

ORIGINAL

Decision No. 58377

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation on)
 the Commission's own motion of the)
 Electric and Steam Rates, Contracts,)
 Conditions and Service to Oil Refin-)
 eries, by PACIFIC GAS AND ELECTRIC)
 COMPANY.)

Case No. 6204

In the Matter of the Application of)
 PACIFIC GAS AND ELECTRIC COMPANY, a)
 corporation, for an order of the Pub-)
 lic Utilities Commission of the State)
 of California, granting and confer-)
 ring upon Pacific permission and)
 authority to carry out the terms and)
 conditions of a written contract with)
 SHELL OIL COMPANY, a Delaware corpo-)
 ration, dated December 27, 1956.)

Application No. 38769

In the Matter of the Application of)
 PACIFIC GAS AND ELECTRIC COMPANY for)
 an order granting and conferring)
 upon applicant permission and author-)
 ity to carry out the terms and condi-)
 tions of an agreement with UNION OIL)
 COMPANY, dated May 22, 1958.)
 (Electric - Steam))

Application No. 40270

In the Matter of the Application of)
 PACIFIC GAS AND ELECTRIC COMPANY for)
 an order granting and conferring)
 upon Pacific authorization to carry)
 out the terms and conditions of an)
 agreement with TIDEWATER OIL COMPANY.)
 (Electric - Steam))

Application No. 40481
 and
 First Amendment thereto.

Pacific Gas and Electric Company, by F. T. Searls,
John C. Morrissey and John S. Cooper, respondent
 and applicant;

Southern California Edison Company, by Rollin E.
Woodbury and J. F. Nail; California Farm Bureau
 Federation, by William L. Knecht, interested
 parties.

J. J. Doran, Jr., for the Commission staff.

OPINION AND ORDER

Pacific Gas and Electric Company filed the above-entitled
 applications seeking the authorization of this Commission to carry

out the terms and conditions of certain contracts with the therein named oil companies respecting the furnishing of electric and steam service to the refineries of such companies. In considering these applications, it appeared to the Commission that there were a number of elements of common concern and the Commission initiated an order of investigation in order to inquire into and determine the propriety, the reasonableness, and the form of the rates, charges, contracts, terms and conditions under which Pacific Gas and Electric Company furnishes service to the oil refineries.

Public hearings in these matters were held before Examiner F. Everett Emerson on December 5, 1958 and March 2, 1959. The matters were submitted on the latter date.

While the Commission has heretofore had before it various contracts and amendments thereto respecting each of these oil refineries, this proceeding is the first in which they have been viewed collectively and subjected to comparisons in one record.

During the 1930's the four oil refineries in the Bay Area, namely, Standard, Shell, Tidewater and Union, were refining only about 40 per cent of each crude oil barrel. They found themselves with a variable market for fuel oil and with large quantities of residuum products on hand. There was little or no market for the residuums, comprised mainly of acid sludges, tars, waxes and gases, and disposal of them was both difficult and expensive. Pacific Gas and Electric Company provided electric service to each of the refineries.

Improved technology in the refinery processes, which require substantial amounts of electricity and steam, resulted in the refinery companies making plans to install new facilities capable of utilizing the combustible residuums and other fuels so

as to produce high pressure steam for their refinery processes and for the generation of electric power to be used in their own plants.

Pacific Gas and Electric Company was faced with the probable loss of over one half million dollars in annual revenue and for that reason entered into negotiations with the refineries under which the problems of disposal of refinery waste products and the supplying of electric power and steam might be resolved to the mutual benefit of the refineries and of Pacific. Pacific was successful in its negotiations with Tidewater, Shell and Union, with the result that contracts were entered into whereby steam-electric generating plants were installed by Pacific at Avon, Martinez and Oleum. Under the three contracts, heretofore approved by this Commission, each of the refineries provided fuel in the form of residuums and fuel oil and also supplied the necessary feed water. Pacific supplied electric power and also process steam extracted from the electric generating process. The initial term of all three contracts, entered into in 1938, was until December 31, 1957.

