

Decision **PROPOSED DECISION OF ALJ KLINE** (Mailed 7/22/2021)

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

**DECISION AUTHORIZING PACIFIC GAS AND ELECTRIC COMPANY'S SALE
OF ITS SAN FRANCISCO GENERAL OFFICE COMPLEX AND RELATED
MATTERS**

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**DECISION AUTHORIZING PACIFIC GAS AND ELECTRIC COMPANY'S SALE
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MATTERS**

Summary

This decision grants Pacific Gas and Electric Company's (PG&E) request to sell its general office headquarters complex, the San Francisco General Office Complex (SFGO), pursuant to California Public Utilities (Pub. Util.) Code Section 851. PG&E's Purchase and Sale Agreement for the sale of the SFGO to Hines Atlas US LP for \$800 million, with a leaseback for 134,934 square feet through December 31, 2023, is approved. The amended settlement agreement, dated May 26, 2021, is approved.

We find that the sale of the SFGO is in compliance with the California Environmental Quality Act, the California Public Utilities Commission's (Commission) Tribal Land Transfer Policy, Pub. Util. Code Section 854.2, and the Commission's Environmental and Social Justice Action Plan.

PG&E will submit a Tier 1 advice letter to the Commission Energy Division within 75 days of the closing date of the SFGO, detailing the final costs of the SFGO sale. The SFGO after-tax, net gain on sale of approximately \$301 million will be distributed to PG&E's ratepayers in evenly divided increments over a five-year period, with the undistributed balance accruing interest at a rate of 4.17 percent for the ratepayers' benefit.

PG&E will file a petition for modification within 90 days of exercising its option to purchase a new corporate headquarters building at 300 Lakeside Drive in Oakland, California (Lakeside Building), wherein PG&E will request a reasonableness review and cost recovery of actual costs incurred in connection with the move to, and leasing and operation of the Lakeside Building and the

interim leaseback costs for the SFGO, through approximately the date of the purchase of the Lakeside Building. In the event PG&E does not exercise its purchase option for the Lakeside Building, PG&E will file an application for recovery of these costs within 90 days of the exercise option date.

This proceeding is closed.

1. Factual Background

Pacific Gas and Electric Company (PG&E) currently has a general office headquarters complex located at 215 Market Street, 245 Market Street, 77 Beale Street, 45 Beale Street, 25 Beale Street, and 50 Main Street in San Francisco (SFGO).¹ The SFGO consists of six buildings, five of which are office buildings and one which is a 3-story parking structure.² Collectively, the five buildings comprise 1.4 million rentable square feet occupying 3.47 acres on 11 parcels.³ The SFGO contains PG&E's electric and gas operations, customers care, health and safety, finance, human resources, internet technology (IT) and other shared services, and executive offices.⁴ As of December 2019, 3,200 employees and contractors were located at the SFGO.⁵

PG&E also has several field offices in the Bay Area. Nearly 600 employees and contractors perform corporate functions at PG&E's field office at 3401 Crow Canyon Road in San Ramon.⁶ Over 700 employees and contractors work at a

¹ Application at 1.

² Application at 5.

³ Application at 5.

⁴ Application at 5.

⁵ Application at 5.

⁶ Application at 6.

leased office at 1850 Gateway Boulevard in Concord, performing electric operations, human resources, IT, health and safety, and shared services.⁷

PG&E's real estate strategy is to sell the SFGO and consolidate its Bay Area workforce in a new corporate headquarters building located at 300 Lakeside Drive in Oakland, California (Lakeside Building). PG&E obtained permission to enter into an agreement with TMG Bay Area Investments II, LLC (TMG), a third-party developer, for a lease with a purchase option for the Lakeside Building as part of its ongoing bankruptcy restructuring.⁸ TMG finalized the sale of the Lakeside Building in October 2020, which also started PG&E's lease period. Under PG&E's current lease agreement, PG&E will lease the Lakeside Building for a 24-month term, after which PG&E has a nine-month period under which it may purchase the Lakeside Building for a cost of \$892 million or continue to lease the building long-term.⁹

PG&E executed a purchase and sale agreement (PSA) to sell the SFGO to Hines Atlas US LP (Hines) on May 21, 2021.¹⁰ Hines is a privately-owned global real estate investment, development, and management firm with \$144.1 billion in assets under management in 225 cities, located in 25 countries.¹¹ Hines has an established presence in San Francisco, where it owns the 101 California Street building and is currently developing 950,000 square feet of mixed-use

⁷ Application at 6.

