

Decision 99-02-075 February 18, 1999

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Diego Gas & Electric Company (U 902-E) for Authority to Sell Station B.

Application 98-04-041
(Filed April 24, 1998)

OPINION

San Diego Gas & Electric Company (Seller or SDG&E) requests authority, pursuant to Public Utilities (Pub. Util.) Code § 851, for the sale and transfer of its Station B Generating Station to Monaghan Company LLC (Purchaser or Monaghan) under the terms and conditions of an Option Agreement and Sale and Purchase Agreement attached to the application.

The application was filed on April 24, 1998 and was noticed on the Daily Calendar on April 29, 1998. On May 29, 1998, the Office of Ratepayer Advocates (ORA) filed a response to the application in which it stated that it did not oppose a Commission order granting SDG&E authority to sell Station B to Monaghan.

On June 4, 1998, the Assigned Commissioner's Ruling pursuant to Article 2.5 of the Rules of Practice and Procedure was filed. This ruling states, with respect to the need for evidentiary hearings, as follows:

"In Resolution ALJ 176-2992, the Commission made its preliminary determination on the need for hearing, and indicated that hearings were expected. However, based on the application and lack of protests or responses requesting a public hearing, no disputed issues of material fact exist, and no evidentiary hearing is necessary. I will be seeking Commission approval of that change as required by Rule 6.5(b)."

Granting this application constitutes Commission approval of the change in the determination that evidentiary hearings are needed in this matter.

Applicant

SDG&E is a public utility corporation organized and existing under the laws of the State of California.

SDG&E is engaged principally in the business of providing electric service in a portion of Orange County and electric and natural gas service in San Diego County. SDG&E serves some 1.2 million retail electric customers, and it distributes natural gas to more than 720,000 natural gas customers. SDG&E's service area encompasses approximately 4,100 square miles, covering two counties and 24 cities.

The Property

The Station B Generating Station was located on a 1.8-acre site at Kettner and Broadway in downtown San Diego, California, and consisted of four steam generating units with their accompanying auxiliary equipment. It was constructed in 1911 to house the DC generators that ran the first electric streetcar system in San Diego. SDG&E acquired the plant from the San Diego Railway Company in January 1921. After 1921, generating capacity was added in phases, with the last unit going into commercial operation in 1941. The station consisted of 10 Babcock and Wilcox boilers tied into a common steam header system to supply steam to four General Electric steam turbine generators and a house turbine generator. Total nameplate-rated output was 96 megawatts. In 1983, after 72 years of reliable operation, the plant was retired from electric generation service but remained operational for steam heat service. In 1989, a small package boiler was installed to provide steam heat service to a few customers in the downtown San Diego area. SDG&E discontinued steam heat service in 1993.

Station B is not currently used for utility purposes and no future utility purposes are intended for this site.

Valuation of Station B

The Station B property is unique in its potential and, accordingly, difficult to value via the traditional methods of appraisal. It is within walking distance of the waterfront in one of the downtown redevelopment areas, and the exterior of the building is considered eligible for historic designation under relevant San Diego ordinances. Extensive consultations were conducted with various brokers familiar with downtown San Diego property, and the property was listed in January 1997 at the offering price of \$4,900,000.

In late May 1997, interested parties submitted their "best and final" offers. That process resulted in nine offers ranging in price from \$1,560,000 to \$5,100,000. The highest offer was discarded because no factors other than price were addressed in the offer. Negotiations with the Purchaser resulted in the Purchaser increasing its offer to \$5,050,000, which was accepted by SDG&E.

The Purchase and Sale Agreement

On August 29, 1997, SDG&E and the Purchaser entered into an Option Agreement. The transaction entered into escrow on or about that date. Upon exercise of the Option, the Purchase and Sale Agreement would transfer the real property and those improvements generally described as the "shell building" and all interests, rights, privileges, and appurtenances benefiting the land and the improvements or both. The pending Purchase and Sale Agreement is conditioned upon SDG&E delivering to the Purchaser evidence of approval of the sale by the Commission or notice of lack of objection.

