

Decision 88 08 056

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Expedited Application Docket)
)
Application of Pacific Gas and)
Electric Company for Accelerated)
Approval of Electric Service)
Agreement with Union Oil Company)
of California U-39-E.)
_____)

ORIGINAL
(EAD)
Application 88-06-050
(Filed June 28, 1988)

OPINION

Summary

We approve the Electric Service Agreement (Agreement), between Pacific Gas and Electric Company (PG&E) and Union Oil Company of California (UNOCAL), for electric service delivered to UNOCAL's premises located at 2555 Willow Road, Arroyo Grande, California, under negotiated rates.

Background

PG&E has negotiated a special rate agreement with UNOCAL to prevent what PG&E believes would be uneconomic bypass of its system. The negotiated rate is based upon the estimated cost to UNOCAL of building and operating its own generation or bypass facility. Purchases under the Agreement should leave UNOCAL economically indifferent to its choice of energy options whereas PG&E will retain significant contributions to margin under the agreement.

On June 28, 1988, PG&E filed Application (A.) 88-06-050 requesting accelerated approval of the Agreement pursuant to Resolution ALJ-159 which adopted the Expedited Application Docket (EAD) to be used for utility requests for approval of special service contracts between the utility and its gas or electric customers. Although the EAD was established on an experimental

basis until June 30, 1988, PG&E requests that this application be processed under the EAD.

PG&E also requests that the Commission treat certain specific elements of the Agreement's rate component values as confidential under Section 583 of the Public Utilities Code until the requested rates go into effect, which effective date is requested to be September 1, 1988. The data requested to be kept confidential are generally UNOCAL's usage data, certain technical and economic details of the competitor cogeneration project, and certain other cost data which would allow a third party to calculate UNOCAL's usage and expenditures.

On July 18, 1988, the Division of Ratepayer Advocates (DRA) filed its comments on the application. In its comments, DRA contends that PG&E has exaggerated its claims regarding the contribution to margin. However, DRA believes that there is sufficient contribution to margin to justify the approval of the Agreement. While DRA recommends the approval of the Agreement, it opposes PG&E's request for confidentiality. DRA also requests that in future applications, PG&E be required to provide its analysis using Commission-adopted marginal cost values.

No other comments or protests have been filed.

A workshop was held on August 4, 1988 to address DRA's concerns.

Agreement

The Agreement is very similar to the agreement between PG&E and USS-POSCO Industries which was approved by the Commission in Decision (D.) 87-07-089. In addition, it meets the guidelines of D.88-03-008, interim opinion in the Commission's rulemaking proceeding in response to changing conditions in the Electric Industry (I.86-10-001). The negotiated rate applies to electric service beginning on the date UNOCAL's bypass facility could have commenced operation, September 1, 1988 (Ordering Paragraph 1.c - D.88-03-008). The negotiated rate applies up to the amount UNOCAL

would have received from the bypass facilities, 6 MW (Ordering Paragraph 1.b - D.88-03-008). The Agreement is effective for a term of five years (Ordering Paragraph 1.c - D.88-03-008).

The Agreement rate is designed to track the cost UNOCAL would have incurred if it had proceeded with the bypass facility. The rate is divided into three components: a fixed monthly or customer charge, a demand charge and a two-part energy charge (Ordering Paragraph 1.a - D.88-03-008).

The customer and demand charges are taken from Schedule E-20. They reflect cost of service based charges for time-of-use (TOU) differentiated capacity costs (Ordering Paragraph 1.d - D.88-03-008). The energy charge is also TOU differentiated and has components representing fuel and non-fuel based operating expenses. The cost components are indexed to the ECAC proceedings for the fuel based components and to the GNP Implicit Price Deflator for the non-fuel components. The price components are designed to give UNOCAL the same financial benefit it would receive from on-site generation and at the same time reflect demand and TOU pricing required by the Commission.

The Agreement is subject to both floor and ceiling price limitations. The floor price is calculated per Commission guidelines and is based on PG&E's Standard Offer 1, Power Purchase Agreement prices, plus allowances for marginal costs for capacity, distribution, transmission, and transformation, i.e. the floor price covers PG&E's cost of service to UNOCAL. The ceiling price is the otherwise applicable standard tariff, E-20P firm service or its successor.

PG&E asserts that the Agreement will yield a contribution to margin of about \$8.9 million over the Agreement's life. PG&E also asserts that the ratepayers will receive a net present value of approximately \$2.2 million in contribution to margin under the Agreement over and above the contribution to margin which they

would receive under the "build now" scenario, i.e. if UNOCAL proceeds with the bypass facility.

As required by Ordering Paragraph 4 of D.88-03-008, PG&E informed UNOCAL of the conservation options during negotiations for the Agreement. PG&E also offered UNOCAL conservation funding in the amount of net present value of the negotiated rate contract. UNOCAL maintained that it has pursued all reasonable conservation options. After considering remaining options and PG&E's offer for conservation funding, UNOCAL chose the discounted rate option.

Conditional Approval

In D.87-07-089 and D.87-09-082, the Commission approved the negotiated rate agreements filed by PG&E, subject to a condition which leaves open the ratemaking treatment and reasonableness of those contracts. Under this approach, the contribution to margin which PG&E would have received from UNOCAL under full tariff rates but which will not be received under the Agreement will be made up as determined by the Commission in other proceedings.

