

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION AND COMPLIANCE DIVISION
ENERGY BRANCHRESOLUTION G-2735
June 15, 1987R E S O L U T I O N

PACIFIC GAS AND ELECTRIC COMPANY (PG&E). ORDER AUTHORIZING PG&E TO ENTER INTO A SPECIAL SERVICE AGREEMENT WITH AEROJET GENERAL CORPORATION (AEROJET) FOR GAS SERVICE AND THE EXTENSION OF A GAS MAIN, AND TO AMEND THE LIST OF CONTRACTS AND DEVIATIONS ACCORDINGLY. (Advice Letter No. 1406-G, Filed April 17, 1987)

SUMMARY

1. By Advice Letter 1406-G, filed April 17, 1987, PG&E proposes to enter into a special agreement with Aerojet for gas service and extension of the gas main at Aerojet's Sacramento operations. The purpose of this contract and extension of the gas main is for the conversion of 85 existing boilers from being diesel fired to being gas fired.
2. PG&E is authorized to enter into this agreement with Aerojet as filed, subject to possible modification pending the final Decision in OII 86-06-005/OIR 86-06-006.

BACKGROUND

1. PG&E has filed Advice Letter No. 1406-G seeking Commission authorization to enter into an agreement with Aerojet for gas service and extension of a gas main, and to amend the List of Contracts and Deviations accordingly.
2. Aerojet's Sacramento complex consists of various buildings on 13,500 acres with 85 existing boilers. Presently, these boilers are being fired with diesel fuel which is stored in underground tanks. The Sacramento County Health Department, Environmental Health Branch, has determined that these tanks are environmentally unsafe and has ordered Aerojet to correct the problem so as to meet the statutory requirements of Chapter 6.34 of the California Health and Safety Code and the regulatory requirements of Subchapter 16, Title 23 of the California Administrative Code. Aerojet has considered three alternative to correct the situation: (a) Replace the current

storage tanks with double walls, (b) build smaller single walled, above ground tanks, or (c) convert existing boilers to natural gas.

3. Aerojet's first choice of the three alternatives is to convert the existing boilers to natural gas. Conversion of existing boilers to natural gas will provide PG&E with a substantial new gas customer. The conversion process is expected to be complete in three years. Because of the gradual addition of the gas load and the expense to Aerojet of the conversion, PG&E has requested treatment under Section E.7 of Rule 15, "Exceptional Cases". The agreement deviates from Rule 15 and the standard form extension agreement (Form 62-5605) as follows:

(a) For customers other than those classified as PI in Rule 21, PG&E would normally allow the amount (annual credit) of an extension equal to the estimated annual gross revenue. Typically, the estimated annual revenue is based on the expected first of year gas use. Since Aerojet's load will not be fully converted in the first year, PG&E has agreed to allow a revenue credit equal to the net revenue (gross revenue less the incremental cost of gas) based on the expected third year gas use.

(b) Rule 15 requires that the applicant pay the estimated cost of any extension that is in excess of the utility's revenue credit. Typically, this payment is in the form of a lump sum. In this case, Aerojet's portion of the cost will be amortized over the three year conversion period at PG&E's authorized rate of return.

(c) Rule 15 also requires that the applicant begin using gas within six months after the completion date of the extension. In this case, Aerojet's use will coincide with the conversion of its boilers beginning within six months, but the service will not be fully utilized until the end of the three year conversion period.

4. In OII 86-06-005, PG&E has proposed tariff provisions in which the incremental cost of gas component would be charged under separate rate schedules and this charge would not apply to customers who purchase gas from other gas suppliers. In addition, Rule 15, Main Extensions, would not apply to these rate schedules. The purpose of these changes in rate design is to protect the utility's ratepayers from paying a revenue credit for a gas line extension which is based on the applicants annual gross revenue when the utility may only be collecting the net revenue, due to the fact that the applicant may purchase gas from a different source.

5. PG&E expects an implementation decision in this proceeding during 1987. However, if the decision does not adopt PG&E's

proposed tariff provisions then PG&E will recalculate its contribution to Aerojet in order to comply with the decision.

PROTESTS

1. No protests were received regarding Advice Letter No. 1406-G.

DISCUSSION

1. PG&E and Aerojet have concluded an agreement for PG&E to provide gas service to 85 existing boilers at Aerojet's Sacramento operations. Service will require an extension of the gas line, and it is expected that the extension will take three years to complete. Because of the gradual three year conversion, PG&E has filed this Advice Letter under the provisions of Rule 15; Section D, Main Extensions to Applicants For Other Than Priority P-1 Service, and Section E.7, Exceptional Cases.