Over the years Pacific's maintenance and operating costs at the steam plants increased with the result that by 1954 Pacific determined that it would be necessary to obtain additional compensation from the refineries in order to cover the increased costs. The refineries were advised of Pacific's intention to terminate the contracts, in accordance with provisions therefor contained in the contracts, as of the end of their initial terms and negotiations were entered into for renewal on more favorable terms. The renewal contracts offered to each of the refineries was patterned after the existing contracts, with the economics thereof adjusted to produce additional compensation to Pacific. While the original contracts were essentially the same in many respects, various changes in conditions at the refineries had taken place, with the result that when

negotiations were opened for renewal, it was found that conditions with respect to fuel, residuums, steam content and electric load requirements had so substantially changed that contracts differing from the original pattern and individually tailored to the specific conditions at each of the refineries were not only desirable but essential.

Shell entered into a renewal contract which became effective December 31, 1956. This contract followed the general pattern of the original contract and essentially provided only for increased compensation. The contract has heretofore been found by the Commission to be fair and reasonable. The evidence in the instant proceeding is convincing that it remains so and that its terms should not now be disturbed.

Union, unlike Shell, does not have sufficient amounts of residuum to utilize the Shell type of contract effectively, but Union produces fuel oil and refinery gas at its Oleum plant in substantial quantities and since Pacific would have to purchase fuel to operate its Oleum generating plant, it was satisfactory to Pacific to incorporate the payment for fuel oil directly into the contract rate with an option to make part payment for Pacific's services in natural gas during any period when Union might experience a shortage of fuel oil. When termination of the original contract occurred on December 31, 1957, Pacific and Union were still attempting to negotiate a renewal. Pending delay in its execution, a letter agreement dated February 7, 1958, was entered into which, on an interim basis, provided for billing Union for electric and steam service in accordance with the rates, charges and terms of the proposed new agreement. The proposed new agreement was signed by the parties on May 22, 1958 and has an initial term ending

December 31, 1967, with provisions for its further continuance and notifications respecting its subsequent termination. The parties deem it to be operative as of January 1, 1958.

Tidewater's present electric power requirements are about twice those of Union and three times those of Shell. Its refinery processes produce crude oil residuum in quantities sufficient to operate Pacific's Avon steam-electric plant at its full annual capacity. Pacific and Tidewater, as in the case of Pacific and Union, did not complete their negotiations at the time of the termination of their original contract and in fact had not completed them at the time these matters were first set for hearing. Pacific and Tidewater entered into an interim agreement, however, for which approval was sought by Application No. 40481 as originally filed herein. Subsequently, and by First Amendment to said application, a definitive contract was signed on February 10, 1959. The definitive contract is not by its terms retroactive, thus, in the case of Tidewater, five interim letter agreements as well as the definitive agreement are before the Commission for approval.

Essentially, the five Tidewater letter agreements put the rates, charges, terms and conditions for electric power and steam service to Tidewater on the same basis as the service to Shell under the Shell contract of December 27, 1956. Additionally, they provide for an adjustment necessary to reflect the revenue to Pacific which would have accrued had the interim Tidewater letter agreements been effective January 1, 1957, the effective date of the renewal contract between Shell and Pacific.

Substantially, the Tidewater definitive agreement provides that Tidewater will deliver to Pacific sufficient quantities of refinery gas and refinery waste fuel to permit Pacific to operate

its Avon plant so as to generate therefrom the maximum annual kilowatt-hour output and that Pacific will so operate its plant. Pacific's charges for its electric service to Tidewater are to be those set forth in its rate Schedule A-13, with the monthly bill adjusted to reflect a consideration for delivery of all of the fuel that Pacific would otherwise have to purchase in order to so operate its Avon plant. The term of the contract is stated to be to and including December 31 of the tenth full year after the effective date, and thereafter from year to year.

All of the contracts before the Commission in this proceeding contain the necessary clause to the effect that the agreements require approval of the Commission and are subject to such changes and modifications as the Commission may, from time to time, direct in the exercise of its jurisdiction.

