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ORIGINAL

Decision No. 52628

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
PACIFIC GAS AND ELECTRIC COMPANY for)
an order of the Public Utilities)
Commission of the State of California)
granting and conferring upon applicant)
all necessary permission and authority)
to carry out the terms and conditions)
of a written contract for the sale of)
electric power and energy by and)
between applicant and the CITY OF)
PALO ALTO, dated December 1, 1955,)
(Exhibit "A" hereof).)

Application No. 37590

OPINION AND ORDER

By the above-entitled application, filed December 19, 1955, Pacific Gas and Electric Company requests an order of the Commission authorizing it to carry out the terms and conditions of a contract, dated December 1, 1955, with the City of Palo Alto, which contract relates to the sale by Pacific and purchase by Palo Alto of all the electricity which will be required by Palo Alto for its own use and for resale to its customers. A copy of said contract is attached to the application as Exhibit A.

Prior to August 27, 1955, Pacific furnished and supplied resale electric service to Palo Alto under and in accordance with the terms and conditions of a written contract, dated August 17, 1949, which contract Pacific was authorized to carry out by Decision No. 43429, dated October 18, 1949, in Application No. 30642. Said prior contract expired on August 27, 1955.

The new contract, to become effective and continue in force until the expiration of seven years from and after August 27,

1955, provides for the application of Pacific's filed Schedule R, Resale Service, to service provided thereunder except as follows:

1. The last sentence of special condition (b) of Schedule R, entitled "Demand" and referring to the so-called ratchet clause* for computation of demand charges is not to apply.
2. The demand and energy charges during the first three years of the term of the contract, called interim charges, shall be less than those provided for in Schedule R but shall be increased for each of the first three years in accordance with the charges set forth in the contract.

During the fourth and subsequent years of the term of the contract the rates, charges and conditions shall be those in accordance with Schedule R with the exception that the ratchet clause pertaining to demand shall not apply.

The rates to be paid by the city for electric energy to be furnished during the first three years of the contract term are as follows:

Demand Charge:

	First Year	Second Year	Third Year
	Per Month		
First 50 kw or less of maximum demand	\$79.00	\$83.00	\$87.00
Next 150 kw of maximum demand, per kw	1.58	1.65	1.73
Next 300 kw of maximum demand, per kw	1.05	1.10	1.15
Next 500 kw of maximum demand, per kw	.79	.83	.87
Next 1,000 kw of maximum demand, per kw	.64	.68	.72
All excess kw of maximum demand, per kw	.43	.45	.48

Energy Charge (to be added to the Demand Charge):

	Per Kwhr		
First 150 kwhr per kw per month	\$0.0075	\$0.0079	\$0.0084
Next 150 kwhr per kw per month	.0053	.0057	.0060
All over 300 kwhr per kw per month	.0043	.0045	.0048

Except that for all energy furnished in excess of 8,000,000 kwhr per month, the above rates shall be reduced by 0.5 mill per kwhr.

Minimum Charge:

Applicable when maximum demand in the current month or in one or more of the preceding 11 months has exceeded 25,000 kw - \$1.40 per month per kw of such maximum demand.

*/ The ratchet clause provides that maximum demands in the preceding 11 months be taken into consideration in determining demands for billing purposes.

Special conditions relating to voltage discount, demand, and power factor are also included as part of the contract.

The above rates differ from those embodied in the contract only to the extent of correcting certain typographical omissions by inserting "per month" and "per kw" in the demand tabulation and "per kwhr" in the energy tabulation. Such corrections are for clarification only.

Pacific states that the interim rates and charges during the first three years as set forth in the new contract were adopted to permit Palo Alto to make an orderly budgetary transition from the rates and charges under the prior contract to Schedule R rates and charges (ratchet eliminated) and to allow for an orderly adjustment of Palo Alto's resale rates. The ratchet clause is not included in the present contract since the prior contract did not contain the ratchet clause provision. The interim rates and elimination of the ratchet clause are the result of joint negotiations with Pacific by municipalities similarly served by Pacific and are in exchange for seven-year term contracts which would assure the retention of the municipalities^{1/} as customers, as a group, for that period of time.

