

Decision No. 38305**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

Suspension and investigation on the Commission's own motion of proposed Schedule P-31, Resale Power, filed by Pacific Gas and Electric Company.

Case No. 4788

In the Matter of the Application of PACIFIC GAS AND ELECTRIC COMPANY for an order of the Railroad Commission of the State of California approving an agreement entered into with the City of Redding, under date of July 3, 1945, and relating to the furnishing by the former to the latter of electric energy.

Application No. 26889

In the Matter of the Application of PACIFIC GAS AND ELECTRIC COMPANY for an order of the Railroad Commission of the State of California approving an agreement entered into with the City of Palo Alto under date of July 30, 1945, and relating among other things to the furnishing by the former to the latter of electric energy for resale purposes.

Application No. 26925

APPEARANCES:

R. W. DUVAL, for Pacific Gas and Electric Company.

ARNOLD RUMWELL, City Attorney and FABIAN S. MILLER, City Engineer for the City of Palo Alto.

J. J. DEUEL and EDSON ABEL, for the California Farm Bureau Federation.

GLENN WEST, City Attorney, for the City of Lodi.

GLENN D. NEWTON, City Attorney, and ALBERT DICK, Superintendent of Electrical Department, for the City of Redding.

G. A. BAXTER, Secretary, Public Utilities Board, J. C. SPENCER, General Manager, and JOHN M. O'DEA, President of Public Utilities Board, for the City of Alameda.

RAYMOND MATTHEW, for the Water Project Authority of the State of California.

PAUL C. BODENHAUER, for Oliver J. Carter and other citizens of the City of Redding.

COMMISSIONERS ANDERSON AND ROWELL:

O P I N I O N

Pacific Gas and Electric Company* on July 27, 1945, filed with this Commission a schedule of electric rates designated as Schedule P-31. This schedule was made applicable to electric service rendered to other municipal and private electric utilities for resale purposes. On August 14, the Commission suspended the filed schedule. In Applications Nos. 26889 and 26925, Pacific seeks the Commission's approval of two special contracts involving resale service to the cities of Redding and Palo Alto. A public hearing was held on these matters in San Francisco on September 13, 1945.

The suspended rates under Schedule P-31 are lower than the presently effective rates under Pacific's Schedule P-6, and also lower than the special contract rates now applied for resale service rendered the City of Palo Alto.

At the hearing, witnesses for Pacific explained the circumstances which had given rise to the proposed rate reductions. It was pointed out that the United States Department of the Interior, Bureau of Reclamation, has publicly offered a schedule of rates for the sale of electric energy generated at its Shasta hydro-electric plant, applicable to municipalities, irrigation districts, and other publicly-operated systems for their own use and for redistribution. Such resale rate offered by the Bureau was substantially lower than Pacific's presently effective resale rates for similar services. One municipality, the City of Roseville, has signed a contract with the Bureau to continue for a period of approximately ten years. Under such circumstances, as the testimony shows, Pacific was confronted with the necessity either of attempting to meet such competition, or suffering the possible loss of other resale customers. Its Schedule P-31 was developed for this purpose. This new schedule would have become effective on August 27, 1945, had it not been suspended by the Commission. The Commission deemed it appropriate to suspend the rate filing until a hearing could be had to determine whether a reduction of Pacific's resale rates to the extent proposed was justified.

*Pacific Gas and Electric Company will hereinafter in this Opinion be referred to as Pacific.

Pacific has for some years had on file a schedule known as Schedule P-30. This was designed for primary industrial power service and made available to large power consumers on a five-year contract basis for service at 2200 volts or more. As an optional rate, it had on file Schedule P-5, which does not contain the requirement of the five-year contract, but provides somewhat higher rates for the same type of service. Schedule P-30, when it was developed, was designed primarily to meet the competition of isolated privately-owned industrial generating plants. The application of a similar schedule to resale customers under Schedule P-6 suggested a possible solution. The P-31 schedule was developed by taking the elements of Schedule P-30, modifying the demand portion of the rate, and eliminating the fuel oil clause. In this modified form the rate was offered to P-6 customers whose loads were such as to make the new rate more favorable than the P-6 Schedule. This new schedule was accepted by the municipalities of Alameda, Biggs, Gridley, Lodi, and Santa Clara, and by two private utilities, Bay Point Light and Power Company and Vallejo Electric Light and Power Company. Copies of these contracts were placed in evidence, but the Commission's formal approval thereof was not deemed necessary because the terms of each, with the exception of the Bay Point Light and Power Company contract, are in substantial accordance with the filed schedule. Contracts containing the same basic provisions as Schedule P-31, but with additional modifications, were offered to the cities of Redding and Palo Alto, and have been accepted by them. The two formal applications before us are for authority to carry out the last mentioned agreements.

