

ORIGINAL

Decision No. 59083

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 granting,
among other things, authority to
carry out the terms of an agreement
with HERCULES POWDER COMPANY, dated
December 29, 1958.

(Electric)

Application No. 41053

In the Matter of the Application of
PACIFIC GAS AND ELECTRIC COMPANY, a
corporation, for an order granting,
among other things, authority to
carry out the terms of an agreement
with the DOW CHEMICAL COMPANY, dated
December 22, 1958.

(Electric)

Application No. 41054

In the Matter of the Application of
PACIFIC GAS AND ELECTRIC COMPANY, a
corporation, for an order granting,
among other things, authority to
carry out the terms of an agreement
with SHELL CHEMICAL CORPORATION,
dated January 2, 1959.

(Electric)

Application No. 41055

OPINION AND ORDER

Pacific Gas and Electric Company filed the above-entitled applications on April 20, 1959, requesting in each an order of this Commission for authority to carry out the terms and conditions of agreements dated December 29, 1958, December 22, 1958 and January 2, 1959 with the Hercules Powder Company, the Dow Chemical Company and the Shell Chemical Corporation, respectively.

Said agreements, hereafter referred to as new agreements, replace the contracts with these customers which terminated on December 31, 1958. Copies of the agreements dated December 29, 1958,

December 22, 1958 and January 2, 1959 are attached to Applications Nos. 41053, 41054, and 41055, respectively, as exhibits "A". Said new agreements provide, in each case, for the sale and delivery by Pacific of electric energy on an interruptible basis at a new schedule of rates and charges; for the lease from Pacific of substation facilities; for the maintenance by Pacific of said substations and facilities and for the conditions under which the installation or removal by Pacific of substation facilities will be made in the future.

Consolidated Proceeding

In considering these applications, it appears to the Commission that, because there are a number of elements of common concern, the terms and conditions under which Pacific Gas and Electric Company proposes to furnish service to each of these customers should be considered together. Accordingly, Pacific's applications for authority to enter into each of the afore-mentioned agreements are consolidated for the purpose of rendering the opinion and order contained herein.

History of Services

Electric service had been rendered by Pacific to the powder and chemical plants under agreements which became effective in 1939 and 1940, but were superseded by new agreements in 1951 and 1952. Agreements dated July 12, 1951, September 4, 1951 and April 11, 1952 covering service to the Hercules Powder and Chemical Plant in the Town of Hercules, the Dow Chemical Plant near Pittsburg, and the Shell Chemical Plant near Pittsburg were entered into pursuant to the authority granted Pacific by Decisions Nos. 46947, 46946 and 47346, respectively. Among other things, said agreements, hereafter referred to as old agreements, provided that (1) Pacific had the right to curtail or discontinue the use of electric power to customer between July 1 and February 15 of any contractual year, upon notice, for up to

2,190 hours per contractual year, and (2) to limit the delivery of electric power to the maximum demand specified in each agreement. The electric rates in these old agreements provided for a demand charge and an energy charge with an oil escalator clause affecting the energy charge. Shortly before, or on termination of the agreements of 1951 and 1952, Pacific and said powder and chemical plant customers entered into the afore-mentioned new agreements which replace the 1951 and 1952 agreements and are the subjects of the applications now before the Commission.

New Agreements

Under the new agreements Pacific agrees to sell and deliver to Hercules, Dow, and Shell all the electric power required to operate customers' respective powder and chemical plants, provided however, that Pacific is not obligated to deliver electric power in excess of the maximum specified in each agreement, and provided further that the use of electric power by customers shall be subject to interruption and curtailment. Interruption takes place upon a drop in frequency in supply and is accomplished by relays provided at customers' expense. Curtailment, upon notice from Pacific, may be required at any time but shall not aggregate more than 2,190 hours in any contractual year. These provisions are similar to those in the agreements being replaced, except that (1) the maximum demand which Pacific will supply is changed from 12,000 kva to 25,000 kva in the case of Hercules and from 35,000 kva to 70,000 kilowatts in the case of Dow, and (2) curtailment is no longer limited to the time between July 1 and February 15. If customer fails to comply with the curtailment notice, then the rates of this agreement shall no longer apply, and thereafter and for the remainder of the term of the agreements billings shall be in accordance with Pacific's regularly filed schedules (presently Schedule A-13). Pacific states that these customers' operations are of such a nature that interruption

and/or curtailment as provided in the new agreements will not result in an undue hardship to customers. Interruptions and curtailments are designed to make available by relay operation or by prior notice additional blocks of power to take care of the requirements of Pacific's customers served under firm rates. In cases of emergency, the load at customers' powder and chemical plants can be dropped by the relays faster than generation could be increased at Pacific's electric steam plants. Because of these interruption and curtailment provisions of the new agreements, Pacific states that it does not include the electric power requirements of these customers in the determination of system capacity requirements.

The new agreements provide for the leasing of certain substations from Pacific for which said power and chemical plant customers shall pay a monthly rental charge equal to 1.3333% of the installed cost of said facilities and 1.0916% of the cost, if any, to Pacific of the land upon which the facilities are situated. This rental is subject to a five-year review so as to increase or decrease the amount as a result of increases or decreases in ad valorem property taxes or special assessments.

In the cases of Dow and Shell, these customers have the right to install electric generating equipment in the future and to generate electricity within their steam power balance in order to prevent economic waste. If, by reason of such generation however, any facilities of Pacific are made idle, the agreements provide that Dow or Shell shall make Pacific whole.

