

ORIGINAL

Decision No. 34832

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of
 PACIFIC GAS AND ELECTRIC COMPANY for
 an order of the Railroad Commission
 of the State of California, authoriz-
 ing applicant to enter into a written
 agreement with TODD-CALIFORNIA SHIP-
 BUILDING CORPORATION relating, among
 other things, to the sale by the former
 and purchase by the latter of electric
 power for use in its Magnesium Plant
 located in the County of Santa Clara,
 State of California.

Application No. 24232

R. W. DUVAL, 245 Market Street, San Francisco, for
 Applicant, Pacific Gas and Electric Company.

THELEN AND MARRIN, by MAX THELEN, Balfour Building,
 San Francisco, for Todd-California Shipbuilding
 Corporation, Engineering Division.

JOHN J. O'TOOLE, City Attorney, DION R. HOLM,
 Assistant City Attorney, and PAUL L. BECK,
 Chief Valuation Engineer, for the City and
 County of San Francisco, by PAUL L. BECK.

RILEY, COMMISSIONER:

O P I N I O N

In this application Pacific Gas and Electric Company,
 hereinafter sometimes referred to as Pacific, requests authority
 to enter into a written agreement with the Todd-California Ship-
 building Corporation, hereinafter sometimes called Customer,
 relating among other things to the sale and delivery by the
 former of electric energy for use in Customer's magnesium plant
 located in the County of Santa Clara, State of California. A
 copy of the proposed agreement marked Exhibit "A" is attached

to and made a part of the application.

A public hearing was held in the Commission's courtroom in San Francisco on Wednesday, June 11, 1941 at which time and place the matter was submitted for decision.

Some of the more important features and conditions of said proposed agreement may be set forth. The provisions of the agreement may be looked upon as, first, establishing the conditions under which a temporary service will be rendered, and, secondarily, the requirements if that service is to become of a more permanent nature.

Initially, Pacific agrees to sell and deliver, and Customer agrees to purchase and pay for electric energy based upon maximum demands which shall not be greater than 6,000 kilovolt-amperes at Customer's new plant which is now under construction to produce metallic magnesium. The magnesium to be so produced is essentially for the manufacture of defense equipment required by the Federal Government during the present National emergency.

In this respect the aforesaid agreement provides for initial delivery to be made from Pacific's existing 60 kv transmission circuits with such extension and installation of metering facilities as may be required for rendering the service. Provision is likewise made for a payment by Customer towards the cost involved in installing and removing said temporary line extension.

The agreement, in addition, provides for Customer standing the cost at a stated sum for the reinforcement of Pacific's 60 kv lines and facilities provided Customer finds that a more satisfactory type of service is deemed desirable than can be obtained by means of Pacific's existing 60 kv lines and facilities.

The term of this proposed agreement, as it relates to

the initial plant during what may be looked upon as a trial period of operation, is for a period of nine months, provided that Customer may at any time during said nine months extend the period, and if so extended the contract shall thereupon remain in full force and effect until the expiration of five years and as may be further governed by other conditions set forth in the proposed agreement.

If the process in the production of magnesium is viewed as successful by Customer the agreement provides that upon the election of Customer to increase its plant capacity, and it may do this up to a total maximum load not exceeding 75,000 kilovolt-amperes, Pacific will change its service from the delivery at 60,000 kv to 110,000 kv, which will necessitate the construction of a new transmission line at that voltage extending from Pacific's Newark substation in Alameda County to Customer's magnesium plant - a distance of approximately 16 miles. According to the agreement, Customer will advance to Pacific the capital required to build the line, which is estimated to cost in excess of \$450,000. The ownership, operation and maintenance of said line shall, however, remain with Pacific. Conditions are also set up under which the moneys so advanced by Customer for the construction of the line may be refunded by Pacific. All of the provisions under which refund may be made need not be recited here except to recount that the general requirements are that when Customer's billing shall exceed \$250,000 a year then Pacific shall refund to Customer a sum equal to one-tenth of the actual cost advanced. Under these changed conditions of service the term of the contract is extended 10 years dating from the time delivery is first made at the higher voltage.

Charges to be made by Pacific for the service and payments in accordance with those charges are set forth and predicated

upon the following rates:

Demand Charge:

\$2.40 per kilovolt-ampere of monthly maximum demand for the first 85,000 kilovolt-amperes of monthly maximum demand during each contractual year hereunder, which is hereby defined to signify each twelve month period commencing respectively with the date of first service hereunder and with the corresponding date of each year thereafter.

\$2.00 per kilovolt-ampere of monthly maximum demand for all kilovolt-amperes of monthly maximum demand in excess of said first 85,000 kilovolt-amperes of monthly maximum demand during each said twelve month period.

Maximum Demand:

The maximum demand in any month will be the average kilovolt-ampere delivery of the thirty minute interval in which such average is greater than in any other thirty minute interval in the month.