As above mentioned, the Shell, Union and Tidewater agreements with Pacific are tailored to the individual conditions and circumstances prevailing at the respective oil refineries. Where once they were essentially the same, they now are widely divergent. Exhibit No. 5 in this proceeding, together with oral testimony thereon, presents an analysis of the contracts by listing those items which are common to all and those items which cannot be reduced to a common denominator. Reasons for divergence are most clearly set out in this record. Such evidence is convincing that the contracts are individually appropriate and are fair and reasonable for each set of circumstances and that there does not now exist such a common denominator among them as to warrant modification of any one or of each or of all them in order to obtain, or to attempt to enforce, uniformity of their rates, charges, terms or conditions. The Commission finds the facts so to be.

One of the purposes of the Commission's investigation in these matters was to develop information sufficient to enable the Commission to determine whether the elements covered by the contracts might appropriately be put into rate schedule form and filed as part of Pacific's regular tariffs. The record appears to be full and complete in such respect and is convincing that, although possible as to certain of the elements of the service, it is impracticable with respect to the majority of the elements. Other than the basic fact that Shell, Union and Tidewater have oil refineries which Pacific supplies and with which Pacific exchanges some services or commodities, there now appears to be no common classification or category of service for which a single rate schedule is wholly appropriate. Nor does it appear that a separate tariff for each refinery would be any more desirable. In short, the Commission is satisfied with the appropriateness of the contract form in meeting the service and rate problems of Pacific as occasioned by the Shell, Union and Tidewater oil refineries in Contra Costa County. It would be helpful, however, to have a schedule among applicant's tariffs which would summarize the contract provisions and provide a ready reference to the electric rate portion of such contracts. The evidence indicates that this can be done, in a manner similar to that shown in Chapter 11 of Exhibit 4 in this proceeding, and the Commission finds it to be reasonable to require the same.

In view of the evidence the Commission finds that the respective contracts are (1) of mutual benefit to the parties thereto, (2) that they are fair and reasonable, (3) that they are not adverse to the public interest, (4) that any increases in rates or charges or any more restrictive terms and conditions pertaining thereto which may result therefrom are justified and (5) that Pacific should be

authorized to carry out the terms and conditions thereof. Accordingly, good cause appearing therefor,

IT IS ORDERED that Pacific Gas and Electric Company is authorized to carry out the terms and conditions of, and to render the service described therein under such terms and conditions, the following designated agreements:

1. The letter agreement of February 7, 1958 and the definitive agreement of May 22, 1958 with Union Oil Company of California, as said agreements appear as Exhibits A and B, respectively, attached to Application No. 40270.
2. The letter agreements of May 31, 1955; October 28, 1955; June 14, 1956; August 23, 1957; February 11, 1958; April 1, 1958; and July 29, 1958; and the definitive agreement of February 10, 1959 with Tidewater Oil Company, as said agreements appear as exhibits to Application No. 40481 and the First Amendment thereto.

IT IS FURTHER ORDERED that this Commission's Decision No. 55317 in Application No. 38769, issued July 30, 1957, is hereby reaffirmed and that the contract between Pacific Gas and Electric Company and Shell Oil Company therein authorized is in no manner modified by any action of the Commission herein taken.

IT IS FURTHER ORDERED that Pacific Gas and Electric Company is directed to file with this Commission, within thirty days after the effective date of this order and in accordance with the procedure described in General Order No. 96, a tariff schedule to be designated "P-8, Oil Refinery Electric and Steam Service" which will summarize the rate portion of each definitive agreement hereinabove authorized.

IT IS FURTHER ORDERED that Pacific Gas and Electric Company shall promptly notify this Commission, in writing, of the termination of any of the contracts hereinabove authorized.

IT IS FURTHER ORDERED that the Commission's investigation of these matters, as set forth in Case No. 6204, shall be terminated and discontinued as of the effective date of this order.

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

Dated at San Francisco, California, this 7th day of May, 1959.

E. L. Fox
President
E. Mitchell
W. D. D. D.
Theodore Deener
E. W. R. R.
Commissioners