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Decision No. 66422

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of CALIFORNIA ELECTRIC POWER COMPANY, PACIFIC GAS AND ELECTRIC COMPANY, SAN DIEGO GAS & ELECTRIC COMPANY and SOUTHERN CALIFORNIA EDISON COMPANY for an order authorizing applicants to carry out the terms and conditions of a California power pool agreement dated December 14, 1961. (Electric)	Application No. 44404 (Filed May 2, 1962)
In the matter of the joint application of CALIFORNIA ELECTRIC POWER COMPANY and SOUTHERN CALIFORNIA EDISON COMPANY for authorization to carry out an interim power interchange agreement dated July 24, 1962.	Application No. 44678 (Filed August 3, 1962)

F. T. Searls, John C. Morrissey and Gilbert L. Harrick, for Pacific Gas & Electric Company; Chickering & Gregory by Sherman Chickering, C. Hayden Ames and Richard B. Morris, for San Diego Gas & Electric Co.; Donald J. Carman, for California Electric Power Co.; Rollin E. Woodbury, Harry W. Sturges, Jr., and R. J. Cahall, by Harry W. Sturges, Jr., and R. J. Cahall, for Southern California Edison Company; and Stanley Jewell, for San Diego Gas & Electric Co., applicants.
William W. Eyers, for California Manufacturers Association; William L. Knecht, for California Farm Bureau Federation; Lesher S. Wing, for Federal Power Commission; and William E. Warne by Kenneth V. Hedstrom, for Department of Water Resources, interested parties.
W. R. Roche and Melvin E. Mezek, for the Commission staff.

O P I N I O N

These applications were heard before Commissioner Holoboff and Examiner Coffey at San Francisco on November 7 and 8, 1962. They were submitted on July 3, 1963, upon the receipt of concurrent briefs.

California Electric Power Company (CEP), Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E) and Southern California Edison Company (SCE) request

authorization by Application No. 44404 to carry out a California Power Pool Agreement dated December 14, 1961, for the purchase, sale and exchange of electrical capacity and energy between the said parties, attached to this application as Exhibit A.

By Decision No. 64475 (October 30, 1962, Application No. 44678), this Commission authorized CEP and SCE to carry out the Interim Power Interchange Agreement dated July 24, 1962, pending a showing to be made by applicants as to public interest and reasonableness of the interim agreement. For this purpose Application No. 44678 was consolidated for hearing with Application No. 44404. Said interim agreement was entered into pending authorization of the California Power Pool Agreement. No substantial showing in support of the interim agreement was made other than that which might be deduced from the showing herein in support of the California Power Pool Agreement (Agreement).

Applicants presented four witnesses and eight exhibits in support of their request. The staff presented one witness and two exhibits relative to its proposed amendments of the Agreement. Briefs were filed in behalf of the applicants, the California Manufacturers Association, and the staff. No protests or criticisms were voiced during this proceeding other than criticism of the staff.

The Agreement provides for the purchase, sale and exchange of capacity and energy, in times of emergency and at other times when convenient or economical. The Agreement requires each party to provide minimum margins of capacity resources, energy resources, and spinning reserve. To govern the operation of the pool the Agreement establishes a Board of Control composed of one respresentative from each party. A function of the Board of Control is to review, coordinate, recommend or approve the parties' programs for

providing resources. To aid the Board in performing its functions it will establish a permanent engineering and operating committee, composed of two representatives from each party, and such other committees as it deems advisable.

Each party will be obligated to operate its system in parallel with those of other parties and in such a manner as to minimize disturbances which might impair service to the customers of other parties, to maintain frequency at approximately 60 cycles, and to provide its own reactive power requirements.

Interconnections presently exist between PG&E and SCE in Kern County with a capacity of 250,000 Kilovolt-amperes (kva), between SDG&E and SCE with a capacity of 100,000 kva and between CEP and SCE with a capacity of 85,000 kva.

Under the Agreement a party can be required to furnish a service only out of its available capacity resources and then only to the extent that it can do so (1) without jeopardizing service to its own customers and service to other parties to which it is furnishing service of higher priority and (2) without interfering with obligations to third parties if such obligations are either now in existence or hereafter created in accordance with the Agreement. The priority of service is to be

(1) Energy furnished under a separate contract for firm capacity and energy by one party to another party.

(2) Short Term Firm Service

(3) Emergency Service

(4) Capacity Resources Standby Service

(5) Economy Capacity Service

(6) Economy Energy Service

The Agreement provides for all of the above services, except the first, as follows:

(a) Short Term Firm Service -- By mutual agreement a party may make available capacity and furnish energy to another party for a period up to 45 days, subject to renewal by mutual agreement. The rate for such service is basically a demand charge of $2.00 per kilowatt per month and an energy charge of 115 percent of the suppliers' incremental energy cost. The purchase, sale or exchange of firm capacity and energy for longer periods may be the subject of separate agreements.