Shut-off Provision:

Pacific shall have the right, upon giving Customer six weeks prior written notice of its intention so to do, to completely discontinue or partially curtail the supplying of electric power hereunder for a consecutive period not exceeding three months in any one calendar year and in that event Pacific shall not be liable to Customer for damages or otherwise on account of such discontinuance or curtailment. Pacific will specify in such notice the time of beginning of such shut down and/or curtailment and will also specify, either in such notice or as soon thereafter as practicable, the time of termination thereof, provided, however, that Pacific may not require more than one such shut down and/or curtailment in any calendar year. The monthly maximum demand charge and the monthly minimum charge shall be adjusted for the period of such shut down and curtailment proportionately to the fractional months and/or reduced service involved. Upon receipt of such written notice of discontinuance or curtailment Customer shall discontinue or curtail its use of electric power to the extent specified in such notice.

The minimum charge provided, except under special conditions of shutdown, is at the rate of \$12,000 per month for customer demands up to and including 20,000 kilovolt-amperes. For demands in excess of this amount, the agreement provides that Customer shall pay Pacific a monthly minimum charge equal to 60¢ per kilovolt-ampere, predicated upon the maximum demand occurring

in the preceding twelve months' period ending with and including the current billing month. The minimum charge, however, shall not be less than \$360,000 a year except under certain special conditions as provided.

Mr. N. R. Sutherland, the witness for Pacific, testified to the following maximum revenues that Pacific could receive and the minimum charges that customer would be required to pay for the maximum demands indicated:

<u>KVA</u>	<u>Annual Revenue</u>	<u>Annual Minimum Charge</u>
6,000	\$172,800	\$144,000
10,000	274,000	144,000
20,000	514,000	144,000
40,000	994,000	360,000
50,000	1,234,000	360,000
75,000	1,834,000	540,000

The evidence of record clearly shows that the proposed rate, which will average approximately 3 mills per kilowatt-hour depending upon the demand and usage, is not intended to cover the full costs of rendering the service, and is accordingly sold subject to shutoff in accordance with the provisions of the rate heretofore quoted. It is of record that Pacific would only exercise the shutoff provision and discontinue or partially curtail the supplying of electric service during a period of power deficiency when such power was necessary to supply its other firm customers. The rate provided in the agreement is very similar to that accorded other large chemical plants that have similar load characteristics.

In justifying a rate of this character, Pacific represents that it is in fact disposing of a portion of its reserve plant that it must maintain and would only need during a dry year season at a time of a loss of a principal source of supply such as might be occasioned by the failure of an important transmission

circuit or the outage of a large steam unit. It is represented that the shutoff provision provides the necessary protection, and thus any revenue received over the actual out-of-pocket costs of rendering the service will redound to the benefit of Pacific's earnings generally, and so will help contribute to the support of the cost to render service to Pacific's general customers. While it may be said that the record reasonably establishes this view, it likewise directs attention to the fact that as the magnesium produced is adjudged essential during the war emergency it may, from a practical standpoint, be impossible for Pacific to physically exercise the shutoff provision and thus discontinue or curtail service. It was also brought out that in addition to the purchase of the electrical requirements under the proposed agreement, Customer would utilize large quantities of natural gas from the applicant in the production process, which gas would be purchased under surplus rates and would accordingly be subject to shutoff. Since under normal conditions of supply and demand Pacific usually finds it necessary to shut off large low rate surplus gas customers during portions of the heating season each year, it would appear that the adequacy of gas supply may well be the controlling feature as to the continuity of the operations of the magnesium plant. In this respect, however, it is of record that Customer proposes to so arrange its process operations as to be able to continue production for a period of time after gas service is shut off. These matters of shutoff, in my opinion, may give rise to serious complications in the actual performance in the carrying out of the provisions of the agreement.

This agreement carries the usual clause as to this Commission's continuing jurisdiction in accordance with General Order No. 53.

After giving weight to the many considerations involved in this proposed agreement and the apparent real necessity of this nation's securing an additional supply of magnesium, it is my conclusion that the aforesaid agreement should be authorized though difficulties may be experienced in carrying out its performance. In this latter respect it will be expected that the parties will look to this Commission for a fair and equitable administration of any difficulties as to price adjustments and supply that may arise.

At the public hearing on this matter, heretofore mentioned, no one appeared to protest the granting of the application and I recommend the following form of Order:

O R D E R

A public hearing having been had in the above entitled application, the matter having been fully considered, and sufficient cause appearing, therefore,

IT IS ORDERED that Pacific Gas and Electric Company is hereby authorized to enter into that certain proposed agreement with the Todd-California Shipbuilding Corporation in substantially the same form as set forth in Exhibit "A" attached to the application and to render electric service to said Todd-California Shipbuilding Corporation at the rates and under the terms and conditions set forth in said agreement and to otherwise perform the covenants therein set forth; provided, however, that the authority herein granted shall not be taken as limiting the Commission's authority to modify or set aside such agreement by appropriate order.

Pacific Gas and Electric Company shall file two (2) copies of the agreement with the Commission within thirty (30)

days after its execution.

Authority herein granted shall become effective on the date hereof.

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

Dated at San Francisco, California, this 24th day of June, 1941.

[Signature]
Ray A. Riley
Justus J. Cassin
Francis L. Havens
[Signature]
Commissioners