

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298**FILED**

06/28/24

10:40 AM

A2009018

June 28, 2024

**Agenda ID #22729**  
**Ratesetting**

TO PARTIES OF RECORD IN APPLICATION 20-09-018:

This is the proposed decision of Administrative Law Andrew Dugowson. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's August 1, 2024 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ MICHELLE COOKE

Michelle Cooke

Chief Administrative Law Judge

MLC: hma

Attachment

Decision PROPOSED DECISION OF ALJ DUGOWSON (Mailed 6/28/2024)

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric Company (U39M) for Approval Under Public Utilities Code Section 851 to Sell the San Francisco General Office Complex, to Distribute the Gain to Customers, and for Recovery of Associated Costs Related to the Relocation of its Corporate Headquarters to the Lakeside Building in Oakland.

Application 20-09-018

**PROPOSED DECISION GRANTING THE PETITION FOR MODIFICATION OF DECISION 21-08-027 BY PACIFIC GAS AND ELECTRIC COMPANY (U39M) FOR RECOVERY OF COSTS RELATED TO THE RELOCATION OF ITS CORPORATE HEADQUARTERS TO OAKLAND**

**Summary**

This Proposed Decision grants Pacific Gas and Electric Company's (PG&E) Petition for Modification of Decision 21-08-027, in which PG&E sought reasonableness review of the costs associated with moving its headquarters from San Francisco to Oakland, and authority to recover those costs in rates.

This decision authorizes the recovery of \$927 million in capital investment, \$66 million in financing costs, and \$86.039 million in operating expenses incurred through July 2023 through its Annual Electric and Annual Gas True-up advice letters. It also directs PG&E to seek recovery of the forecast operating expenses of \$139.606 million and capital costs of \$15 million for the period from August 2023 and June 2025 in its 2027 GRC Application.

This proceeding is closed.

## 1. Factual and Procedural Background

On September 30, 2020, Pacific Gas and Electric Company (PG&E) filed Application (A.) 20-09-018 requesting approval to sell its corporate headquarters in San Francisco<sup>1</sup> and relocate to Oakland,<sup>2</sup> and to distribute the gain to customers, and for recovery of associated costs related to the relocation of its corporate headquarters. On August 19, 2021, the Commission issued Decision (D.) 21-08-027 approving PG&E's request to sell its corporate headquarters and approving the parties' amended settlement agreement addressing costs recovery for the relocation. Ordering Paragraph 10 of the decision required PG&E, within 90 days of its exercise of the option to purchase the property at 300 Lakeside Drive, to file a petition to modify (PFM) D.21-08-027 and seek a reasonableness review of the costs of the purchase and relocation.

On July 11, 2023, PG&E executed its option to purchase the property at 300 Lakeside Drive rather than remain in a long-term lease. On November 8, 2023, PG&E filed a PFM seeking Commission approval of the costs of the purchase and related activities and a ratemaking structure to recover those costs. On December 8, 2023, The Utility Reform Network responded to PG&E's PFM.

On February 13, 2024, the assigned ALJ issued a ruling ordering PG&E to provide supplemental information justifying changes between the settlement adopted in D.21-08-027 and the activities outlined in the PFM. On March 15, 2024, PG&E timely filed its response.

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<sup>1</sup> PG&E's corporate headquarters included its buildings at 215 Market Street, 245 Market Street, 77 Beale Street, 50 Main Street, 25 Beale Street, and 45 Beale Street in downtown San Francisco.

<sup>2</sup> PG&E proposed to move its headquarters to 300 Lakeside Drive in Oakland.

**2. Jurisdiction**

PG&E has operated as a public utility providing electric and gas services in California since 1905. PG&E is an electric and gas utility subject to the Commission's jurisdiction.

**3. Issues Before the Commission**

The issues to be determined are:

1. Whether the PFM meets the requirements of Rule 16 of the Commission's Rules of Practice and Procedure.
2. Whether the costs that PG&E has incurred and plans to incur as a result of moving its headquarters to Oakland are reasonable.
3. Whether PG&E's proposed ratemaking treatment is reasonable.

**4. Compliance with Commission Rule 16**

PG&E's PFM complies with the relevant sections of Rule 16.4.

Rule 16.4(b) states:

A petition for modification of a Commission decision must concisely state the justification for the requested relief and must propose specific wording to carry out all requested modifications to the decision. Any factual allegations must be supported with specific citations to the record in the proceeding or to matters that may be officially noticed. Allegations of new or changed facts must be supported by an appropriate declaration or affidavit.

