ALJ/JBW/tcg

Decision 90 06 045 JUN 20 1990 ORIGINAL

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 June 2, 1987. (Electric) (U 39 E)	Application 88-02-034 (Filed February 18, 1988)
And other applications of PACIFIC GAS AND ELECTRIC COMPANY and the CITY OF REDDING for similar authority. (Electric) (U 39 E)	Application 89-04-034 (Filed April 7, 1989) Application 89-04-036 (Filed April 18, 1989) Application 89-04-046 (Filed April 19, 1989) Application 89-04-060 (Filed April 26, 1989) Application 89-04-061 (Filed April 26, 1989)

FINAL OPINION

Statement of Facts

By an interim decision (D.) in each of Application (A.) 88-02-034 (D.88-09-039); A.89-04-034 (D.89-06-016); A.89-04-036 (D.89-06-017); A.89-04-046 (D.89-06-015); A.89-04-060 (D.89-06-019); and A.89-04-061 (D.89-06-015), the Commission authorized Pacific Gas and Electric Company (PG&E) to sell and convey to the City of Redding (City), at different times, electric distribution systems serving customers in different respective geographic areas served by PG&E, and which areas had been annexed to City, and authorized PG&E to be relieved of its public utility obligations with respect to electric service in such areas upon completion of each sale and transfer.

From each of these sales of an electric distribution system serving a respective area taken by City, PG&E realized a capital gain, but lost plant, customers, and annual revenue. The results of each sale are set forth as follows:

A.88-02-034: Argyle Estates Subdivision, net book of lost plant $36,000, 81 residential and 9 commercial customers, annual revenue lost $143,000. Capital Gain $43,580 before taxes.

A.89-04-034: Oasis Road annexation area, net book of lost plant $10,000, 5 residential customers, annual revenue lost $5,000. Capital Gain $8,400 before taxes.

A.89-04-036: Wooded Acres North Subdivision, net book of lost plant $84,915, 41 residential customers, annual revenue lost $45,000. Capital Gain $66,885 before taxes.

A.89-04-046: Debbie Lane Subdivision, net book of lost plant $5,439, 55 residential customers, annual revenue lost $50,000. Capital Gain $29,751 before taxes.

A.89-04-060: Lema Road Subdivision, net book of lost plant $23,521, 48 residential customers, annual revenue lost $48,000. Capital Gain $70,079 before taxes.

A.89-04-061: Old Oregon Trail annexation area, net book of lost plant $17,062, 10 residential customers, annual revenue lost $10,000. Capital Gain $22,613 before taxes.

In each application, the Division of Ratepayer Advocates (DRA) asked that disposition of the respective capital gain being realized be deferred pending a decision in Order Instituting Rulemaking (R.) 88-11-041.

Each decision, while authorizing immediate sale and transfer, provided that PG&E record the respective capital gain realized over net book value, and retain each gain in an appropriate suspense account until further order from the Commission. PG&E complied.

Discussion

On July 6, 1989, the Commission issued D.89-07-016 in Rulemaking (R.) 88-11-041 providing the disposition to be followed with reference to the gain/loss resulting from utility sale of a distribution system consisting of part or all of a utility's operating system located within a geographically defined area to a municipality or some other public or governmental entity. That decision specifically provided that:

> "...for sales of utility assets within the scope of this ruling, any gain on the sale shall accrue to the utility shareholders, providing that the ratepayers have not contributed capital to the distribution system and any adverse effects on the selling utility's remaining ratepayers are fully mitigated."

The decision in this rulemaking proceeding further provided that the gain/loss issue in outstanding proceedings within its scope be disposed of pursuant to the findings, conclusions, and orders of the decision.

As to each of the captioned transactions, Joseph F. Flanagan, Manager of PG&E's Construction Accounting Department, has declared under penalty of perjury that PG&E's remaining ratepayers have contributed no capital to the system. Mr. O'Flanagan has further declared, also under penalty of perjury, that PG&E had an average of 4,076,086 and 3,982,956 system-wide electric customers for years 1989 and 1988, respectively, a net book value of $3,538,098,000 and $3,319,996,000 for electric distribution plant as of December 31, 1989 and December 31, 1988, respectively, and annual electric revenues of $6,017,816,328 and $5,413,909,878 for years 1989 and 1988, respectively.

