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Decision 88-02-016 February 10, 1988 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Approval of Electric Service Agreement with Chevron U.S.A. Inc. U-39-E	Application 87-12-009 (Filed December 4, 1987)

OPINION

I. Summary

We approve with minor modifications an electric service agreement (Agreement) between Pacific Gas and Electric Company (PG&E) and Chevron U.S.A. Inc. (Chevron).

II. Background

Chevron's Richmond refinery was built in 1901 and came onstream in 1902. The refinery has the capacity to refine 365,000 barrels of crude oil per day. Chevron employs 1,825 people at the refinery which covers about 2,900 acres (4.5 square miles). The refinery currently produces one-tenth of its electrical needs. The remainder is purchased from PG&E at a cost of about $4 million per month. The refinery's projected electrical demand through the year 2000 is an average of 118 megawatt (MW) per year.

Chevron began exploring the possibility of constructing a large cogeneration facility to meet the electrical needs of its Richmond refinery in late 1985.

On August 19, 1986, Chevron requested from PG&E a Standard Offer #1 (SO1) agreement and approximate interconnection costs for a 99 MW cogeneration plant. On October 15, 1986, Chevron returned a signed SO1 agreement and then applied to the California Energy Commission (CEC) for a small power plant exemption.

In April, 1987, PG&E made a detailed presentation to Chevron of an electric service agreement which PG&E felt would provide equivalent savings to a cogeneration system. Chevron declined this offer.

On May 1, 1987, PG&E intervened in the CEC proceeding and actively opposed Chevron's request for a small power plant exemption. On October 7, 1987 the CEC approved a small power plant exemption for Chevron.

On October 9, 1987, PG&E met with Chevron to discuss a concept for a negotiated agreement. Chevron agreed to reopen negotiations and on November 24, 1987, PG&E and Chevron signed the Agreement subject to approval by this Commission.

PG&E then filed an application for approval of the Agreement which was protested by the Division of Ratepayer Advocates (DRA). A workshop was held under the Expedited Application Docket on January 4, 1988. At this workshop, DRA was granted an additional two weeks to obtain more information about the Agreement and to file a written recommendation. DRA subsequently withdrew its protest and filed a recommendation for conditional approval of the PG&E-Chevron agreement.

III. The Agreement

The Agreement provides for electric service at negotiated rates for Chevron's Richmond refinery beginning the day after the Commission approves the Agreement. The term of the Agreement is divided into two periods in which different pricing terms apply. The "Discount Period" will begin the day after the Commission approves the Agreement and will last 42 months unless terminated early by either party. Beginning immediately after the Discount Period the "Index Period" will be in effect for 18 months unless terminated early. For each day after January 18, 1988 up to the date of the Commission's approval, the Discount Period is extended

one day and the Index Period is shortened by one day. The total term of the Agreement shall not exceed five years. In addition, PG&E may terminate the Discount Period and initiate the Index Period on six months' notice given any time after the eighteenth month following Commission approval of the Agreement. Chevron may terminate the Discount Period and initiate the Index Period on one month's notice given any time after the twelfth month following Commission approval of the Agreement.

The contract rates are designed such that the cogeneration system that Chevron could install at its Richmond refinery offered Chevron a return of less than 9% when compared with PG&E's negotiated rate.

The rates during both the Discount Period and the Index Period parallel the structure of PG&E's E-20 schedules in that they consist of a flat customer charge, a peak demand charge, a maximum demand charge, and time-differentiated energy charges. The customer and demand charges are equal to the corresponding charges in the E-20T schedule. The energy charges during the Discount Period are less than the corresponding current E-20 charges. During the Index Period, the energy charges equal the energy charges in the current E-20T schedule, plus an additional amount equal to the full cost of owning and operating the substation serving Chevron's load.

The contract rates are subject to both a floor and a ceiling. The floor is based on PG&E's approved marginal costs for transmission voltage service plus the Chevron-specific costs of transformation. The ceiling is equal to the E-20T rate plus the Chevron-specific costs of transformation.

PG&E again has requested that the Agreement's rate component values be kept confidential under Section 583 of the Public Utilities Code. (See A.87-02-035 for USS-POSCO Industries and A.87-04-003 for ARCO Oil and Gas Company.)