(b) Emergency Service -- In the event of an emergency on the system of a party, that party has the right, if it is using all of its own spinning reserve, to receive spinning reserve service from the other parties for a period of two hours up to the amount of spinning reserve it is obligated to maintain under the Agreement. There is no charge for emergency service so long as the receiver does not receive energy for a period in excess of two hours and does not exceed its spinning reserve entitlement at any time after the first half hour of such period, but the energy must be returned.

If the emergency continues for more than two hours and if the party in trouble uses due diligence to utilize its available resources, it is entitled to receive capacity and energy from the other parties for up to 60 days to replace its lost or interrupted capacity. The rate for emergency service which continues for more than two hours or where the receiver exceeds its spinning reserve entitlement at any time after the first half hour of service is basically a demand charge of $2.00 per kilowatt per month and an energy charge of 115 percent of the supplier's incremental energy cost.

(c) Economy Capacity Service -- By mutual agreement a party may make available capacity and furnish energy to another party subject to discontinuance on notice sufficient for the receiver to place alternative capacity in service, but the receiver is not entitled to more than 24 hours' notice. The rate for such service is basically a demand charge of 1 cent or 2 cents per kilowatt per day, depending on the source of the capacity, and an energy charge which is substantially the same as that for the following economy energy service.

(d) Economy Energy Service -- By mutual agreement a party may sell economy energy to another party if the net savings in the transaction are at least 0.4 mill per kilowatt-hour. The rate for such service is basically an energy charge which divides the net savings equally between the supplier and the receiver, with an alternative rate of 110 percent of the supplier's incremental energy cost if the net savings cannot be readily determined.

(e) Capacity Resources Standby Service -- In the event of a capacity resources deficiency on the system of a party, that party may, if its own resources are fully loaded, call upon the other parties for capacity and energy for periods up to seven days for the purpose of supplying firm customer loads. The rate for such service is basically a demand charge of $2.00 per kilowatt per month and an energy charge of 115 percent of the supplier's incremental energy cost.

(f) Energy Interchange Service -- Under this service the intermediate system, which initially is SCE, receives energy from the supplier of one of the aforesaid services and delivers to the receiver an equivalent amount of energy adjusted for estimated losses resulting on the intermediate system. The rate for such

service is 4½ percent of the supplier's incremental energy cost except in the case of economy energy, in which case it is 30 percent of the net savings in the transaction or, if the net savings cannot be readily determined, 3 percent of the supplier's incremental energy cost.

The foregoing services under the Agreement will initially be arranged between the dispatchers of the parties involved.

Applicants allege that although the Agreement does not provide directly for agreements between parties for sharing of new generation or for long term sale of firm power in order to defer new generation, it was written so as not to preclude them.

The Agreement does not become effective until authorized by respective regulatory agencies having jurisdiction and provides that it is subject to the jurisdiction of any governmental authority having jurisdiction.

Applicants allege that the Agreement is desirable in the public interest and that the rates have been agreed to by all the parties as fair and reasonable rates. Applicants argue that each rate is reciprocal in that it applies alike to all parties and each party may be a supplier as well as a receiver of any of the services. Operations under the Agreement are expected by applicants to result in more dependable, adaptable,economical, and efficient service to the electrical consumers in the service areas of the parties.

The staff, after concluding that the pooling of power in California with proper planning will provide a more reliable and economical power supply than could otherwise be obtained, made the following recommendations which were opposed by the applicants and the California Manufacturers Association as destructive of the benefits available from the Agreement:

1. That applicants file tariff schedules for California Power Pool service rates and a justification thereof supported by studies of the allocation of system-wide average costs and other data.

2. That applicants annually file studies of the allocation of system-wide average costs to be used in the setting of rates for pool service for the following year and retroactively adjusting the charges for the preceding year. The staff in its brief modified this recommendation to suggest that only one initial cost study of the type customarily made in rate cases would be necessary and that the rates be set prospectively.

3. That the filed tariff schedules for California Power Pool service include a schedule of long term firm service.

4. That comprehensive annual reports for the California Power Pool be filed with the Commission.

Witness for applicants testified that, through the year 1966, the applicants could not predict the effect of California Power Pool operation upon cold and spinning reserve margins and requirements, that the applicants do not believe there will be any effect upon the planned resources programs through 1966, that no plans now exist for the sale or purchase of firm capacity and energy between the parties, and that it is not possible to provide definite answers and forecasts as to the benefits which may be obtained in a given period of time.

General Order No. 96-A provides that no electric utility shall make effective any contract for the furnishing of any public utility service at rates or under conditions other than the rates and conditions contained in its tariff schedules on file and in effect at the time, unless it first obtains the authorization of

the Commission to carry out the terms of such contract. While it is highly desirable that maximum use be made of tariff schedules to set forth the rates and conditions of public utility service, the use of contracts is in the public interest when limited to those of special circumstance, exceptional complexity, voluminous detail, limited applicability and minimum need for public reference.