The PFM has met this requirement through the declarations attached to the petition.

Rule 16.4(c) requires that the petition "be filed and served on all parties to the proceeding or proceedings in which the decision proposed to be modified was made." PG&E satisfied this requirement with the service of its PFM.

Rule 16.4(d) of the Commission's Rules of Practice and Procedure states that a "petition for modification must be filed and served within one year of the effective date of the decision proposed to be modified. If more than one year has elapsed, the petition must also explain why the petition could not have been presented within one year of the effective date of the decision."

PG&E asserts that "although more than one year has passed since Decision 21-08-027, the Commission and stakeholders have expected that this Petition would be filed at this general time. This Petition is timely filed insofar as PG&E executed the option to purchase the Lakeside Building this summer."<sup>3</sup> PG&E is correct. The PFM meets the requirements of Rule 16.4(d).

## **5. Reasonableness of Costs**

D.21-08-027 deemed reasonable PG&E's plan to acquire the Lakeside Building and incur expenses to relocate some of its staff. The approved plan called for a capital investment of \$947 million and operating expenses of \$50 million between 2021 and 2023. This relocation was forecast to save ratepayers a net present value of \$752 million when compared to retaining its San Francisco headquarters.<sup>4</sup>

The PFM seeks recovery of \$942 million in capital expenditures. That total reflects \$839 million included in the purchase price paid upon closing, \$88 million of direct improvements already funded by PG&E, and \$15 million in future forecast expenditures.<sup>5</sup> The PFM also seeks recovery of approximately \$226 million in operating expenses. This includes \$86.039 million incurred through July 2023, and a forecast cost of \$139.606 million between August 2023

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<sup>3</sup> PFM at 6.

<sup>4</sup> D.21-08-027 at 12.

<sup>5</sup> PFM at 11-12.

and June 2025.<sup>6</sup> Finally, the PFM seeks recovery of \$66 million in financing costs.<sup>7</sup> PG&E obtained financing from the TMG, the seller of the Lakeside Building. PG&E states that the financing was obtained at a rate of 5%, which compares favorably to PG&E's authorized weighted average cost of capital of 7.28%.<sup>8</sup>

In their comments, TURN indicated they did not identify any issues that raised concern about the reasonableness of the costs incurred or the financing structure. TURN requested that if the Commission approves PG&E's financing structure for the purchase, the Commission should clarify that such approval is situation specific.

Upon consideration, the Commission finds PG&E's request for cost recovery of actual costs, including financing costs, reasonable. Decision D.21-08-027 directed PG&E to file a PFM that sought "a reasonableness review and cost recovery of actual costs incurred in connection with the move to, and leasing and operation of, the Lakeside Building (including the final amount paid to purchase the building), and the leaseback of portions of the San Francisco General Office Complex, through approximately the date of the purchase of the Lakeside Building."<sup>9</sup>

As noted above, PG&E acquired the Lakeside Building at a slightly lower total cost than forecast in D.21-08-027 (excluding financing costs). Though the total forecast and actual cost is similar, the itemized expenses vary (e.g., PG&E seeks recovery of \$26 million spent on furniture, fixtures, and equipment not

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<sup>6</sup> PFM at C-5. The estimate of \$139.606 million was calculated by subtracting the total from Column C from Column B.

<sup>7</sup> PFM at B-5.

<sup>8</sup> PFM at B-6.

<sup>9</sup> D.21-08-027 at 45.

anticipated in the forecast), but this type of variation is reasonable when forecasting real estate expenditures.

Considering that PG&E's total expenditures came in less than forecast and no party objected to PG&E's recovery of actual costs incurred for the relocation of PG&E's headquarters from San Francisco to Oakland, the Commission finds the actual costs to be reasonably incurred. Regarding the financing structure, PG&E's Net Present Value analysis indicates that financing the purchase reduces costs as compared to an outright purchase.

The PFM also seeks authority to recover forecasted costs associated with the headquarters relocation. There is no need or justification to prospectively approve costs beyond those that have already been incurred.

For capital expenditures, the Commission approves recovery of \$927 million (the \$839 million included in the purchase price and the \$88 million in direct improvements) but denies recovery of the \$15 million in forecast improvements in this PFM as reasonable. For financing costs, the Commission approves the full request of \$66 million. For operating expenses, the Commission approves the \$86.039 million in recorded expenditures but denies approval of \$139.606 million forecast expenditures through June 2025 as reasonable.

