendar year and said agreement was to terminate on June 30, 1947. Under date of November 25, 1936, pursuant to the provisions of the original contract, Edison agreed by a First Letter-agreement to furnish San Joaquin an additional assured capacity of 35,000 kilowatts from July 1, 1938, to December 31, 1939. Under date of April 12, 1939, the provisions of the First Letter-agreement were extended to December 31, 1940.

Some of the more important provisions of the proposed First Supplemental Agreement are:

1. Said First Letter-agreement is extended to and including December 31, 1941.
2. Said Original Agreement is so modified, during the calendar years 1942, 1943 and 1944, as to provide that Edison will make available and maintain for Pacific an assured capacity of 150,000 kilowatts and deliver such energy therefrom as Pacific shall request up to a total of 315 million kilowatt-hours in any of said years.
3. That Edison will furnish, at the option of Pacific and if notified by Pacific on or before July 1, 1944, an assured capacity of 50,000 or more kilowatts, up to 100,000 kilowatts, for the calendar year 1945. If said request is made, then the terms of the Original Agreement otherwise effective in said year 1945 will be so modified as to permit the furnishing of said capacities and under the terms more fully presented in the modified agreement under the First Supplemental Application now pending.
4. Pacific will pay Edison for the 150,000 kilowatts of assured capacity the sum of \$1,663,000 each year and for the energy delivered therefrom at the rate of 1.32 mills per kilowatt-hour. If Pacific elects to take the additional service in 1945, as provided under Item 3 heretofore outlined, then for each 1,000 kilowatts of such assured capacity an annual sum of \$7,086 will be paid Edison. The kilowatt-hour rate remains 1.32 mills.

5. That Edison shall, at its own risk and expense, proceed with the necessary construction to provide for the capacities required to make the deliveries specified.
6. That Pacific shall stand the cost of providing the necessary additional exchange facilities, except certain equipment which is set out in the proposed First Supplemental Agreement to be furnished by Edison.
7. That except as modified herein and as more fully set forth in the proposed First Supplemental Agreement under Exhibit "A," the Original Agreement is to remain in full force and effect between Edison and Pacific.

The evidence introduced at the public hearing held on March 29, 1940, reveals:

1. That Pacific's load growth, based on present experience, will be such that new and added capacity will be required beginning with the year 1941 and that by the year 1944 a deficiency in Pacific's production capacity is estimated at from 260,000 to 314,000 kilowatts.
2. That an increase in Pacific's production capacity is necessary, due to load growth, and it may be met either by constructing new plant facilities on Pacific's own system or by purchasing such capacity from Edison up to 150,000 kilowatts.
3. That to purchase from Edison rather than to construct such required plant capacity will enable the Northern and Central California markets to absorb a maximum of Central Valley power to be developed at Shasta Dam, when such Central Valley power is expected to become available during the year 1944 and thereafter. Likewise, if Pacific were to become the agency for distributing Central Valley power, then Pacific initially could absorb the maximum amount if Pacific's own construction was deferred and purchases made from Edison as herein proposed.
4. That Edison, by constructing a second Boulder line and contracting with the Federal Government for a third 82,500 kilowatt unit at Boulder, reasonably could meet the demands of Pacific, as herein proposed, as well as meet the demands and furnish the necessary kilowatt-hours to its own customers that might reasonably be expected through load growth over this same period.<sup>(1)</sup>

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(1) While it is believed the record unquestionably justifies this conclusion in respect to Edison's ability to have adequate power resources, nevertheless the record likewise shows that if the year 1944 should be one of scanty rainfall, Edison could experience some difficulty in the late summer months if during such period a serious outage should occur, such as losing one of its 100,000 kilowatt steam units at its Long Beach steam station.

5. That the payments under the proposed First Supplemental Agreement by Pacific to Edison appear reasonable.

At the hearing Attorney General Earl Warren, a member of the Water Project Authority of the State of California, appeared on behalf of the Authority and stated its position and interest in the instant proceeding. From Mr. Warren's statements, it is clear that the Authority recognizes the necessity of Pacific taking steps to augment its system production capacity before Shasta power becomes available. In this respect Mr. Warren states (page 2 of Exhibit No. 15):

"It is recognized that additional electric power capacity will be required before Shasta power becomes available, if the power demands in the market of northern and central California increase as anticipated. However, the Water Project Authority is concerned that no program of additional capacity or power supply for the Northern California Market be carried out which may in any way hinder or delay the absorption of Shasta power into the market as rapidly as possible after it becomes available, and the realization of the maximum possible revenues from sale of hydroelectric power at the earliest possible date."

As will be observed, the Authority is concerned that no program be inaugurated that will "hinder or delay the absorption of Shasta power." Mr. Warren also pointed out that the Shasta power plant is scheduled to be completed on March 1, 1944, and recognizes that the proposed First Supplemental Agreement is "potentially advantageous to the absorption of Shasta power" provided it does not interfere with the ready and immediate absorption of such power. In this respect the Water Project Authority's position is thus given (page 3 of Exhibit No. 15):

"However, to the extent that power deliveries under this supplemental agreement and basic contract are continued after Shasta power becomes available, the capability of the market to absorb Shasta power would be reduced. The ideal situation from the standpoint of the most rapid absorption of Shasta power would be for the proposed power deliveries from Edison to Pacific to be terminated as soon as full capacity operation of the Shasta power plant is started and power is available therefrom to meet the power demands of the Northern California Market."