The following computations taken from facts of record present in tabular form the maximum demand established, together with the delivery of electric energy in kilowatt hours for the year 1944, by the above-mentioned resale customers of Pacific, including the City of Roseville.

Summary
Pacific Gas & Electric Company
Resale Service
To Certain Electric Customers

Customer	Max. Demand (1)	Kwh (2)	Revenue 1944 (3)	Avg. Annual Rev. P-6 (4)	L.F. (5)	Billing Under P-31 (6)	Reduction Amount (7)	% (8)
Alameda	26,158	135,443,304	\$ 928,589	.686	59.1	\$ 837,419	\$ 91,170	9.8
Biggs	110	415,320	4,499	.083	43.1	4,147	352	7.8
Gridley	544	2,344,800	20,741	.885	49.2	19,204	1,537	7.4
Lodi	2,784	13,459,200	100,356	.746	55.2	90,956	9,400	9.4
Santa Clara	2,928	13,772,800	103,903	.754	53.7	95,276	8,627	8.3
Bay Point	1,040	4,353,000	33,260	.764	47.8	32,641	619	1.9
Vallejo	11,148	38,916,000	302,293	.777	39.8	273,366	28,927	9.6
Roseville	1,261	5,297,600	44,628	.842	48.0	41,636	2,992	6.7
Redding	4,200	18,900,000	141,448	.748	51.4	121,576 ¹	19,872	14.0
Palo Alto	4,440	18,396,000	132,278 ²	.719 ³	47.3	117,666 ²	14,612	11.0
Total		251,298,024	\$1,821,995	.7214		\$1,633,887	\$178,108	9.8%

1. Includes 5% discount below rates of P-31.
2. Includes \$800 monthly credit for customer plant standby.
3. Excluding \$800 monthly credit, average revenue would be .771¢ kwh.

The revenue received from these customers during 1944, under the provisions of P-6, and the average cost per kilowatt-hour of the energy delivered and with the calculated annual load factor, is shown in the above table. Contrasted with the cost under P-6 are shown the amounts that would have been billed these customers had Schedule P-31 been effective to their accounts, assuming the same characteristics of use as in 1944. Finally the reduction in annual cost and in per cent of actual 1944 cost is developed. As the table indicates, the percentage rate reduction for these customers averages 9.8% and ranges from about 2% for the Bay Point Light and Power Company to about 14% for the city of Redding. Such percentage variations in the rate reductions are due entirely to the differences between the characteristics of use by the respective customers, except that further factors were present in the cases of Redding and Palo Alto, which cities were accorded special contracts.

A comparison of the rate provisions of Schedules P-6 and P-31,⁽¹⁾ as well as the Roseville-Shasta contract rates, shows that the differential existing between P-31 and P-6 results from a decrease in demand charges in the initial and final blocks and from a reduction of the energy rate for all blocks together with a shortening of the second energy block. It is likewise obvious, as the comparison shows, that the Roseville-Shasta contract rate is materially lower than Schedule P-31.

It was pointed out in the testimony presented by Pacific that the monetary differential thus indicated does not reflect the whole measure of the difference between the rates in Schedule P-31 and those in the Shasta contract. In the first place the Bureau of Reclamation is not in a position immediately to render service under any contract entered into because it does not have either transmission or distribution facilities. In the second place, even when facilities are provided, if they be limited to single circuits, the Bureau's customers would not have the same assurance of continuity of service as that afforded by Pacific because of the latter's many sources of supply and alternate feeds over different circuits normally available. If customers of the Bureau

(1)