Subject to approval by the Commission, the new agreements shall be deemed effective as of January 1, 1959 and shall continue in force until January 1, 1969, and thereafter from year to year, provided that either party to the agreements may terminate either on January 1, 1969 or January 1 of any subsequent year by giving not less than 12 months prior notice of such termination.

Each of the new agreements contains a provision that it shall not become effective until authorized by this Commission and that it shall at all times be subject to such changes or modifications by said Commission as it may, from time to time, direct in the exercise of its jurisdiction. In the event that any such changes or modifications shall so operate as to adversely affect customer, the agreements provide that customer may terminate said agreement after written notice has been given to Pacific.

Rates

Identical interruptible rates, consisting of an energy charge and a demand charge, are provided in each of the new agreements. The energy charge portion of said rates, which is based on Pacific's incremental cost of producing and transmitting the electric power supplied the powder and chemical plant customers, represents an increase over the present rates. The on-peak demand charge portion of the new rate, on the other hand, is about the same as the demand charge in the present rates. The increases in revenue resulting from the three new agreements are shown in Exhibit D of each application and are summarized in the table below. These increases are based on assumed usages of 25% oil and 75% gas and current prices of \$2.20 per barrel for oil and 35.6 cents per Mcf for gas.

Year 1958

| Customer | Kilowatt-Hour Sales | <u>Old Agreement</u> | | <u>New Agreement</u> | | <u>Increased Revenue from New Agreement</u> | |
|-------------------------|---------------------|----------------------|----------------------|----------------------|----------------------|---|------|
| | | Revenue \$ | Avg. Rate Mills /Kwh | Revenue \$ | Avg. Rate Mills /Kwh | Revenue \$ | % |
| Hercules Powder Company | 90,963,000 | 515,274 | 5.66 | 608,532 | 6.69 | 93,258 | 18.1 |
| The Dow Chem. Company | 287,202,648 | 1,622,492 | 5.65 | 1,880,713 | 6.55 | 258,221 | 15.9 |
| Shell Chem. Corporation | 134,064,000 | 744,273 | 5.55 | 883,875 | 6.59 | 139,602 | 18.8 |

In support of these proposed increases, Pacific states in its applications that the increases are comparable to a total increase of 24.3% in rates applicable to industrial customers which occurred between 1951 and the present time. While the increases shown in the table above are less than the 24.3% increase referred to by Pacific, they nevertheless appear to be reasonable in these cases because of the interruptible nature of the service and the inclusion in these rates of a fuel clause. Said fuel clause provides for adjustments in the energy charge based on the cost of oil and natural gas fuels in a manner similar to the adjustment provided in the 1951 and 1952 agreements for changes in the price of fuel oil alone. The inclusion of the cost of gas as a factor in the fuel adjustment clause gives recognition to the cost effect of the relatively large quantities of gas used in Pacific's steam electric generating plants. For the operating year 1957, for example, operating records of Pacific indicate that natural gas comprised 71.8% and fuel oil 28.2% of the fuels used in Pacific's plants.

Tariff Schedule

Attached to each of the applications as Exhibit C therein is a tariff schedule which Pacific states could be made applicable for service to the three chemical and powder plant customers in the event the Commission deems it appropriate that such service should be provided under a filed tariff sheet rather than under the contract alone. A comparison of said tariff schedule, designated "Interruptible Primary Industrial Power-Demand Metered", and the rates and special conditions contained in the rate portion of the new agreements with the chemical and powder plant customers shows them to be identical. Under these circumstances, where there exists a common classification or category of service for which a single rate is wholly applicable to these customers, the Commission prefers and finds it reasonable to require that applicant file said rate as a

part of its regularly filed tariffs and the order contained herein will so provide.

Conclusions

In view of the evidence, the Commission finds that any increases in rates or charges resulting from the new agreement or any more restrictive terms and conditions pertaining thereto which may result therefrom are justified and that the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable. If, it should appear in a rate proceeding that any losses are being incurred because of deliveries under these agreements, such losses are not to be imposed on Pacific's other electric customers.

The Commission desires that the electric rates for the service contemplated by these agreements be provided in a filed tariff, and we find it reasonable to require Pacific to file a tariff schedule, to be designated Schedule A-18, in the same form as that set forth as Exhibit C in Applications Nos. 41053, 41054 and 41055, which tariff shall contain the effective schedule of rates and charges for service under these agreements.

The Commission having considered the request of applicants, and being of the opinion that the applications should be granted and that a tariff should be filed and that a public hearing is not necessary; therefore,

IT IS HEREBY ORDERED:

1. That Pacific Gas and Electric Company be and it is authorized to carry out the terms of and to render the service described therein under such terms and conditions, the following designated agreements:

- a. The agreement dated December 29, 1958, with Hercules Powder Company, as said agreement appears as Exhibit A attached to Application No. 41053.

- b. The agreement of December 22, 1958, with Dow Chemical Company, as said agreement appears as Exhibit A attached to Application No. 41054.
- c. The agreement of January 2, 1959, with Shell Chemical Corporation, as said agreement appears as Exhibit A attached to Application No. 41055.

2. 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, tariff sheets to be designated Schedule A-18 Interruptible Primary Industrial Power, in the form shown in Exhibit C in Applications Nos. 41053, 41054 and 41055.

3. That Pacific Gas and Electric Company shall promptly notify this Commission, in writing, of the termination of any of the contracts hereinabove authorized.

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

Dated at San Francisco, California, this 29th
day of September, 1959.

Evelyn R. Rayo
President
W. L. Mitchell
W. L. Mitchell
C. L. Fox
Commissioners