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ORIGINAL

Decision No. 51999

BEFORE THE PUBLIC UTILITIES 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 Public Utilities Commission of the State of California authorizing applicant to carry out the terms and conditions of an agreement with CALIFORNIA PORTLAND CEMENT COMPANY, dated April 28, 1955. (Gas - Interruptible)	)	Application No. 37028

F. T. Searls and John C. Morrissey, for applicant.
Wallace K. Downey, for California Portland Cement Company; Waldo A. Gillette and Enright & Elliott, by Joseph T. Enright, for Monolith Portland Cement Company; J. J. Deuel, for California Farm Bureau Federation; interested parties.
Robert O. Randall, for the Commission staff.

O P I N I O N

Pacific Gas and Electric Company, by the above-entitled application filed June 10, 1955, requests an order authorizing applicant to carry out the terms and conditions of an agreement dated April 28, 1955, with California Portland Cement Company (hereinafter sometimes referred to as the Cement Company), relative to the supply of natural gas service on an interruptible basis. Applicant proposes to provide service to a new plant of the Cement Company located about 8-1/2 miles west of Mojave in Kern County. A public hearing was held in Los Angeles before Examiner Carl E. Crenshaw on August 18, 1955.

Proposed Agreement

The proposed agreement is for a term of three years and is essentially for the sale of natural gas on an interruptible basis at a special rate. The record shows that this contract

contains the usual conditions of applicant's standard form contracts for interruptible natural gas service on file with the Commission but provides for a special rate which is the same as that provided in the contracts recently entered into with the American Potash and Chemical Corporation and West End Chemical Corporation (hereinafter sometimes referred to as the Chemical Corporations), for interruptible gas service in the Trona area, which contracts were approved by this Commission in Decision No. 51666 dated July 12, 1955, Applications Nos. 36890 and 36891.

Cost of Installation and Payment Therefor

The proposed agreement is silent as to the payment by the Cement Company of the cost of main installation necessary to provide this service. However, applicant submitted as Exhibit No. 4 at the hearing, copies of its filed form entitled, "Agreement for Gas Distribution Main Extension or Enlargement of Capacities (Interruptible Natural Gas Service)", (Cal. P.U.C. Sheet No. 2919-G). This is the normal agreement used by applicant in providing for payment by the customer of the cost of installation of main necessary for interruptible service. It was stated by applicant's witness that it will be necessary to install approximately 5,520 feet of 6-inch main to supply the Cement Company's plant. The agreement for the main extension shows that the Cement Company has paid applicant the sum of $35,490, which is stated to be the cost of the main extension adequate to deliver to the Cement Company interruptible natural gas at a rate of flow which shall not exceed an hourly maximum of 884,000 cubic feet.

Witness for applicant testified that the Cement Company plans progressively to install a total of four kilns and related facilities, each such unit having an estimated maximum gas requirement of approximately 221 Mcf per hour, or a total estimated

maximum requirement of 884 Mcf per hour. In addition, there are several isolated items of load at the plant, such as space heaters and water heaters, which will be served under applicant's Firm Industrial Schedule No. G-40. Such firm load is presently estimated to have a maximum requirement of 3.325 Mcf per hour. In Exhibit No. 5 applicant presented copies of its standard form of Gas Service Contract for Firm Industrial Service on Schedule No. G-40, setting forth the above-mentioned maximum hourly firm demand.

Exhibit No. 7 sets forth the capital cost estimates for the pipeline facilities necessary to serve the California Portland Cement Company, as follows:

Survey and Rights of Way	$ 600	
Transmission Line Tap and Main to Primary Regulation Site	1,200	
Primary Regulation, Heater and Fence at Site	14,500	
Installation of 5,520 feet of 6-inch Main, including Surveys and Rights of Way	14,677	
Overheads at 15%	4,646	
Total Transmission and Distribution Facilities		$35,623
Meters, Regulators and Other Facilities installed at Applicant's Expense		20,023
Total Cost of Project		$55,646

In Exhibit No. 8 applicant's witness set forth the apportionment of such expenses to the firm and interruptible services. This witness apportioned to the interruptible service all of the main extension involved, or a total of $35,623. Of the facilities to be installed at Company expense, approximately $2,000 is the cost of those facilities installed directly for the firm service, while the balance, or $18,023, is applicable to those facilities installed solely for the interruptible service. Applicant's witness, however, testified that in determining the payment to be made for facilities installed for interruptible service in

accordance with the Company's Rule and Regulation No. 15, the ratio between the maximum hourly requirement for interruptible service and the maximum hourly requirement for firm service was applied to the cost of the transmission and distribution facilities of $35,623 in order to determine the cost of that portion of those facilities which were installed solely for the interruptible service. This ratio of 0.9962, when applied to the cost, resulted in the amount of $35,490 shown in Exhibit No. 4.

The contract provides that, should the Cement Company discontinue service prior to the end of the three-year period, the Cement Company shall pay the actual cost to applicant of the installation and removal of those facilities installed at applicant's expense, less the salvage value of such facilities, such cost not to exceed the sum of $10,000. This latter provision was stated to be consistent with applicant's usual procedure under Rule and Regulation No. 13 for handling temporary service.

