

Decision 90 06 020 JUN 06 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND)
 ELECTRIC COMPANY and the CITY OF)
 REDDING for an order authorizing)
 the former to sell and convey to)
 the latter certain electric)
 distribution facilities, in)
 accordance with the terms of an)
 agreement dated December 5, 1989.)
 (Electric) (U 39 E))

ORIGINAL

Application 90-03-029
(Filed March 22, 1990)

O P I N I O N

Pacific Gas and Electric Company (PG&E) and the City of Redding (City) seek an order granting PG&E authority to sell and convey to the City an electric distribution system (System).

The System is located in an area annexed to the City by Resolution No. 89-14, known as Tarmac Road Annexation No. 88-1. On December 5, 1989, PG&E and the City executed a Purchase and Sale Agreement (Agreement) for the sale of the System.

This Agreement was authorized by the City by Resolution No. 89-421.

Under the Agreement, PG&E has contracted, among other things, to sell to the City, and the City has agreed to purchase from PG&E, for the price and on the terms therein set forth, PG&E's electric distribution facilities, including any additions and betterments, within the area known as Tarmac Road, Annexation No. 88-1.

The City agrees to pay PG&E as the purchase price for the facilities, upon delivery by PG&E to the City of the bill of sale conveying the facilities, \$5,635, together with severance costs of \$2,376, for a total amount of \$8,011. Further, the City also agrees to pay to PG&E (a) the net value, as determined in accordance with PG&E's standard accounting practice, of any additions to and retirements from the facilities made by PG&E

subsequent to September 15, 1989, and prior to the conveyance of the facilities to the City, (b) 15% of such net value, and (c) any applicable severance costs.

As of September 15, 1989, the historical book cost of the facilities to be conveyed was \$3,125 and the depreciation reserve amounted to \$1,104, so the net book value (original cost less depreciation) was \$2,021. The actual cost of additions to and betterments of the System, together with 15% of such costs, as well as any applicable severance costs which accrue between the date of inventory and the date of conveyance, will be determined as of the date of conveyance to the City.

The transfer of title of the System to the City will cause 11 customers (six residential and five commercial) presently served by PG&E to become customers of the City. The City in turn has agreed, upon execution and delivery of the instruments of title, to assume all public utility obligations of PG&E to provide electric service to these six residential and five commercial customers in the area now supplied from the facilities, and any other customers added by PG&E prior to the delivery of the bill of sale. Upon conveyance of the facilities, the City has agreed to assume all responsibilities of the System. The Agreement provides that it shall not become effective until the Commission shall authorize PG&E to carry out its terms and conditions.

The City is and for some time has been the owner of an electric distribution system located within its city limits. From this system, the City furnishes electric service to its residents and inhabitants. The facilities which PG&E proposes to convey are located in an area which has been annexed to and has become a part of the City. The City desires to acquire the electric distribution system of PG&E described in the Agreement and incorporate it into its municipal electric distribution system. The City intends, upon acquiring such properties, to continue furnishing the electric service now being supplied by these facilities.

Applicants assert that the Agreement of December 5, 1989, is fair, just, and reasonable to the parties and the customers affected by it, that the properties and business comprising the facilities which PG&E has agreed to sell to the City are reasonably worth the amount the City has agreed to pay therefor, and that PG&E and the City desire to effectuate the Agreement in accordance with its provisions.

In Decision (D.) 89-07-016 in Order Instituting Rulemaking (R.) 88-11-041, the Commission addressed whether the gain or loss, as the case might be, on a sale such as the one described herein should be allocated to the selling utility's investors or ratepayers. In Ordering Paragraph 2 of D.89-07-016, the Commission stated that such capital gain or loss shall accrue to the utility and its shareholders to the extent that: (1) the remaining ratepayers on the selling utility's system are not adversely affected, and (2) the ratepayers have not contributed capital to the distribution system.

