

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Verizon California Inc. (U 1002 C)
for Approval Pursuant to Section 851 to Transfer
Property Located at 112 South Lakeview Canyon
Road, Thousand Oaks, California, to LBA Inc.

Application 07-05-028
(Filed May 25, 2007)

**OPINION GRANTING APPROVAL UNDER PUBLIC UTILITIES CODE
SECTION 851 TO TRANSFER PROPERTY AT 112 SOUTH LAKEVIEW
CANYON ROAD, THOUSAND OAKS, CALIFORNIA, TO LBA INC.**

Summary

This decision grants the application of Verizon California Inc. (Verizon) for Commission authorization under Pub. Util. Code § 851¹ for Verizon to sell its building and real estate located at 112 South Lakeview Canyon Road, Thousand Oaks, California (Lakeview) to LBA Inc.(LBA).² This proceeding is closed.

Background**The Proposed Transaction**

Verizon proposes to sell a building and surrounding real estate located at Lakeview to LBA, in furtherance of Verizon's goal to reduce its occupancy there

¹ All statutory references are to the Public Utilities Code unless otherwise stated.

² The application was filed on May 25, 2007. In Resolution ALJ 176-3193, dated June 8, 2007, we preliminarily categorized this proceeding as ratesetting and preliminarily determined that hearings are unnecessary.

through a lease-back of a portion of the space. Verizon states that this will allow it to consolidate employees and further reduce its ongoing space expenses.

The Lakeview property consists of one building, constructed in 1986, located on approximately 22 acres in Thousand Oaks, Ventura County. The building is a 261,825 square foot, two-story structure built for general office use and oriented around a two-story atrium. Approximately 85,000 square feet is currently leased to General Dynamics through 2010, and the design and physical layout of the building permit reconfiguration either for multiple medium-to large-sized tenants or continued use as a corporate headquarters. The building includes a cafeteria and kitchen facilities, a fitness center, a loading dock with storage area, and conference room facilities. The property also includes approximately 956 outdoor surface parking spaces and extensive landscaping.

The property also houses a remote switch used to provide telecommunications service to Lakeview and two nearby office buildings. Verizon maintains that it will continue to own the switch and will retain a restricted easement and secure access to the 1,200 square foot portion of the building housing this remote switch in order to continue to operate and maintain it.

Under the Federal Communications Commission's Part 32 Uniform System of Accounts (USOA) and Commission rules, Verizon's records show the value of the Lakeview property in separate accounts for land³ and buildings.⁴ The book value of the building is based upon the original cost, as depreciated on

³USOA account 2111.

⁴USOA account 2121.

a straight-line basis on a four percent per year depreciation schedule and adjusted for the value of any capital improvements. The land is not subject to depreciation and therefore its book value equals its original cost.

The book value of the Lakeview building was \$37,256,168 in 1986, when it was put into service, and the net book value as of year-end 2006 is \$23,079,946. Verizon indicates in its Application that the net book value of the building will be adjusted for reporting purposes to reflect the actual closing date. The book value of the land at Lakeview is \$7,652,027.⁵

The Proposed Purchase and Sale Agreement

In the purchase and sale agreement, Verizon agreed to sell the property to LBA, subject to Commission approval. As part of the sale transaction, Verizon is entitled to lease back, and continue to occupy, a portion of the Lakeview building. Verizon contends that this staged approach meets its business needs by allowing time to negotiate favorable lease terms at new location(s) and to relocate employees in an orderly way that will prevent disruption of business operations. The staged approach also permits LBA to plan for reconfiguration and leasing of the space vacated by Verizon.

Verizon further states in its Application that, prior to closing; it will develop the most efficient deployment plan for employees currently in the

⁵ Pursuant to Part 32, Verizon will apportion the net proceeds of the sale between the USOA accounts applicable to the land (account 2111) and the building (account 2121) using an allocation method based on recent market comparables for land and building sales in the Thousand Oaks/Westlake village market. Consistent with the Uniform Regulatory Framework, gain on sale of land will be allocated one hundred percent to shareholders. *Order Instituting Rulemaking on the Commission's Own Motion to Assess and Revise the Regulation of Telecommunication Utilities*, Decision (D.) 06-08-030 at 224-225 (August 29, 2006).