IV. DRA Recommendation

DRA recommends that the Agreement be conditionally approved as the reasonableness of the price terms may be reviewed at a later date when new sales forecasts are adopted. DRA believes that the Agreement will provide a positive contribution to margin. And if the floor provisions are clarified, DRA further believes that PG&E will recover all of its costs of serving Chevron's electrical needs at the Richmond refinery. For these reasons, DRA has withdrawn its protest and supports a conditional approval of the Agreement.

DRA observes that the Agreement is different from earlier special contracts since the discounted rates take effect immediately upon Commission approval of the Agreement rather than at the time the cogeneration project would have come on line. The early discounted rate is later offset by a higher "index" rate. DRA has no objection to this arrangement although it is different from prior negotiated rates.

DRA notes that PG&E's risk may be reduced during the period between the Agreement's approval and July 1, 1988. On July 1, 1988, the Electric Revenue Accounting Mechanism (ERAM) may no longer apply to sales from the class of customers such as Chevron. Until that date, the difference between energy sales at the higher applicable tariff rate and the discounted rate will accumulate in ERAM. DRA is concerned that a "gold rush" might be mounted to take advantage of this transition period. Consequently, DRA asks that any other contracts negotiated by utilities should not take effect before the transition date marking the elimination of ERAM.

DRA also believes that the contract language regarding the floor price needs to be clarified. DRA recommends that the following language should be added:

"The calculation of the Floor charges under Part A.7 of Appendix A of the Agreement will consist of the sum of four parts. First, kilowatt-hour consumption in each time-of-use period will be multiplied by the marginal energy cost in the respective time-of-use period, applicable to transmission voltages, that has been adopted most recently by the Commission.

"Second, demand marginal costs will be calculated by taking the sum of (1) demand at the time of system peak ("coincident demand") times the coincident demand marginal cost and (2) maximum demand recorded during the year ("non-coincident demand") times the noncoincident demand marginal cost. Demand at the time of system peak will equal Chevron's average demand during the 100 hours of greatest total demand on PG&E's system. Coincident demand marginal costs currently consist of (1) the marginal generation shortage cost most recently adopted by the Commission (cost of a gas turbine times the Energy Reliability Index) plus (2) 50% of marginal transmission capacity costs most recently adopted by the Commission.

"Non-coincident demand costs currently are equal to 50% of adopted marginal transmission capacity costs.

"Third, an adjustment equal to $.00292 per kilowatt-hour, times annual kilowatt-hour consumption, is added to the above to capture substation-specific marginal costs in the calculation.

"Fourth, the adopted marginal customer cost for the large light and power class is added."

DRA states that the above language differs from the Agreement in two respects. First, the $.00292 adder is greater than the $.0027 adder in the Agreement. Second, it contains a marginal customer cost component. DRA believes that these two changes are admittedly

minor but also are consistent with accepted ratemaking practices[1].

DRA states that it is most concerned about the economics of the Agreement as compared to the proposed cogeneration facility. PG&E has represented that the net present value of the contribution to margin over the life of the project under the negotiated rate scenario is $72 million while the net present value of the bypass, or "build now", scenario is $54 million. PG&E's analysis indicates that the contribution to margin under the negotiated rate is $18 million greater than the contribution under the build now scenario.

DRA questions this analysis on several grounds. First, DRA observes that PG&E's analysis is based upon internal PG&E marginal cost figures which are lower than Commission-adopted figures for PG&E's system. Second, DRA finds that PG&E's estimates of billing data for standby and backup power differ from DRA's conclusions based upon an analysis of billing records for standby customers comparable to the performance expected of Chevron's proposed cogeneration facility. Use of DRA's conclusions on the billing data would lead to more revenue collected under the "build now" scenario.

If the most recently Commission-adopted marginal cost figures are used, DRA's analysis shows that the build now scenario yields a greater contribution to margin than the negotiated rate scenario. DRA finds a net present value difference of $12 million in favor of the build now scenario. Even if DRA uses more recent marginal cost figures which have not yet been adopted by the

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1 Chevron filed a response to DRA's recommendation and stated that DRA's clarifying language was acceptable to Chevron. PG&E filed a response also stating that the clarifying language was acceptable but that PG&E's $.0027 adder should be used as it reflects depreciation.

Commission, its analysis shows only a $2.7 million greater contribution to margin in favor of the negotiated rate scenario.