The record shows that a major portion of this line extension will be installed upon private rights of way which have already been obtained by applicant. For those portions of the extension to be installed in public roads, counsel for applicant stated that applicant was the owner of a franchise, Ordinance No. 242, granted to a predecessor of applicant by the Board of Supervisors of the County of Kern, the exercise of which was authorized by this Commission's Decision No. 34492 dated August 12, 1941 (Application No. 23155). Counsel also stated that it held further rights in Kern County, authorized by this Commission in Decision No. 42460 dated January 25, 1949 (Application No. 29548), which matter related mainly to the so-called Topock-Milpitas pipeline; and a franchise granted by Ordinance No. 372 of the County of Kern to the Coast Counties Gas and

Electric Company, the exercise of which was authorized by this Commission in Decision No. 34725 dated November 4, 1941, which franchise was acquired by applicant upon its merger with Coast Counties.

Special Rate Proposed

The special rate proposed in this agreement was, at the time of the signing of the agreement, identical with applicant's Interruptible Schedule No. G-50, except that an additional block was provided for gas used in excess of 20,000 Mcf per month, the effective rate for which (based on $1.90 per barrel oil and 1100 Btu gas) would be 30.4¢. The rate contains the same fuel oil price adjustment clause as applicant's Schedule No. G-50. In addition, the rate set forth in the agreement contains a contingent offset charge clause stating that the base rate includes an offset charge of 1.2¢ per Mcf in accordance with Decision No. 50744 of this Commission, such charge being subject to possible refund; a minimum charge clause calling for a minimum of $16,000 per month which is not cumulative; and a clause relating the proposed schedule to applicant's filed tariffs which reads as follows:

> "In the event that an increase or decrease in Pacific's Schedule G-50, entitled 'Interruptible Natural Gas Service', a copy of which is attached hereto, becomes effective or said Schedule G-50 is superseded by some other schedule of rates and charges for interruptible gas service, then Pacific shall be entitled to increase or decrease the above schedule of rates and charges commensurately thereto upon authorization of such increase or decrease in accordance with law."

With the exception of the clause relative to the contingent offset charge, the rates and their associated special conditions as shown in this proposed agreement are the same as the rates and special conditions applicable to the service to the two Chemical Corporations. Applicant's witness testified that the

above-mentioned offset clause would apply only to the first 20,000 Mcf per month under this contract. This witness further stated that while the rate provided in the special contracts with the Chemical Corporations does not contain the offset clause referred to above, applicant would be willing to make a proportionate refund to those companies, were such a refund eventually to materialize, as if their contracts contained this clause.

With reference to the clause whereby these rates are tied to the rates in Schedule No. G-50, applicant's witness pointed out that certain changes in the effective rate to be charged under this agreement have occurred since its execution. As permitted by Decision No. 51360 dated April 19, 1955, Application No. 36635, applicant placed in effect an offset increase in Schedule No. G-50, and also placed in effect a new schedule designated as Schedule No. G-52, both authorized to be effective May 25, 1955. This new Schedule No. G-52 was made applicable to certain large users previously served under the existing Schedule No. G-50. Schedule No. G-52 provides a rate which is the same as the existing Schedule No. G-50, with the offsets applied in accordance with Decision No. 51360, except that all usage in excess of 10,000 Mcf per month is priced at an effective rate (for 1100 Btu gas and a posted price of fuel oil of $1.90 per barrel), of 33.2¢ per Mcf; and that a monthly minimum of $16,000, accumulative annually, is required.

As shown above, the contract provides that the rates therein shall move concurrently with any change in rates of Schedule No. G-50, or some superseding schedule. Applicant contended that Schedule No. G-52 could be considered a superseding schedule to at least a portion of the existing Schedule No. G-50 and, for this reason, applicant has interpreted the contract as permitting

Schedule No. G-52 to be currently controlling, which does not appear to be an unreasonable interpretation of the agreement. On the basis of the above interpretation it was testified that the effective rates to be charged the Cement Company upon this contract's becoming effective, and assuming no further changes in Schedule No. G-52 prior to that time, will be as follows:

Commodity Charge		Effective Rates 1100 Btu per Mcf
First	1,000 Mcf per Month	43.5¢
Next	2,000 " " "	39.8¢
Next	3,000 " " "	38.8¢
Next	4,000 " " "	37.8¢
Next	10,000 " " "	33.2¢
Over	20,000 " " "	30.4¢

Reason for Special Rate

Witness representing the California Portland Cement Company, testified that this cement plant could not economically purchase natural gas for its use at the rates in Interruptible Schedules Nos. G-50, G-52, or G-53 as presently filed. He further testified that a thorough investigation of the cost of providing fuel for this plant showed that fuel oil could be currently delivered to the plant at a price between $1.70 and $1.75 per barrel. This study took into account the availability of fuel oil at reduced rates from small refineries, which the Cement Company would be in a position to purchase, and also took into account the economies which could be achieved by the use of dual-purpose vehicles to haul oil to the plant, returning to the Los Angeles area with bulk cement. The contract price for gas set forth in the proposed agreement is equivalent, in his opinion, to oil at approximately $1.84 per barrel. He testified, however, that the use of fuel oil and gas cannot be compared strictly on a heating value basis, claiming that fuel oil is approximately 6 per cent more efficient in a cement kiln than is gas.