Lakeview building and begin implementation accordingly. Under present plans, some business units will remain in leased space at One Baxter Way, where Verizon's existing 44,725 square foot lease is not fully utilized;⁶ and some will move to new leased space in the nearby Ventura County area. Finally, existing equipment at Lakeview used to provide internal corporate data and local area network services, along with a handful of technical employees, will be relocated to nearby vacant central office space.

Following closing, Verizon indicates that it plans to continue to occupy approximately 164,000 square feet of space in Lakeview as a lease-back for a period of up to 24 months to allow time to relocate equipment and personnel to Baxter Way and to the new leased facilities. Verizon maintains that while the lease-back will require it to pay rent for the retained space, it will preserve flexibility to meet its space needs by retaining the right to vary the exact amount of space leased as well as the ability to terminate the lease-back at any time. In addition, LBA has agreed to provide Verizon the opportunity to lease up to 53,000 square feet of office space for a longer period.

Environmental Review

The California Environmental Quality Act (CEQA, Public Resources Code Section 21000 et seq.) applies to discretionary projects to be carried out or approved by public agencies. A basic purpose of CEQA is to "inform governmental decision-makers and the public about the potential significant

⁶ One Baxter Way is the new address for property previously owned by Verizon at One Verizon Way. Sale of that property was approved by the Commission in *Opinion Approving Sale of One Verizon Way to Baxter Healthcare Corporation*, D.02-05-008 (May 03, 2002).

environmental effects of the proposed activities.” (Title 14 of the California Code of Regulations, hereafter CEQA Guidelines, Section 15002.)

Since the Commission must issue a discretionary decision (i.e., grant Section 851 authority) without which the proposed activity will not proceed, the Commission must act as either a Lead or Responsible Agency under CEQA. The Lead Agency is the public agency with the greatest responsibility for supervising or approving the project as a whole (CEQA Guidelines Section 15051(b)). The Commission is the Lead Agency for this project under CEQA. CEQA requires that the Commission consider the environmental consequences of a project that is subject to its discretionary approval.

Verizon states in its Application that this transaction involves a change of ownership for an already developed property that will continue to be used for the same administrative and general office purposes as it is today. Verizon requests a categorical exemption from CEQA pursuant to CEQA Guidelines Section 15301, which provides an exemption for any minor alterations of existing structures “involving negligible or no expansion of use....” It asserts in the Application that the categorical exemption clearly applies, and there is no possibility of a significant effect on the environment. Verizon notes that the Commission has held, in approving the lease of Verizon’s previous headquarters property, CEQA review is not implicated in transactions of this type.⁷

We find that the sale and lease-back of Lakeview as described by Verizon in its Application would have no significant impact on the environment and that an exemption pursuant to CEQA Guidelines Section 15301 is appropriate.

⁷ See, *Interim Opinion approving lease of One Verizon Way to Baxter Healthcare Corporation*, D.01-11-063 at p. 5 (November 29, 2001).

Discussion

Section 851 provides that no public utility “shall . . . sell, lease . . . the whole or any part of . . . property necessary or useful in the performance of its duties to the public, . . . without first having secured from the Commission an order authorizing it to do so.”

The primary question for the Commission in Section 851 proceedings is whether the proposed transaction is in the public interest. In reviewing a Section 851 application, the Commission may “take such action, as a condition to the transfer, as the public interest may require.”⁸ The public interest is served when utility property is used for other productive purposes without interfering with the utility’s operation or affecting service to utility customers.⁹

We find that the proposed sale of Verizon Lakeview property to LBA is in the public interest. Verizon no longer needs to own the property for utility purposes; thus, the lease-back and the retention of a restricted easement and secure access to the remote switch located on the property will ensure any access needed for switch monitoring or maintenance. Although Verizon has acknowledged that hazardous substances may exist at or around the property, Verizon is adequately protected from any potential liability by the terms of the purchase and sale agreement. Our CEQA review of the proposed transaction indicates that the sale of the property to LBA will not have significant adverse

⁸ *In the Matter of the Application of San Jose Water Company and San Jose Water Works, for an Order Authorizing the Transfer of Property and the Issue of Common Stock and Notes Payable*, D.3320, 10 CRRC 56, 63 (May 10, 1016).