Rate:	PG&E Schedule		Roseville-Shasta Contract
	P-6(A)	P-31(A)	
<u>Demand Charge</u>			
First 50 kw or less of max. demand	\$90.00	\$75.00	\$.75/kw
Next 150 kw of maximum demand	1.50/kw	1.50/kw	.75/kw
Next 300 kw of maximum demand	1.00/kw	1.00/kw	.75/kw
Next 500 kw of maximum demand	.75/kw	.75/kw	.75/kw
Next 1000 kw of maximum demand	.60/kw	.60/kw	.75/kw
All excess	.60/kw	.40/kw	.75/kw
<u>Energy Charge</u>			
First 130 kwh per kw per month			.004
First 150 kwh per kw per month	.008	.007	
Next 130 kwh per kw per month			.003
Next 150 kwh per kw per month		.005	
Next 170 kwh per kw per month	.0054		
All excess	.0045	.004	.002

purchase standby service from Pacific, this added cost would largely nullify the initial rate saving. Furthermore, the Bureau's contract contains provisions requiring customers to apply certain rates and follow other procedures in the re-distribution of electric energy. These considerations perhaps explain in part the ability of Pacific to obtain contracts with all its existing resale customers, except one, at a rate materially higher than that offered by the Bureau, though lower than both the presently effective P-6 Schedule and resale contract rates.

The billing differentials between Pacific's rate schedules and that of the Bureau may be illustrated by applying them to the specific characteristics of the Roseville and Lodi requirements, as set forth in the following table:

Billing Comparison

P.G. & E. Schedules P-6, P-31 and Shasta-Roseville Contract

	<u>Roseville</u>		<u>Lodi</u>	
Maximum Demand, Kw 1944	1,267		2,784	
Consumption, Kwh 1944	5,297,600		13,459,200	
Annual Load Factor %	48.0		55.2	

Billing on Schedule P-6	\$ 44,628	100%	100,356	100%
Billing on Schedule P-31	41,636		90,956	
Reduction P-6 to P-31	2,992	6.7%	9,400	9.4%
Billing on Shasta Rate	26,399		60,918	
Reduction P-6 to Shasta Contract	17,229	38.6%	39,438	39.3%
Average rate per Kwh, mills				
P-6 Schedule	8.42		7.46	
P-31 " "	7.86		6.76	
Shasta'	4.98		4.53	

The tabulation shows that for these two customers P-31 represents a 7% to 9% reduction from Schedule P-6 while the Shasta contract rate indicates a reduction of 39% from the same base.

Testimony given by witnesses for Pacific, as well as by the Commission's staff, indicates that Schedule P-31 will not return all the costs which properly should be included if a full compensatory rate were being established. There is not as yet any way of judging the relationship of the rate level under the Bureau's contract to the costs involved in the rendition of service. No cost studies of the Shasta project have been made available to the public and no evidence thereon was presented in this proceeding. The City Attorney of the City of Lodi expressed the opinion that, although that city had accepted Pacific's Schedule P-31, the Commission should consider the reduction of that rate to a still lower level, and he also asked that the five-year contract requirement be eliminated. The only question before us here is whether the rate reduction proposed might be unjustified because of the possible burden it might place upon other customers. We would not have authority in these proceedings to prescribe a rate below that offered in the suspended schedule.

With respect to the five-year contract requirement, it might be observed that this Commission has for many years taken the position that a utility should not require a contract as a condition precedent to obtaining service except under special circumstances. Exceptions have been made when the capital outlay required, or the low rate offered, would be unjustified unless some minimum service period were imposed. The contract requirement in Schedule P-31 does not seem to be unreasonable. Not only will the schedule yield less than that required from the full cost-of-service standpoint, but Pacific's customers are permitted the alternative of continuing on the P-6 Schedule for which no contract is required.

As noted above, Pacific intends to make its Schedule P-31 available to all private and public resale customers which now have Schedule P-6 available. (2)

(2) The P-6 Schedule is not applicable throughout Pacific's service area. It has served the cities of Ukiah, Healdsburg and Lompoc under contracts providing somewhat higher rates, but has entered into new contracts with these cities at lower rates. Such contracts will be presented for our consideration in applications to be filed subsequently.

It justifies the offer of reduced rate to resale customers primarily in order to safeguard existing business and likewise to generally preserve the uniformity of its resale rate classification, even where competition is not as yet as imminent as in the northern Sacramento Valley portion of Pacific's system, where Shasta generated power can most readily be supplied.

It is clear that Pacific has the legal right to reduce its rates in order to meet in good faith the competitive rates being offered by the Bureau of Reclamation. This right has frequently been recognized by the Commission. Our precedents to such effect, as well as the judicial authorities, were cited in the case of Modesto Irrigation District vs. Pacific Gas and Electric Company, 36 C.R.C. 766, in which decision the Commission stated that to hold otherwise "would involve not only a serious but unjustifiable departure from the long and unbroken trend of statutory, judicial and Commission precedent, both in this State and elsewhere, which overwhelmingly sustains the right of a utility to meet in good faith a competitive rate without rendering itself subject to a charge of unlawful locality discrimination." However, as the Commission clearly stated in that decision, as well as in many others, the loss, if any, incurred by a utility offering a competitively reduced rate, must be borne by the utility itself and will not be permitted to burden its other customers.