Comparative revenues and average rates based on sales to Palo Alto for the year 1954 are as follows:

	<u>Revenues</u>	<u>Average Rate Mills/Kwhr</u>	<u>Increase Over Prior Contract</u>
Prior Contract	\$408,408	6.25	-
New Contract			
1st Year	436,969	6.68	7.0%
2nd Year	462,279	7.07	13.2
3rd Year	490,300	7.50	20.1
4th and Subsequent Years (Schedule R modified)	513,071	7.85	25.6

^{1/} Lompoc, Ukiah, Palo Alto, Lodi, Santa Clara, Healdsburg, Biggs, Alameda, Gridley.

Pacific states that in order to provide for the uniform application, through joint negotiation, of the rates set forth in Schedule R modified to service supplied by Pacific to the municipalities, the rates, terms, and conditions set forth in the new contract are identical to rates, terms, and conditions contained in new contracts concurrently offered to and accepted by the other municipalities except as to (1) the effective date, (2) an addendum to each of said contracts providing for delivery conditions of a peculiarly local nature, and (3) the interim charges in the Healdsburg, Lompoc and Ukiah contracts which are higher than the interim charges in the other new contracts because said three cities have heretofore had higher rates under previous contracts authorized by this Commission, all of which said new contracts are presented to this Commission for its authorization concurrently herewith.

The term of the contract is for a period of seven years from and after August 27, 1955 and shall continue thereafter from year to year, provided, however, that either party shall have the right to terminate the contract at the expiration of either the initial term or any subsequent contractual year by giving the other written notice to that effect at least twelve months prior to such termination date. The contract further provides that if, during the first three years of the contract, this Commission shall authorize an increase or decrease in the rates or charges of Pacific's Schedule R, then Pacific shall be entitled to increase or decrease the interim rates and charges concurrently and commensurately therewith. In the event that Pacific exercises its right to increase the interim rates and charges and should such increase result in an increase in the net charges for service to the city, then the latter may terminate this contract by written notice to Pacific within 120 days after the effective

date of such increase, said termination to be effective three years from the date of such notice. A similar right of termination exists during the fourth and subsequent years of the contract if this Commission authorizes modifications or revisions of Schedule R resulting in an increase in the net charges to Palo Alto.

The contract provides that it shall at all times be subject to such changes or modifications by this Commission as it may from time to time direct in the exercise of its jurisdiction.

Pacific alleges that the contract is fair, just and reasonable to the parties thereto; and that the furnishing and supplying of electric energy and service by Pacific to Palo Alto in accordance with the terms of the contract will not constitute a burden upon Pacific's other customers but will be of benefit and advantage to said other electric customers and to the public generally.

Applicant also refers to this Commission's Decision No. 47832, dated October 15, 1952, in Application No. 32589, authorizing Pacific to increase its rates to Palo Alto through negotiation, either by placing Palo Alto on applicable filed tariff rates wherever possible or by submitting a renegotiated contract for approval by this Commission.

In granting the authorization herein requested, the Commission calls attention to its position as stated in recent decisions that, if it should appear in a rate proceeding that any losses are being incurred because of deliveries under this contract, such losses are not to be imposed on Pacific's other electric customers.

Cognizance is also taken of the city's right to terminate the contract under certain conditions when and if the rates and charges are changed so as to increase net charges paid

by Palo Alto. Applicant and the city are hereby put on notice that in any future rate proceeding this Commission will not be obligated to consider the opposition of either party to any proposed changes in this contract predicated on the basis that a contract between the parties already exists as authorized by this Commission.

It has heretofore been noted that the new contract omits from the applicable rate schedule a so-called ratchet clause. Such a clause has been in Pacific's resale and some of its power schedules for many years. The authorization of this contract is not to be construed as denying the appropriateness of such a clause.

The Commission having considered the request of the applicant and being of the opinion that the application should be granted and that a public hearing is not necessary, therefore,

IT IS HEREBY ORDERED that Pacific Gas and Electric Company be and it is authorized to carry out the terms and conditions of the written contract, dated December 1, 1955, with the City of Palo Alto and to render the service described therein under the terms, charges and conditions stated therein.

IT IS FURTHER ORDERED that Pacific Gas and Electric Company shall file a statement, promptly after termination, showing the date when said contract was terminated.

The effective date of this order shall be twenty days after the date hereof.

Dated at Los Angeles, California, this 14th day of February, 1956.

[Signature]
President
[Signature]
[Signature]
[Signature]
Commissioners