⁹ *In the Matter of Southern California Edison Company for Authority to Begin Leasing Communication Facility Sites and Communication Equipment Placements to Pacific Bell Mobile Services*, D.00-07-010, at p. 6 (July 6, 2000).

effects on the environment. In addition, the sale to LBA may have a positive impact on the local Ventura County economy through its planned investment, redevelopment of the property, and tax implications. For all of the foregoing reasons, we grant the application of Verizon pursuant to Section 851, effective immediately.

Request for Confidentiality

Verizon requests confidential treatment of certain pages of its application and Sale Agreement that disclose proprietary financial information related to the sale of the Property.¹⁰ Verizon contends that disclosure of this information could place Verizon at an unfair business disadvantage. Specifically, Verizon maintains that if the financial information is made public, future potential buyers will know the price for which Verizon was willing to sell the Property and this will disadvantage Verizon in future sale negotiations. Further, Verizon states that it will make the price available to any party willing to execute Verizon's standard, Commission approved nondisclosure agreement.

We agree that the disclosure of the financial information related to the sale of the Property, while the Sale Agreement is still pending approval before the Commission, could disadvantage Verizon. We have granted similar requests for confidentiality of proposed asset sale prices and related financial information, and we will grant Verizon's request to file these pages under seal.

¹⁰ The purchase price, advance fee, deposit and balance are disclosed on pages 2 and 3 of the Purchase and Sale Agreement, which are attached to the Application as Exhibit A. The amounts of Monthly Rent , Cash Allowance for Optional Extension Term, and Monthly Rent for Optional Extension Term is attached to the Application as Exhibit 18.1. Verizon has filed redacted versions of these pages for the public.

Categorization and Need for Hearings

In Resolution ALJ 176-3193, dated June 8, 2007, the Commission preliminarily categorized this proceeding as ratesetting, and preliminarily determined that hearings were not necessary. A public hearing is not necessary, and it is not necessary to alter the preliminary determinations made in Resolution ALJ 176-3193.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

Assignment of Proceeding

Timothy Alan Simon is the assigned Commissioner and Jacqueline A. Reed is the assigned Administrative Law Judge.

Findings of Fact

1. The proposed sale of Verizon Lakeview property to LBA will not interfere with Verizon's utility operations or with service to Verizon's customers and the public.
2. The sale does disrupt service to Verizon's customers because Verizon will implement a staged relocation of employees to nearby offices and lease-back a portion of the property.
3. Verizon requests that financial information related to the proposed sale of the Lakeview property be kept under seal.
4. Public disclosure of the financial information related to the proposed sale of the Lakeview property would disadvantage Verizon in any future sale negotiations.

5. The Commission is the Lead Agency for this project under CEQA.
6. The proposed sale is in the public interest.

Conclusions of Law

1. A public hearing is not necessary.
2. The proposed sale to LBA as set forth in the application qualifies for a categorical exemption from the California Environmental Quality Act pursuant to CEQA Guidelines Section 15301 and no further environmental review is required.
3. Consistent with § 851, Verizon's sale of the property to LBA is in the public interest and should be authorized.
4. Verizon's request to file unredacted pages regarding the financial information related to the proposed sale and lease-back of the Lakeview property under seal should be granted for two years.
5. This order should be effective today so that Verizon and LBA may proceed to close the sale transaction.

O R D E R

IT IS ORDERED that:

1. Verizon California Inc. (Verizon) is authorized to sell to LBA Inc., its building and real estate located at 112 South Lakeview Canyon Road, Thousand Oaks, California (Lakeview) as set forth in Application (A.) 07-05-028, in accordance with the agreement for purchase and sale attached to the application, pursuant to Pub. Util. Code § 851.
2. Verizon's request for the financial information related to the proposed sale and lease-back of Lakeview, filed under seal with A.07-05-028 to be maintained under seal, is granted for two years from the effective date of this decision.

During that period, the information shall not be made accessible or disclosed to anyone other than persons who have executed a nondisclosure agreement with Verizon or the Commission staff, except on the further order or ruling of the Commission, the Assigned Commissioner, the Assigned Administrative Law Judge (ALJ), or the ALJ then designated as the Law and Motion Judge.

3. If Verizon believes that further protection of the information kept under seal is needed, it may file a motion stating the justification for further withholding of the information from public inspection, or for such other relief as the Commission rules may then provide. This motion shall be filed no later than one month before the expiration date.

4. A.07-05-028 is closed.

This order is effective today.

Dated _____, at San Francisco, California.