With regard to the first issue, neither the cost nor quality of service to PG&E's remaining ratepayers will be affected by the sale of the distribution system in question. PG&E's total electric distribution facilities serve 4,096,185 customers,¹ with an annual revenue of \$6,083,940,850 and a net book value of \$3,886,121,261.² The annual revenue from the six domestic and five commercial customers on the distribution system is approximately \$13,900. The revenues from the customers on the subject distribution system are minuscule in comparison with PG&E's revenues from its entire Electric Department (e.g., less than one-thousandth of 1%). Such distribution system comprises a very

1 Actual through October 31, 1989.

2 As of September 30, 1989.

small percentage of PG&E's electric distribution facilities (e.g., less than one-thousandth of 1% of the net book value PG&E's electric distribution facilities). PG&E will be able to continue to serve its remaining customers without any diminution in quality of service or economic harm as a result of the sale.

With regard to the capital for the facilities in question, no operating revenues pursuant to arrangements such as the GEDA or EEDA Programs (83 CPUC 16, 19-21) or funds receivable under a Public Utilities (PU) Code § 454.3 program or comparable program were the source of the investment in such facilities. PG&E asserts that the instant sale meets the requirements of D.89-07-016 for the capital gain (or loss) to accrue to PG&E and its shareholders. PG&E therefore requests that the gain on the instant sale be allocated to PG&E's investors.

There are no protests. A public hearing is not necessary. The application should be granted.

Findings of Fact

1. PG&E has agreed to sell an electric distribution system serving 11 customers to the City for \$8,011 plus (a) the net value of any additions and retirements since September 15, 1989, (b) 15% of such net value, and (c) severance costs.

2. The electric distribution system is located in an area annexed to the City by Resolution 89-14, known as Tarmac Road Annexation No. 88-1.

3. The purchase price for the electric distribution system is reasonable.

4. It can be seen with reasonable certainty that the sale and transfer of the electric distribution system to the City will have no significant impact on the environment.

5. The sale of the electric distribution system will not adversely affect the remaining ratepayers in PG&E's utility systems.

6. The ratepayers have not contributed capital to the electric distribution system.

Conclusions of Law

1. The sale and transfer should be authorized.
2. The sale and transfer meet the requirements of D.89-07-016 for the capital gain to accrue to PG&E and its shareholders.
3. Upon completion of the sale and transfer, PG&E should be relieved of its public utility obligations within the annexed area.

O R D E R

IT IS ORDERED that:

1. Within 6 months after the effective date of this order, Pacific Gas and Electric Company (PG&E) may sell and transfer to the City of Redding the electric distribution system set forth in Tab A of A.90-03-029 in accordance with the terms of the application.
2. Within 10 days of the actual transfer, PG&E shall notify the Commission in writing of the date on which the transfer was consummated. A true copy of the instrument effecting the sale and transfer shall be attached to the written notification.
3. Within 90 days after the date of actual transfer, PG&E shall advise the Commission Advisory and Compliance Division, in writing, of the adjustments for additions and betterments, if any, made in accordance with the transaction.
4. PG&E shall make remittance to the Commission of the Public Utilities Commission Reimbursement Fees collected to the date of sale and transfer of this system, along with its other fee remittances, at the next quarter remittance date following the date of the sale and transfer.

5. Upon completion of the sale and transfer authorized by this order, PG&E shall stand relieved of its public utility electric service obligations in the Tarmac Road area of Redding.

6. The gain on sale realized from this sale and transfer shall accrue to PG&E and its shareholders.

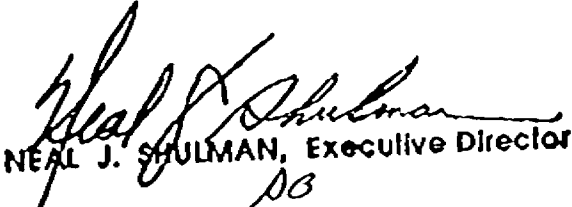
7. In accordance with General Order 96-A, PG&E shall file a revised service area map delineating its service territory in the vicinity of Redding within 90 days of the transfer date.

This order is effective today.

Dated JUN 06 1990, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

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


NEAL J. SHULMAN, Executive Director
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