Applicants argue that the services contemplated in the Agreement do not come within the definition of "public utility services" and that General Order No. 96-A is not applicable. The Agreement provides that service under Agreement does not constitute the dedication of the system, or portion thereof, of any party to the public or to any other party. However, the Agreement provides for the purchase, sale and exchange of capacity and energy on a short term basis among the parties in times of emergency and at other times when convenient or economical. Under the Agreement the parties "hold out" to serve each other.

The Commission finds that services provided under the Agreement are public utility services and that General Order No. 96-A is applicable. Noting that the conformed copy of the Agreement and attachments comprises 79 pages, that service under the Agreement is in general limited to the four parties to the Agreement, the Commission finds that the Agreement should be considered under Section X.A of General Order No. 96-A and that the filing of tariff schedules should not be required except as required by Section II of said general order.

A fundamental issue in this proceeding is whether rates for power pool service are to be largely related to incremental costs, as proposed by applicants, or to be determined upon the basis of the allocation of system-wide average total or "full" costs, as advocated by the staff.

The fundamental concept of the Agreement appears to be that from time to time on a short term basis the capacity or energy requirements of one of the applicants may be more economically met by using the idle or only partially used facilities of another of the applicants than by using its own facilities. The loading of the electric production facilities is changed by system load dispatchers in accordance with the constantly varying capacity, energy, maintenance and emergency requirements. Of primary economic consideration in the selection by load dispatchers of the production facilities to be utilized to obtain the lowest total cost of power production are the incremental costs associated with the amounts of load carried by each of the individual production units. Each applicant now uses its most economical facilities first and puts its units of higher incremental cost into service only as requirements demand. The Agreement would apply this principle to all the facilities of the applicants as a group.

The Commission finds that the rates for service under the Agreement should in general be related to incremental costs. However, it is noted that applicants' witness testified that all costs will be determined in advance and agreed to between the parties, that this record does not set forth all said costs, and that it does not fully disclose the basis for negotiation and agreement between applicants on the rates and charges as set forth in the Agreement. The Commission finds that, except to the extent authorized herein, the applicants have not fully justified the terms and conditions of the Agreement.

So that applicants will have an opportunity to continue to develop the potential benefits to be derived from the operation of a power pool, will have the opportunity for experience in pool

operation and will have time to fully develop justifications of proposed rates and charges, the Commission finds that the Agreement should be authorized for a limited period and that annual reports of operations under the Agreement should be filed with this Commission.

Inasmuch as the Agreement provides that applicants may enter into additional agreements for the purchase, sale, exchange, and/or transmission of firm capacity and energy for periods in excess of that for which Short Term Service may be furnished, the Commission finds that a filed tariff for long term firm service is not at this time required by the public interest. The Commission also finds that the proposed agreements place no undue burden upon any of the applicants or upon their respective customers and it makes available potential power and energy to assist applicants in the performance of their public utility obligations.

It is concluded that the respective applicants should be authorized for a limited period to carry out the terms of the Agreement and the Interim Power Interchange Agreement.

The action taken herein is for authorization of said agreements and is not to be considered as indicative of amounts to be included in future proceedings for the purpose of determining just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. California Electric Power Company, Pacific Gas and Electric Company, San Diego Gas & Electric Company and Southern California Edison Company are authorized to carry out the terms and conditions of the California Power Pool Agreement, dated December 14, 1961,

attached to Application No. 44404 as Exhibit A, and to render the services described therein under the terms, charges and conditions stated therein. This authorization shall expire on December 31, 1966, unless prior to that date application is filed with this Commission for further authorization of said agreement.

2. California Electric Power Company and Southern California Edison Company are authorized to carry out the terms and conditions of the Interim Power Interchange Agreement, dated July 24, 1962, attached to Application No. 44678 as Exhibit A, and to render the service described therein under the terms, charges and conditions stated therein. This authorization shall expire on December 31, 1966, unless prior to that date application is filed with this Commission for further authorization of said agreement.

3. In conformity with General Order No. 96-A applicants are authorized and directed to file four copies of said California Power Pool Agreement of December 14, 1961, as executed by them, and to revise such of their tariff schedules relating to the contracts herein authorized, within thirty days after the effective date of this order. Such tariff sheets shall become effective upon five days' notice to the public and this Commission as hereinabove provided.

4. On or before March 31 of each year, applicants shall file with this Commission a report of the operation during the previous year of the California Power Pool under the Agreement herein authorized, including but not limited to programs and forecasts submitted to the Board of Control, programs approved by the Board of Control, actions of the Board of Control, services performed and charges therefor, and the basis of all charges for services.

These reports shall not be open to public inspection without further order of this Commission.

5. Applicants shall file with this Commission promptly after termination of the agreements herein authorized statements showing the dates when they were terminated.

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

Dated at San Francisco, California, this 3rd day of December, 1963.

President

Commissioners