The purchase price for the property is \$5,050,000 payable by the Purchaser as follows:

1. A deposit in the amount of \$400,000 paid by Purchaser at the time the Purchase and Sale Agreement was executed.

2. The balance of the purchase price in the amount of \$4,650,000 to be paid in cash at the closing escrow.

Ratemaking Treatment

SDG&E intends to credit its electric customers with the net gains resulting from the sale. SDG&E intends to net the cost of decommissioning the facility (approximately \$6.2 million) first against the accrued decommissioning expense included in the depreciation reserve of about \$3,868,018 and the remaining balance of \$2.3 million will be applied to the sale price. The remaining after-tax balance will be credited to the Transition Cost Balancing Account (TCBA) to be applied towards the recovery of other stranded generation costs. This methodology is consistent with Commission directives in D.97-06-060 (Phase 1 Transition Cost Decision), D.97-11-074 (Phase 2 Transition Cost Decision), D.97-12-107 (PG&E Divestiture Decision), and D.97-12-106 (Edison Divestiture Decision). Upon completion of the sale, SDG&E will within 30 days submit a copy of the final sales agreement along with a complete accounting of the costs and proceeds. SDG&E's accounting into the TCBA will also be reflected in the monthly TCBA submittal containing all TCBA entries for each monthly period.

There is currently a negative net book value for the property due to the accrual of decommissioning expense through the depreciation reserve. The December 31, 1997 gross book value was \$4,569,564; the reserve was \$8,437,582; and the net book value, therefore, was a negative \$3,868,018. At the time SDG&E credits the net sale proceeds to the TCBA, it will also adjust the TCBA generation plant accounts, as appropriate.

The cost of decommissioning the plant is estimated to be \$6.145 million. SDG&E will reflect only the actual decommissioning costs incurred in the final accounting of this transaction.

SDG&E's generation-related TCBA will reflect both the inclusion of the net sale proceeds and the removal of the Station B assets from future stranded cost recovery.

ORA's Recommendations

ORA recommends that the Commission review SDG&E's request to sell Station B as proposed in the application to ensure that the remediation and decommissioning costs are reasonable and that the amount of the gain on sale is accounted for properly.

ORA states that it has reviewed the remediation and decommissioning costs, as well as the determination of the net book value, and is satisfied that they are reasonable. The negotiated sale results in a net gain on sale which SDG&E proposes be credited to the TCBA. ORA believes this result is in the public interest.

The Proposed Sale Is in the Public Interest

The proposed sale satisfies the prerequisite requirement of Commission approval pursuant to Pub. Util. Code § 851 that the transaction not be adverse to the public interest.

This application does not present the Commission with questions regarding impairment of service. Station B has not been utilized to provide public utility services of any sort since 1993, when steam heating operations were terminated. Electric generation ceased in 1983. Most of the major generating components, such as the turbines and generators, have been or are in the process of being removed. SDG&E is removing asbestos and performing other environmental remediation. Following decommissioning, the remaining structure and the site itself will not be viable for electric generation, and there are no other utility uses for the property. The property, therefore, is clearly no longer necessary or useful to SDG&E's utility functions. Moreover, the Station B

property is not presently (nor in the foreseeable future) necessary or useful in the performance of SDG&E's duties as a public utility.

Sale of this property should be approved.

Environmental Matters

Under the California Environmental Quality Act (CEQA), the Commission is obligated to consider the environmental consequences of a project that is subject to the Commission's discretionary approval. (Public Resources Code § 21080.) A project is an activity that "may cause either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment" and (a) is directly undertaken by any public agency, (b) is supported by contracts, grants, subsidies, loans, or other forms of assistance from one or more public agencies, or (c) involves the issuance of a lease, permit, license, certificate, or other entitlement for use by one or more public agencies. (Public Resources Code § 21065.)

Pursuant to this statutory directive, Commission staff from the Energy Division Environmental Review Team engaged representatives in discussions on both the applicability of CEQA to the project proposed in SDG&E's application and the potential environmental impacts that might reasonably be foreseen for such project. Based upon these discussions and its independent assessment of the proposed project, staff determined that the proposed project, in its entirety, had the potential for direct or indirect physical changes to the environment which are reasonably foreseeable. Therefore, staff determined that an environmental review of the project proposed by SDG&E in the instant application, and for which a discretionary approval for a sale agreement is sought by SDG&E from the Commission, was required pursuant to CEQA prior to the implementation of the proposed project.

