MK

Decision No. 55317

ORIGINAL

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, granting and conferring upon Pacific permission and authority to carry out the terms and conditions of a written contract with SHELL OIL COMPANY, a Delaware corporation, dated December 27, 1956.	Application No. 38769

OPINION AND ORDER

By the above-entitled application filed January 28, 1957, Pacific Gas and Electric Company seeks an order of this Commission authorizing it to carry out the terms of a written contract dated December 27, 1956, with Shell Oil Company. Said contract relates to the supply of electric service and steam by Pacific to Shell's refinery at Martinez, California. A copy of the contract dated December 27, 1956, is attached to the application as Exhibit A.

Pacific presently furnishes electric service and steam to Shell's refinery at Martinez under an existing contract dated February 15, 1938. Said existing contract was entered into pursuant to the authorization granted Pacific by Decision No. 30530, dated January 17, 1938, in Application No. 21658. Said existing contract is subject to termination on December 31, 1957.

Under date of December 27, 1956, Pacific and Shell entered into a new contract for the furnishing of electric service and steam to Shell at its Martinez refinery, which new contract, upon its effective date will cancel and supersede the existing contract. Pacific states in its application that said new contract is merely a renegotiation and extension of the existing agreement upon a basis which will more nearly reflect Pacific's operating costs and expenses and more accurately reflect actual conditions of service to the refinery. The more important differences between the new contract and the existing contract are as follows:

1. The provision of Section 11 of the existing contract relating to the purchase of fuel oil by Pacific from Shell is eliminated. Pacific states that it now has adequate contracts for purchase of fuel oil from various suppliers.

2. Shell will purchase and Pacific will deliver all electric requirements for operation of the refinery up to a maximum demand of 42,500 kilowatts. Section 3 of the existing agreement limits Pacific's obligation to deliver electric energy to a maximum rate of 15,000 kilowatts in excess of such electric energy as Shell might generate at the Martinez refinery.

3. Section 11 of the new agreement, under which Shell is required to deliver feed water to Pacific without charge eliminates the option in Shell to deliver raw water or steam condensate, as provided under Section 10 of the existing contract.

4. The rates and charges for electric service under the new contract represent an increase over those provided in the existing contract. Exhibit B shows that the increase would amount to $103,819 or 16.85%, based on the 1956 level of use and assuming a price of $2.55 per barrel for repayment fuel.

5. The new contract provides for a method of rate revision, subject to Commission authorization, for electric rates up to the first 15,000 kilowatts of demand and for steam rates, which latter are the same in both the existing and new contracts.

Electric Rates

Section 5 of the new contract provides that Shell shall pay Pacific for all electricity delivered to the refinery at the following monthly rates and charges:

A. For the first 15,000 kilowatts of demand with its commensurate energy:

Demand Charge:

For the first 5,000 kilowatts or less of monthly maximum demand $7,750.00
For each additional kilowatt of monthly maximum demand 1.55

Energy Charge (in addition to the Demand Charge):

For each kilowatt hour, eight-tenths mill, and in addition thereto Shell shall deliver to Pacific at its steam plant at Martinez .0023 barrels of fuel oil or the equivalent quantity of substitute fuel, and Pacific shall accept such substitute fuel when offered by Shell in lieu of fuel oil.

B. For demands in excess of 15,000 kilowatts with its commensurate energy:

The rates and charges of such applicable regularly filed schedule of Pacific as may be elected by Shell on or before December 31st of any year. Such schedule shall be used to compute the charges made under this section for the ensuing calendar year and thereafter until another applicable filed schedule of Pacific is elected by Shell. (Shell has elected Schedule A-13 for the initial year).

Under A above, the maximum demand upon which the demand charge is calculated in any month will be the total maximum demand for said month, or 15,000 kilowatts, whichever is the lesser, and its commensurate energy will be such portion of the total energy delivered to Shell during the month as shall result from multiplying said total energy by the ratio of said maximum demand determined under A above to the total maximum demand for such month.

Under B above, the maximum demand in any month will be the excess, if any, over 15,000 kilowatts of the total maximum demand for such month, and the commensurate energy will be that portion remaining of the total energy delivered during such month, if any, not assigned for billing purposes under A above.