Unlike the situations in <u>App. of Dyke Water Co.</u> (1964) 63 CPUC 641, <u>App. of Plunkett Water Co.</u> (1966) 65 CPUC 313, or <u>App. of Kentwood in the Pines</u> (1963) 61 CPUC 629, each discussed and distinguished in D.89-07-016, and where <u>major</u> portions of the facilities of each utility were to be sold which would have resulted in significant rate increases, or inadequate service, to the remaining ratepayers of the utility, and/or precarious financial conditions which would have jeopardized the utility's future operations (i.e., significant adverse economic impacts for remaining ratepayers), it is obvious in each of the captioned situations that minuscule portions of PG&E's facilities were sold, and that the number of customers and revenues lost constituted only a minuscule portion of PG&E's system-wide customer base and revenues.[1] Accordingly, there could be no significant or adverse economic impact for remaining ratepayers.

On balance therefore, the ratepayers in each instance having contributed no capital to the respective systems that were sold, and there being no significant or adverse economic impacts to the ratepayers remaining to PG&E, the welfare of the ratepayers who remained with PG&E was unchanged by each sale; they were in the same position before and after each sale. Accordingly, each of the sales meets the requirements set forth in D.89-07-016 for the respective capital gain to accrue to PG&E and its shareholders.

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1 The Argyle Estates distribution system (A.88-02-034) served 81 residential and 9 commercial customers, had a net book value of $36,000, and annual revenue of $143,000 was lost. This contrasts with PG&E's average of 3,982,956 customers for 1988; net book value of $3,319,996,000 and annual revenue of $5,413,909,878 for the same year.

Oasis Road system served 5 residential customers, net book value of $10,000, and annual revenue of $5,000; Wooded Acres North system served 41 residential customers, net book value of $84,915, and annual revenue of $45,000; Debbie Lane system served 55 residential customers, net book value of $5,439, and annual revenue of $50,000; Lema Road system served 48 residential customers, net book value of $23,521, and annual revenue of $48,000; and Old Oregon Trail system served 10 residential customers, net book value of $17,062, and annual revenue of $10,000. These contrast with PG&E's average of 4,076,086 customers for 1989; net book value of $3,538,098,000 and annual revenue of $6,017,816,328 for the same year.

Given the obviously minuscule impact on ratepayers of each of these transactions, and there being no other material issue of fact involved, there is need for a hearing as to any of them.

Findings of Fact

1. In each of the captioned applications, while authorized by an interim decision in each proceeding to proceed with the sale and transfer of an electric distribution system consisting of all of the utility's operating system serving customers and located within a geographically defined area to City, transactions since consummated, PG&E was also ordered to record the capital gain to be realized in each instance in a suspense account and retain it therein until further Commission order.

2. In the instance represented by each of the captioned applications, PG&E ratepayers contributed no capital to the respective distribution system sold and transferred to City.

3. In the instance represented by each of the captioned applications, minuscule portions of PG&E's systemwide facilities were sold and transferred, and the customers and revenues lost constituted only a minuscule portion of PG&E's customer base and revenues.

4. The facts with respect to each of the captioned applications bring the gain disposition issue from each squarely within the scope of D.89-07-016 in R.88-11-041.

5. D.89-07-016 in R.88-11-041 determined that where ratepayers have not contributed capital to the distribution system sold, and adverse effects from the sale on the utility's remaining ratepayers are fully mitigated, a capital gain realized from sale to a municipality of a distribution system consisting of part of a utility's operating system located within a geographically defined area shall accrue to the utility and its shareholders.

<u>Conclusions of Law</u>

1. The respective gain on sale realized in each of the captioned proceedings, pursuant to the Commission's determination in D.89-07-016 in R.88-11-041, should accrue to PG&E and its shareholders.

2. A public hearing is not necessary.

FINAL ORDER

IT IS ORDERED that the gains on sale realized from the sale and transfer authorized previously in each of the captioned applications shall accrue to Pacific Gas and Electric Company and its shareholders.

This order becomes effective 30 days from today.

Dated JUN 20 1990, at San Francisco, California.

FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

President G. Mitchell Wilk, being necessarily absent, did not participate.

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

Neal J. Shulman

NEAL J. SHULMAN, Executive Director