In the light of the facts presented in these proceedings, we are of the opinion that no legal or equitable ground exists for ordering a permanent suspension of Schedule P-31. Our order herein will remove such suspension. At the hearing Pacific asked that the Commission permit the schedule to become effective on the date filed. However, as the schedule was filed to become effective at the expiration of the statutory thirty-day period, we question the

propriety of fixing an effective date prior to August 27, 1945, the day the rates would have become applicable had they not been suspended by Commission order.

It would be well to point out that with the advent of Schedule P-31 these resale customers will be in a position to offer to their industrial consumers, rates which will compare favorably with Pacific's Industrial Schedule P-30. Special arrangements were heretofore found necessary to permit the City of Alameda to render industrial service to large shipyards in their territory at the P-30 level and the elimination of this discrepancy should permit more effective promotion of industrial expansion within the respective service areas of these resale consumers.

We now pass to a discussion of the two Applications. The contract with the City of Palo Alto contains one feature not embraced by Schedule P-31. In all other respects the contract is substantially the same as the schedule. This city has generating facilities of its own, but does not now operate them for the generation of power except for standby purposes. In return for maintaining these facilities in operating condition and subject to operation at the request of Pacific, a monthly credit of \$300 is allowed on power bills. This is an arrangement of some years' standing. Inasmuch as this contract embodies the essential features of Schedule P-31 with the credit modification just referred to; and which latter does not appear to be unreasonable, the application for authorization of the aforesaid contract with the City of Palo Alto will be granted.

The contract with the City of Redding likewise is basically the same as the provisions of Schedule P-31. In this case, however, charges computed in accordance with P-31 rates, which are set out in the contract, are subject to a discount of 5%. This discount provision was justified by Pacific as necessary to provide a rate level low enough to successfully meet the pending competition of Shasta power. Because of the proximity of this customer to the Shasta development, factors which prevent the Bureau's prompt performance under a tendered contract were much less effective than in the case of the other

customers. It was further pointed out "at site" rates have been established by some public utility systems where loads can be served by local distribution directly from an energy source at hand.

Counsel for the City of Redding urged the Commission to approve its contract with Pacific. Certain residents of the city made representation opposing this attitude. Their opposition was based upon a belief that the contract was not legally executed, as well as being detrimental to the city's interest. Such claims are for the local authorities to determine, not the Commission. The only question for us to decide is whether these two special rate contracts result in undue preference. As no objection arose from those cities that do not receive concessions from the proposed Schedule P-31, we conclude that performance under such contracts should be approved for the same reasons, as heretofore stated, that prompt us to approve the filing of the schedule itself.

As stated above, Pacific's contract with Bay Point Light and Power Company does not coincide with the provisions of Schedule P-31 in that the term is for ten years rather than five. It would appear, therefore, if this provision is to remain in the contract, application should be formally presented for the Commission's consideration in the same manner as other special rate contracts.

We recommend the following order.

O R D E R

IT IS HEREBY ORDERED in Case 4788:

That the suspension of Schedule P-31 filed by Pacific Gas and Electric Company on July 27, 1945, be and hereby is removed, and Pacific Gas and Electric Company is authorized to place such schedule of rates in effect as of August 27, 1945.

IT IS HEREBY ORDERED in Application No. 26889 that:

Pacific Gas and Electric Company be and it is hereby authorized to furnish electric service to the City of Redding in accordance with the terms and conditions of that certain contract, dated July 3, 1945, submitted as Exhibit A in this proceeding, to perform the requirements thereof, to charge and collect the rates therein specified and to make said contract effective on and after August 27, 1945.

IT IS HEREBY ORDERED in Application No. 26925 that:

Pacific Gas and Electric Company be and it is hereby authorized to furnish electric service to the City of Palo Alto in accordance with the terms and conditions of that certain contract, dated July 30, 1945, submitted as Exhibit A in this proceeding, to perform the requirements thereof, to charge and collect the rates therein contained and to make said contract effective on and after August 27, 1945.

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

For all other purposes the effective date of this order shall be twenty days from and after the date hereof.

Dated at San Francisco, California, this 16th day of

(October), 1945.

David Ruden
Justice F. Coe

Commissioner

John Powell

Commissioners