This witness' position was that, despite the slightly lower efficiency obtainable through the use of gas and despite the slight price differential, sufficient savings could be made over the cost of handling fuel oil to permit the use of natural gas in this plant, but only if it were available at the rates provided for in this agreement.

A witness for applicant showed, in Exhibit No. 10, an estimate of the revenue and expenses associated with this proposed sale of interruptible gas. By relating the net revenue to be derived therefrom to the total net revenues of the gas department of applicant, he asserted that this service would not result in any loss in net revenue but would, according to his figures, slightly increase the net revenue of the gas department. It was this witness' conclusion that, in spite of the fact that applicant proposes to serve this customer at less than the regularly filed rates now in effect, it would be advantageous to applicant, and to the customers of applicant as a whole, for it to take on this business at the rate provided for in the agreement.

Conclusions

From the evidence in this proceeding it appears that sales at the preferential rate offered the California Portland Cement Company will not be detrimental to the existing customers of applicant, and that the special rate is necessary to meet competition from other fuels. The representative of the California Portland Cement Company testified to the effect that his plant would be ready to operate early in September and that to start up such a plant on fuel oil would be a difficult and possibly hazardous procedure due to the greater difficulty of control of fuel oil firing. In the interest, therefore, of making the needed gas service available to this customer as promptly as possible, we will authorize this agreement to be effective on the effective date of the order herein.

The Commission has often expressed itself as opposed to the rendering of service at rates not filed, and thus not readily available for public inspection. A basic reason for this opposition is exemplified by the very situation here involved. We believe that applicant should file this schedule of rates so that it will be readily available for inspection by any persons desirous of determining the best rate under which they might obtain service from applicant. Applicant contended that this schedule should not be filed, as it is designed solely to meet competition and, further, that there are now customers taking service under Schedule No. G-52 who would receive a reduction if such a schedule were filed, thus resulting in a reduction of revenue without sufficient justification before this Commission. We agree that this schedule should be available only under certain limited circumstances, but we are of the opinion that the public is entitled to notice as to its existence. Moreover, the law requires such filing (Sec. 489, Public Utilities Code).

The Commission, in approving contracts with the Chemical Corporations, stated in the opinion in Decision No. 51666:

> "While the contracts covering service to the Chemical Corporations are authorized in the order herein, the Commission is of the opinion that, in general, it is desirable to have all service furnished under filed tariffs. Accordingly, the applicant should review the feasibility of filing tariffs to cover the services to the two Chemical Corporations."

In this proceeding the necessity for having a filed tariff to cover the service to the Cement Company is clearly apparent since the record shows that an interpretation of the contract was necessary on the part of applicant before it could state definitely at the hearing the exact rates to be charged. Accordingly, the order herein will require applicant to file tariffs,

service area map and form of contract covering the interruptible service provided for in the agreement authorized herein in the general vicinity of the Cement Company.

As stated in our decision with reference to the Chemical Corporations, the Commission is of the opinion that it would be desirable to have a tariff filed for service to those corporations. Since the rates for service to the Cement Company and to the Chemical Corporations are the same, a single tariff would be desirable with the service area delineated to include both the area in the vicinity of Mojave and the area in the vicinity of Trona. In view of the testimony of a witness for applicant that the company would be willing, in effect, to make possible refunds on the basis of the rates to the Chemical Corporations including an offset charge of 1.2¢ in the first five blocks, it appears highly desirable that this offset charge be set forth in normal tariff form.

O R D E R

The above-entitled application having been filed, a public hearing having been held, the matter having been submitted and now being ready for decision, therefore

IT IS HEREBY ORDERED that:

1. Applicant be and it is authorized to carry out the terms and conditions of a written agreement dated April 28, 1955, with California Portland Cement Company and to render the service described therein, under the terms, charges and conditions stated therein, subject to the following conditions:

   a. That applicant file with the Commission within thirty days after the effective date of this order three certified copies of the agreement as executed.

b. Applicant shall notify this Commission in writing of the date service is first rendered under this agreement within thirty days after such commencement of service.

c. Applicant shall notify this Commission of the date of termination of this agreement within thirty days from and after said date of termination.

IT IS HEREBY FURTHER ORDERED as follows:

2. Applicant is authorized and directed to file in quadruplicate, within thirty days after the effective date of this order, in conformity with General Order No. 96, a schedule of rates, service area map and form of contract covering the interruptible service provided for in the agreement authorized herein in the general vicinity of the California Portland Cement Company. Applicant may provide for the furnishing of service to the American Potash & Chemical Corporation and to the West End Chemical Corporation in the above-required tariff schedules.

The authorization herein granted to carry out the terms and conditions in the written agreement shall lapse if not exercised within one year from the date hereof.

The effective date of this order with respect to the authorization to carry out the terms and conditions of the written agreement and to render the service described therein shall be the date hereof; in all other respects the effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 27th day of September, 1955.

President

Commissioners