2. A revenue credit based on Aerojet's first year gas use would have been approximately \$137,390 which was too low to be acceptable to Aerojet. Conversely, a revenue credit equal to the gross revenue based on Aerojet's third year gas use at full conversion would have been approximately \$675,165. That, in PG&E's opinion, would have put too much burden of the cost of the extension on PG&E's ratepayers. As a compromise, the parties agreed to a revenue credit of \$230,986 which is equal to the annual net revenue based on Aerojet's third year gas use.

- 3 The Evaluation and Compliance (E&C) Division staff has reviewed these proposed deviations from Rule 15 and finds them to be reasonable for the following reasons:

- a. PG&E has agreed to base its revenue credit for the gas main extension on the third year gas usage rather than the first year usage. Rule 15 allows extension of distribution mains to be installed by the utility provided that the cost of such an extension does not exceed one times the estimated annual revenue, and any additional cost is to be paid by the applicant. Although Rule 15 does not specifically state that the annual revenue must be based on first year usage, the staff has always used the first year's revenue to estimate construction funding. In this case, however, it seems reasonable to use the annual revenue based on the third year use when the conversion will be completed. This will more accurately reflect the annual gas usage by Aerojet.

- b. PG&E normally requires that the applicant's portion of extension costs be in the form of a lump sum. In this

case, PG&E has agreed to prorate the payment over the three year conversion period at an interest rate equal to PG&E's authorized rate of return. This is reasonable as either form of payment is equivalent.

c. The Agreement also provides for PG&E's revenue credit to be based on annual net revenue rather than the customary annual gross revenue. This provision is more advantageous to PG&E and its ratepayers since it lowers the amount to be put up by the utility. The staff of the E&C Division has no objections to this provision. However, PG&E and Aerojet should modify the original Agreement to provide for the possibility that the CPUC implementation decision in OII 86-06-005/OIR 86-06-006 will produce a payment calculation method which would result in a lower payment from the Applicant.

4. The Aerojet contract as negotiated and approved by both parties represents a good investment for PG&E's ratepayers. In return for PG&E's investment, PG&E will receive net gas revenues that are estimated to be approximately \$47,000 the first year, \$139,000 the second year and \$231,000 the third year and thereafter.

5. Aerojet has been ordered by the County of Sacramento to remove 31 fuel storage tanks by the end of 1987, and 23 tanks in 1988 by Sacramento County Health Department. Aerojet would prefer to convert its boilers to natural gas rather than retrofit its existing underground tanks to meet environmental standards or build smaller above ground tanks, because natural gas burns cleaner than diesel fuel and this would assist in meeting air quality standards mandated by the Federal Clean Air Act. In addition, a natural gas pipeline is considered less of a fire hazard than above ground fuel tanks containing several thousand gallons of combustible fuel.

6. Without natural gas, Aerojet will experience severe economic and legal problems as follows:

a. The commitment to remove 31 storage tanks in 1987 will not be met and Aerojet will be in violation of its Permit to Operate Underground Storage Tanks, issued July 23, 1986. It is not certain how the Health Department will respond to such permit violations, but penalties are assessed on a per violation, per tank basis. The penalties accrue daily and may exceed one million dollars.

b. The 1988 permit requirements to remove 23 storage tanks will similarly be impossible to meet. However, not only will Aerojet be subject to penalties, but will be forced to retrofit these tanks with electronic inventory control and tank gauging devices.

7. The Public Staff Division has reviewed this filing and states that it believes that the deviation from Rule 15, Section D, regarding PG&E's funding of gas main extensions is too severe and complicated to be considered in an advice letter filing. The E&C Division considers the deviation as requested, with the modification, to be reasonable and recommends approval.

8. This filing will not increase any charge, cause the withdrawal of service, and except as noted above, will not conflict with any other schedules or rules.

FINDINGS

1. We find that the charges and conditions of the service contract, as modified, are just and reasonable; therefore,

IT IS ORDERED that:

1. Under the provisions of General Order 96-A, Pacific Gas and Electric Company is authorized to enter into a service Agreement with Aerojet General Corporation for gas service and the extension of a gas main, and to amend the list of contracts and deviations.

2. The Agreement shall be modified by adding the following sentence to Part 2.B.1: In the event that the CPUC's implementation decisions in OII 86-06-005 and OIR 86-06-006 result in a payment calculation methodology which would produce a lower payment, Exhibit "C" will be amended to reflect that new calculation methodology."

3. The modified agreement shall be submitted to this Commission by advice letter in accordance with the provisions of General Order 96-A within 30 days of the effective date of this Resolution.

4. In all other respects, the Agreement remains in full force and effect.

5. Advice Letter No. 1406-G and the accompanying contract, as modified, shall be marked to show that they were authorized by Resolution G-2735 and will become effective on June 15, 1987.

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I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 15, 1987. The following Commissioners approved it:



Executive Director

STANLEY W. HULETT

President

FREDERICK R. DUDA

G. MITCHELL WILK

JOHN B. OHANIAN

Commissioners

Commissioner Donald Vial, being necessarily absent, did not participate.