Steam Rates

Section 8 of the new contract covering the rate to be paid by Shell for steam furnished by Pacific is the same as that provided in the existing contract. Said rate is as follows:

Demand Charge:

For monthly maximum demand of 325,000 pounds or less $2,250.00

The maximum demand shall be the average steam delivery during the 60-minute interval in which said delivery is greater than any other 60-minute interval in the billing month.

Quantity Charge (in addition to Demand Charge):

The first 125,000,000 pounds per month ....$.02 per 1,000 pounds.

All excess of 125,000,000 pounds per month .... .015 per 1,000 pounds.

And, in addition to payment of the foregoing rates, Shell will deliver to Pacific at its steam plant at Martinez for each 1,000 pounds of steam delivered .265 barrels of fuel oil or the equivalent quantity of substitute fuel, and Pacific shall accept substitute fuel when offered by Shell in lieu of fuel oil.

Pacific filed a letter, dated May 16, 1957, with the Commission and developed therein the average revenue of 8.36 mills per kilowatt-hour which would be received for electric service to the refinery under regularly filed Schedule A-13.

Exhibit B shows that at the 1956 level of sales and based on a repayment fuel value of $2.55 per barrel, the average revenue for electric service would be 8 mills per kilowatt-hour under the present contract and 9.4 mills per kilowatt-hour under the new contract.

Included in Pacific's letter, dated May 16, 1957, was a development of the rate of return applicable to refinery service during 1956. Based upon the new contract rate and 1956 expenses and fuel cost of $2.8875 per barrel, the indicated rate of return is approximately 6%.

In its May 16, 1957 letter, Pacific also estimated steam and electric use at the Martinez refinery for the period 1957 through 1962. These estimates indicate an average monthly demand of 10,500 kilowatts in 1957 and 15,000 kilowatts in 1962. The annual energy consumption is estimated at 78,157,000 kilowatt-hours in 1957 and 111,653,000 kilowatt-hours in 1962.

The new contract provides that it shall be effective as of January 1, 1957, and shall continue in effect to and including December 31, 1967, and thereafter from year to year, unless terminated on December 31, 1967, or at the end of any subsequent calendar year by either party giving to the other at least 36 months' written notice; provided, however, that should Shell abandon or dismantle said Martinez refinery Shell may, by giving Pacific as much notice as possible, but not less than 12 months' written notice thereof, terminate said new contract at the time of such abandonment or dismantlement.

Pacific states that it has given careful consideration to all of the facts and circumstances bearing upon the matters involved and is informed and believes that said new contract and its terms and conditions are just and reasonable to the parties thereto, that each of the parties is desirous of entering into and performing its respective covenants and the consummation of said proposed agreement will forestall the construction and operation by Shell of a steam electric plant by means whereof Shell would be enabled to supply the principal part if not all if its power requirements.

The existing contract was exempted from the general electric rate increase granted to Pacific by Decision No. 47832, dated October 15, 1952, in Application No. 32589. Pacific states that the electric rate increase in said new contract therefore is just and reasonable in view of the added cost to Pacific of furnishing and supplying electric service resulting from substantial increases in operating costs and expenses since the execution of the existing contract. Pacific states that the furnishing of electric service and steam to Shell under said new contract will not constitute a burden upon Pacific's other electric customers but will, all things considered, be a benefit and advantage to said other customers.

The new contract provides that it shall not become effective until this Commission shall authorize applicant to carry out the terms and conditions thereof and that the contract shall at all times be subject to such changes or modifications as this Commission may from time to time direct in the exercise of its jurisdiction.

The Commission having considered the above-entitled application and being of the opinion that the application should be granted and that a public hearing thereon is not necessary, therefore,

IT IS HEREBY ORDERED that Pacific Gas and Electric Company be and it is authorized to carry out the terms of the written contract dated December 27, 1956, with Shell Oil Company, 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 with this Commission 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 30th day of July, 1957.

Peter E. Mitchell, President

Rex Hardy

C. Lyn Fox

Commissioners