In the brief filed by the Water Project Authority, attention is again called to the undesirability of Pacific obligating itself to take power service from Edison after March 1, 1944, and the Authority recommends that if the Commission authorizes the proposed First Supplemental Agreement that said agreement be modified substantially as follows:

"Provided, however, that the delivery of power hereunder shall be terminated if and when electric power is available from and can be produced by the Shasta Power Plant for the Central Valley Project, in any amount sufficient to provide the assured capacity required in lieu of the supply provided herein."

In a similar manner, the Water Project Authority recommends that in case Shasta power is available in 1945, then the authorization of the supplemental agreement be limited to the effect that Pacific's option to take additional capacity in that year, as provided in paragraph 3 of the proposed supplemental agreement, be nullified.

The suggestion that the Commission require such modifications apparently is made on the assumption that Pacific and Edison would enter into an agreement containing such conditions. While no witness testified specifically on this point, the record would tend to indicate that Edison would not enter into such an agreement. Mr. F. B. Lewis, Vice President of Edison, testified that his Company would not be justified in expanding its production facilities in the manner contemplated by the First Supplemental Agreement, unless assured of the revenue contemplated by the agreement for the full three-year term. It would appear, therefore, that Edison would refuse to execute the proposed agreement if the term thereof were shortened by action of the Commission. Assuming, however, that Edison would execute the shortened term agreement, it is questionable whether the Commission should authorize it. The record shows that Edison is taking a somewhat speculative risk in

making an investment for production facilities not required by its present consumer demand, but which it is hoped can be utilized by Edison for consumer needs after the termination of the First Supplemental Agreement with Pacific. However, a load growth for Edison somewhat greater than has been experienced in the past will be necessary between now and the end of 1944, to prevent there being an excess of production capacity over Edison needs at that time. If Pacific's obligation should be subject to termination before the end of 1944, it seems quite clear that there would be excess capacity and resultant increased cost attendant thereto, which would become an additional burden on Edison and its consumers.

It would seem, therefore, that to permit Pacific's obligation to cease on March 1, 1944, or any subsequent month thereafter in that year, might place the selling utility Edison in a very unfavorable position and the Commission is of the opinion that the record fully establishes the necessity of carrying out the agreement in 1944 in the manner proposed.

Viewing the problem here presented from the point of view of the customers of Pacific, it would appear that they rightfully may demand that Pacific now take advantage of the opportunity presented to obtain an assured source of power until such time as other sources are developed. It is not yet certain when Shasta power actually will be available, nor do we now know that such power will be available to Pacific. In respect to the optional provision of the contract, permitting Pacific to continue its purchases from Edison for an additional one-year period, it would appear quite obvious, as witnesses and counsel for Pacific have stated, that should Shasta power then be developed and a contract be negotiated by Pacific for the

purchase of that power, there would be no occasion for Pacific to exercise such option.

It would appear, therefore, that while the optional provision of the agreement will not place any material obstacles to the disposition of such Shasta power as may be then developed, such provision is very favorable as a protection to the customers of Pacific.

Based upon the record and viewed from the interests of the people of this State, it is the Commission's conclusion that the proposed First Supplemental Agreement between Edison and Pacific is to the interest of all and that the execution of said agreement appears to offer not only the needed relief in Pacific's production capacities at reasonable cost, but likewise offers the most favorable plan for the maximum utilization of Central Valley power from Shasta when the same becomes available and, accordingly, that the proposed First Supplemental Agreement should be authorized.

In so authorizing said agreement, the Commission is not unmindful that events possibly occurring during the period covered by this agreement may give rise to questions involving provisions of the contract and problems of power distribution which will demand the intervention of the Commission. This, we believe, is properly recognized by the terms of the contract itself, which provide, under Section 10, that it "shall be subject to such changes or modifications as the Commission may from time to time make in the exercise of its jurisdiction."

The following form of Order is recommended:

O R D E R

Southern California Edison Company Ltd. and Pacific Gas and Electric Company, successor to San Joaquin Light and Power Corporation, having applied to the Railroad Commission of the State of California for an Order authorizing Applicants to enter into a written First Supplemental Agreement, all as hereinbefore described and as presented in Exhibit "A," a public hearing having been held, the matter being submitted and now ready for decision and good cause appearing, therefore

IT IS HEREBY ORDERED that Southern California Edison Company Ltd. and Pacific Gas and Electric Company be and they are hereby authorized to execute and enter into a First Supplemental Agreement, as proposed and as made a part of said First Supplemental Application as Exhibit "A," and the necessary permission and authority are hereby granted Applicants to perform and carry out their respective obligations thereunder and, further, Southern California Edison Company Ltd. is hereby authorized to charge the rates set forth in said First Supplemental Agreement.

Except as herein modified, Decision No. 29067 shall remain in full force and effect.

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 10<sup>th</sup> day  
of April, 1940.

Ray L. Rice  
Frank R. Dwyer  
Robert H. ...  
M. ...  
Justin J. ...  
Commissioners.