PG&E believes that while the uncertainty associated with the above approach creates risks for PG&E, failure to retain UNOCAL as its customer would result in major rate increases for its other ratepayers. PG&E also believes that it will have to take such a risk in order to receive timely approval of the Agreement. Therefore, PG&E requests that the Commission approve the Agreement subject to the condition that PG&E will be at risk for any ratemaking treatment of the Agreement that the Commission later determines to be appropriate.

DRA's Recommendation

Based on its analysis, DRA finds that a significant contribution to margin can be retained through the Agreement, and recommends that it be approved. However, DRA finds that PG&E's application and workpapers overstate the benefit that will be received from the contract.

DRA questions this analysis of benefits to ratepayers on two grounds. First, DRA observes that PG&E's analysis is based on marginal cost figures which are different than Commission-adopted figures. For this proceeding, however, DRA believes that PG&E used marginal cost figures that are fairly close to Commission-adopted figures. Second, DRA believes that PG&E in its analysis has overstated the "build now" scenario sales estimates. Use of DRA's conclusions would result in lower benefits to the ratepayers.

Despite the foregoing analysis, DRA supports approval of the Agreement because it believes that there is significant contribution to margin, relative both to marginal cost of service and to revenues under the "build now" scenario.

Discussion

Since no party has protested the Agreement and DRA recommends its approval, we will approve the Agreement. Approval of the Agreement enables PG&E to provide electric service to UNOCAL and to retain substantial contribution to margin. The terms and rates negotiated meet the guidelines established in D.88-03-008. The negotiated rates cover PG&E's costs so that other ratepayers are not forced to subsidize a discounted rate to UNOCAL.

As requested by PG&E, we will defer consideration of the reasonableness of the Agreement at this time. PG&E will, however, be at risk for any ratemaking adjustment the Commission later determines to be appropriate.

DRA requests that for future applications, PG&E should provide a separate analysis using Commission-adopted marginal cost figures if it does not choose to use the adopted marginal cost figures directly in its showing. During the workshop, PG&E agreed to provide the additional analysis requested by DRA.

Claim of Confidentiality

PG&E requests that certain elements of the Agreement's rate component values be kept confidential until the contract takes effect. The proposed effective date is September 1, 1988. The

information for which confidentiality is claimed includes usage data, cost data and technical and economic details of the proposed cogeneration facility. PG&E claims that the release of this information prior to the effective date would "seriously undermine" its negotiating efforts with other customers whose costs are higher than UNOCAL's.

DRA requests that this information be released.

According to DRA, PG&E made a similar request for confidentiality with respect to its contract with Chevron relating to electric usage at Chevron's Richmond refinery. DRA points out that the Commission ordered the disclosure of the rate components and all supporting workpapers in D.88-02-016 and requests a similar disclosure in this proceeding.

DRA disagrees with PG&E's claim that PG&E's negotiating posture with other potential special contract customers will be seriously impaired if the information is released prior to the effective date of the Agreement. DRA contends that no serious harm is caused by the disclosure of such information before the Agreement is approved because the rate components of the Agreement are dependent upon the particular customer's cogeneration costs. Therefore, DRA requests that PG&E should be ordered to release this information in order that it is available for public scrutiny.

Discussion

We note that 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. Therefore, we order PG&E to make available for public inspection the documents for which PG&E seeks confidentiality.

Findings of Fact

1. PG&E has filed an application under the Expedited Application Docket seeking approval of a negotiated electric service agreement with UNOCAL.
2. The Agreement, if approved by the Commission, would be effective on September 1, 1988, which is the date UNOCAL could have commenced operation of its own generation facility.
3. PG&E estimates that approval of the Agreement yields a net present value of \$2.2 million over construction of a cogeneration system at UNOCAL's Arroyo Grande refinery.
4. DRA supports approval of the Agreement although DRA believes that PG&E's claimed benefits are overstated.
5. PG&E agrees to the approval of the Agreement subject to the condition that it will be at risk for any ratemaking treatment that the Commission later determines to be appropriate.
6. The Commission has approved PG&E's recent service agreements with the condition that the reasonableness of the agreements be determined in later proceedings.
7. PG&E requests that certain elements of the Agreement rate components be kept confidential until the contract takes effect.
8. DRA requests that no information regarding the Agreement should be kept confidential.
9. There is no compelling need to keep any documents related to the Agreement confidential.

Conclusions of Law

1. The Agreement should be approved with the condition that PG&E will be at risk for any ratemaking treatment that the Commission later determines to be just and reasonable.
2. The workpapers and all other materials submitted with this application should be publicly available.

3. In order to allow PG&E to provide service at the negotiated rates starting September 1, 1988, this order should be made effective today.

ORDER

IT IS ORDERED that:

1. The Electric Service Agreement (Agreement) between Pacific Gas and Electric Company (PG&E) and Union Oil Company of California is approved subject to the condition that PG&E shall be at risk for any ratemaking treatment that the Commission later determines to be appropriate.

2. The workpapers and all other materials submitted with the application shall be made available for public inspection.

3. PG&E shall file the Agreement 5 days before UNOCAL 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 AUG 24 1988, at San Francisco, California.

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

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

Victor Weissar

Victor Weissar, Executive Director