Despite the foregoing analysis, DRA supports approval of the Agreement. DRA makes this recommendation because it understands that the reasonableness of the Agreement's pricing provisions is not at issue under the expedited application procedure. Under the proposed decision in R.86-10-001, interested parties will have an opportunity to estimate class sales and revenues after imputing a price level for the sales in toto under special contracts for Large Light & Power (LL&P) customers. DRA believes that with this opportunity for later review of price provisions, it can recommend approval of the Agreement.

Finally, DRA moves for the release of all portions of the application submitted pursuant to Section 583 of the Public Utilities Code. DRA submits that PG&E is clearly abusing the special privilege accorded by the statute as it has claimed confidentiality with respect to matters which are already in a public record such as CEC decisions. DRA points out that staff members are subject to criminal penalties for revealing information submitted under the statute and urges the Commission to end PG&E's abuse of the confidentiality requirement. At the very least, DRA submits that the utilities seeking the protection afforded by Section 538 should be required to demonstrate imminent and direct harm of major consequence if information is disclosed.

V. Discussion

We will approve the Agreement on the condition that the clarifying language for the floor price as stated by DRA is added. Approval of the Agreement enables PG&E to provide electric service to Chevron and to retain a substantial contribution to margin. The negotiated rates cover PG&E's costs so that other ratepayers are not forced to subsidize a discounted rate to Chevron.

DRA has raised several concerns over PG&E's analysis of the economics of the Agreement vs the bypass project. We do not pass on the reasonableness of the price provisions in the Agreement at this time. We prefer instead to allow PG&E to enter into such agreements as long as the negotiated rates cover PG&E's cost of service to the customer. The question of whether PG&E has negotiated the maximum revenue stream from the customer is not to be determined in the expedited application procedure. After ERAM is eliminated for LL&P customers, the utilities will have a better incentive to maximize revenue from these customers. Such an incentive will be far more effective than our review on a case-by-case basis of the individual contract terms.

We also order disclosure of the rate components and supporting workpapers. Under prior decisions, the rate components are to be disclosed when the customer first receives service under the negotiated rates. Since the rates in the Agreement are effective the day after Commission approval, the rate components would have been promptly disclosed. After reviewing the workpapers supporting the rate components, we do not find any need to keep this material confidential. These types of documents and rate calculations are typically disclosed in our proceedings. Since the negotiated rates will be disclosed immediately after our decision, there is no compelling need to keep the supporting workpapers confidential.

Findings of Fact

1. PG&E has filed an application under the Expedited Application Docket seeking approval of a negotiated electric service agreement with Chevron.

2. PG&E estimates that approval of the Agreement yields a net present value of $18 million over construction of a cogeneration system at Chevron's Richmond refinery.

3. DRA supports approval of the Agreement although DRA's analysis shows that construction of the cogeneration system may have a greater net present value than the Agreement.

4. The question of whether PG&E has maximized the amount of revenue it can collect from Chevron is better addressed through the eventual elimination of ERAM for the LL&P class.

5. This order should take effect on the date of issuance so that the Agreement can go into effect immediately.

Conclusions of Law

1. The Agreement should be approved subject to the addition of the clarifying language on calculation of the floor stated by DRA in its written recommendation.

2. PG&E is at risk for any ratemaking treatment of the Agreement that the Commission later determines to be just and reasonable.

O R D E R

IT IS ORDERED that:

1. The Electric Service Agreement between Pacific Gas and Electric Company (PG&E) and Chevron U.S.A. Inc. (Chevron) is approved subject to the addition of the clarifying language on the calculation of the floor price prepared by the Division of Ratepayer Advocates.

2. The workpapers and all other materials submitted with the application may be publicly disclosed.

3. PG&E shall file the agreement and an amended list of contracts and deviations within 5 days of the date Chevron first receives service under the agreement as an advice letter pursuant to General Order 96-A. The agreement shall be marked to reflect the effective date of this decision and upon filing shall be available for public inspection upon request.

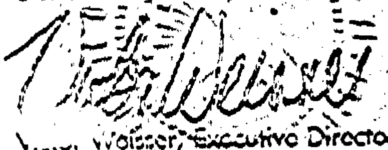
This order is effective today.

Dated FEB 10 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
Commissioners

Commissioner John B. Ohanian
being necessarily absent, did not
participate.

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.



Victor Weisser, Executive Director

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