However, subsequent to discussions between SDG&E and staff, and the filing by SDG&E of a Proponent's Environmental Assessment on July 29, 1998, the Energy Division Environmental Review Team became satisfied that an environmental review of the proposed project had been completed. Such a review was triggered and required by the necessary discretionary approval required by local jurisdictional agencies prior to the implementation of the project.

Therefore, the Energy Division Environmental Review Team finds that the specific action for which SDG&E seeks authority from the Commission in the instant application consists solely of an approval of authority to sell the subject property, which does not in itself result in reasonably foreseeable direct or indirect physical changes to the environment. SDG&E does not seek authority from the Commission for specific development of the property; such discretionary authority was sought by Monaghan from local jurisdictional agencies prior to the implementation of the project.

Due to these circumstances, staff has concluded that no further environmental review pursuant to CEQA will be required for the approval of this application before the Commission because such an environmental review has indeed been required and conducted by local jurisdictional authorities in their discretionary approval of local permits required for the subsequent later actions necessary to develop the property.

Staff's report dated November 30, 1998 addressed to the Administrative Law Judge is on file in this proceeding.

Waiver of Comment Period

Pub. Util. Code § 311(g)(1) provides that this decision must be served on all parties and subject to at least 30 days public review and comment prior to a vote

of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

All parties in the proceeding have stipulated to waive the 30-day waiting period required by Section 311(g)(1) and the opportunity to file comments on the draft decision. Accordingly, this matter will be placed on the Commission's agenda directly for prompt action.

Findings of Fact

1. SDG&E requests authority, pursuant to Pub. Util. Code § 851, for SDG&E to sell and transfer Station B Generating Station to Monaghan.
2. SDG&E is an investor-owned public utility engaged in the business of generating, transmitting, and distributing electric energy in portions of Southern California.
3. The proposed sale property is located on a 1.8-acre site at Kettner and Broadway in downtown San Diego.
4. Station B is not currently used for utility purposes and no future utility purposes are intended for this site.
5. The purchase price for the property is \$5,050,000.
6. SDG&E intends to credit its electric customers with the net gains resulting from the sale. SDG&E intends to net the cost of decommissioning the facility against the sale price. The remaining after-tax balance will be credited to the TCBA to be applied toward the recovery of other stranded generation costs.
7. ORA recommends approval of the application as being in the public interest.
8. The proposed project, in its entirety, has the potential for direct or indirect physical changes to the environment which are reasonably foreseeable.
9. Development of the property by the purchaser is subject to all applicable laws, including environmental laws, and before any use or development will be

permitted, discretionary approvals from those public agencies having jurisdiction will be required.

10. Because the public interest would best be served by having the sale take place expeditiously, the ensuing order should be made effective on the date of issuance.

Conclusions of Law

1. A public hearing is not necessary.
2. The proposed sale as set forth in the application and the accounting treatment of the transaction as set forth in the application should be approved.
3. The proposed sale is not subject to further review under CEQA by the Commission.

O R D E R

IT IS ORDERED that:

1. Within six months after the effective date of this order, San Diego Gas & Electric Company (SDG&E) may sell to Monaghan Company LLC the property set forth in Application 98-04-041, in accordance with the Purchase and Sale Agreement attached to the application.
2. Within 10 days of the actual transfer, SDG&E shall notify the Directors of both the Energy Division and the Office of Ratepayer Advocates in writing of the date of which the transfer was consummated. A true copy of the instrument effecting the sale and transfer shall be attached to the written notification.
3. Upon completion of the sale and transfer authorized by this Commission order, SDG&E shall stand relieved of public utility responsibilities for the property.

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4. Approval of the sale is conditioned upon compliance by purchaser with all applicable environmental regulations.

5. Application 98-04-041 is closed.

This order is effective today.

Dated February 18, 1999, at San Francisco, California.

RICHARD A. BILAS

President

HENRY M. DUQUE

JOSIAH L. NEEPER

Commissioners