As PG&E will continue to incur operating expenses associated with this move, the General Office Sale Memorandum Accounts (GOSMAs) may remain open through 2026. PG&E may seek recovery of the additional capital expenditures and the accrued balance in the GOSMAs in the 2027 General Rate Case.

## **6. Ratemaking**

In the PFM, PG&E proposes to recover its costs through the Annual Electric True-up and Annual Gas True-up advice letters using the common cost allocator adopted in the GRC, and to allocate between electric and gas service

using the common plant allocation factors from the company's 2023 GRC.<sup>10</sup> PG&E further recommends that the Commission direct PG&E to file a Tier 2 Advice Letter within 90 days of this decision with implementation details for these collections.<sup>11</sup> Upon review, the Commission finds these proposals reasonable and adopts PG&E's proposals.

## **7. Summary of Public Comment**

Rule 1.18 allows any member of the public to submit written comment in any Commission proceeding using the "Public Comment" tab of the online Docket Card for that proceeding on the Commission's website. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding.

No public comments appeared on the Docket Card.

## **8. Conclusion**

PG&E is authorized to recover \$927 million in capital investment, \$66 million in financing costs, and \$86.039 million in operating expenses through its Annual Electric and Annual Gas True-up advice letters. Future costs associated with the headquarters relocation must be tracked in the GOSMA, and PG&E may seek recovery of those costs in its 2027 GRC Application.

## **9. Procedural Matters**

This decision affirms all rulings made by the Administrative Law Judge and assigned Commissioner in this proceeding. All motions not ruled on are deemed denied.

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<sup>10</sup> PFM at 13-14.

<sup>11</sup> PFM at 16.



**10. Comments on Proposed Decision**

The proposed decision of ALJ Andrew Dugowson in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on \_\_\_\_\_, and reply comments were filed on \_\_\_\_\_ by \_\_\_\_\_.

**11. Assignment of Proceeding**

Alice Reynolds is the assigned Commissioner and Andrew Dugowson is the assigned Administrative Law Judge in this proceeding.

**Findings of Fact**

1. Decision D.21-08-027 deemed reasonable PG&E's plan to spend \$947 million in capital investment and \$50 million in operating expenses to acquire the Lakeside Building and cover relocation costs.
2. PG&E has committed to costs of approximately \$927 million in capital investment, \$66 million in financing expenses, and \$86.039 million in operating expenses between June 2021 and July 2023.
3. Decision D.21-08-027 directed PG&E to seek recovery of actual costs and did not direct PG&E to seek recovery of additional, forecasted costs associated with the relocation.
4. PG&E is authorized to record capital and operating expenses related the relocation of its corporate headquarters from San Francisco to Oakland in the General Office Sale Memorandum Accounts (GOSMAs).
5. PG&E's 2027 General Rate Case application will review costs associated capital expenditures and operating costs, which include PG&E's headquarters relocation.

**Conclusions of Law**

1. PG&E reasonably incurred and should be authorized to recover \$927 million in capital costs, \$66 million in financing expenses, and \$86.039 million in operating expenses for relocation of its corporate headquarters from San Francisco to Oakland.

2. PG&E should continue to record its capital and operating expenses for the relocation of its corporate headquarters from San Francisco to Oakland in the GOSMAs.

3. PG&E should be authorized to seek recovery of capital and operating costs for the relocation of its corporate headquarters from San Francisco to Oakland in the GOSMAs from August 2023 through December 2026 in its 2027 General Rate Case application.

**O R D E R****IT IS ORDERED** that:

1. Pacific Gas and Electric Company (PG&E) is authorized to recover \$927 million in capital costs, \$66 million in financing expenses, and \$86.039 million in operating expenses for the relocation of its corporate headquarters from San Francisco to Oakland through the Annual Electric True-up and Annual Gas True-up advice letters using the common cost allocator adopted in PG&E's 2023 General Rate Case (GRC) (Decision 23-11-069), and to allocate between electric and gas service using the common plant allocation factors from PG&E's 2023 GRC.

2. PG&E must file a Tier 2 Advice Letter within 90 days of this decision with implementation details for recovery of \$927 million in capital costs, \$66 million in financing costs, and \$86.039 million in operating expenses for the relocation of its corporate headquarters from San Francisco to Oakland.

3. PG&E must continue to record capital and operating expenses associated with its headquarters relocation to the General Office Sale Memorandum Accounts between August 2023 through December 2026.

4. PG&E may seek recovery of costs incurred for the relocation of its corporate headquarters from San Francisco to Oakland from August 2023 through December 2026 in its 2027 General Rate Case Application.

5. Application 20-09-018 is closed.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California