⁸ Order Granting Motion of the Debtors Pursuant to 11 U.S.C. §§363 and 105(a) for an Order Authorizing the Utility to (I) Enter into Lease and Purchase Option Agreement for Oakland Headquarters and (II) Granting Related Relief, *In re PG&E Corporation and Pacific Gas and Electric Company*, No. 19-30088 (DM) (Lead Case), ECF No. 8103 (Bankr. N.D. Cal. June 24, 2020).

⁹ Exhibit PGE-1 at 2-22 to 2-23.

¹⁰ Exhibit PGE-5 at 2-1.

¹¹ Exhibit PGE-5 at 2-1.

development at 542-550 Howard Street.¹² The PSA includes an option for PG&E to lease-back 134,934 square feet through December 31, 2023 to accommodate PG&E's workforce transition to the Lakeside Building. California Public Utilities Commission (Commission) approval is the sole material contingency to consummating the sale with Hines, and the closing date is tied to Commission approval.¹³

PG&E plans to consolidate its Bay Area workforce at the Lakeside Building in several interrelated steps. PG&E will continue to allow the majority of its SFGO workforce to work remotely through 2021, and begin the process of moving employee materials out of the SFGO prior to the close of the SFGO sale.¹⁴ PG&E is currently implementing tenant improvements at the Lakeside Building and also completing a seismic retrofit which is targeted to provide the Lakeside Building with a Tier 2 seismic performance level.¹⁵

As space becomes available in the Lakeside Building due to the expiration of existing leases with other tenants, PG&E currently plans to relocate employees from the SFGO and other Bay area corporate offices to the Lakeside Building, starting in 2022. PG&E has also identified office space at the Lakeside Building in Oakland (currently occupied by other tenants) which is more cost-effective than the lease-back space at the SFGO, out of which it plans to operate in the interim. The additional Oakland-based office space allows PG&E to reduce the size of its lease-back space for the SFGO.

¹² Exhibit PGE-5 at 2-1.

¹³ Exhibit PGE-5 at 2-1.

¹⁴ Exhibit PGE-5 at 2-3 to 2-4.

¹⁵ Exhibit PGE-5 at 2-6 to 2-7.

PG&E is also exploring further opportunities to enhance its workforce optimization, including consideration of the following: 1) enhanced mobility of PG&E's workforce, 2) evaluation of 59,000 square feet of move-in ready sublease space at the 300 Lakeside Building, but not in the initial TMG developed premises, 3) exercising an early lease termination at the 3401 Crow Canyon office, and 4) consolidation of additional expiring lease spaces.¹⁶ PG&E currently plans to buy the Lakeside Building at the end of the agreed-upon purchase option period, which is expected to occur on March 1, 2023.¹⁷

2. Procedural Background

PG&E filed an application for approval to sell the SFGO, 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) on September 30, 2020. Public Advocates Office of the California Public Utilities (Cal Advocates) and The Utility Reform Network (TURN) filed protests to the Application on November 2, 2020. PG&E filed a response to Cal Advocates and TURN's protests on November 12, 2020. The assigned Administrative Judge (ALJ Kline) held a virtual prehearing conference on December 1, 2020.

The assigned Commissioner (President Batjer) issued a scoping memo and ruling (scoping memo) on December 15, 2020, which allowed for party comments. PG&E filed comments on the scoping memo on December 30, 2020. The assigned ALJ issued a ruling, dated February 5, 2021, clarifying the appropriate deadline to file an application for rehearing of this decision was 10-days after its issuance.

¹⁶ Exhibit PGE-5 at 2-8 to 2-9.

¹⁷ Exhibit PGE-5 at 4-4.

Engineers and Scientists of California, Local 20, International Federation of Professional and Technical Engineers, American Federation of Labor and Congress of Industrial Organizations and Central Labor Council (ESC) filed a motion for party status on January 12, 2021. ALJ Kline granted ESC's motion for party status by ruling, dated January 19, 2021.

After discussion, the parties agreed to a procedural path for this proceeding which included review of an executed PSA filed as supplemental testimony. The parties met informally during December 2020 and January 2021 to discuss potential threshold measures of reasonableness for the sale of the SFGO, above which the Commission could potentially approve the sale of the SFGO prior to the execution of the PSA for the same. The parties filed a joint case management statement on February 1, 2020 indicating general measures which could be assessed in supplemental testimony filed with the executed PSA. ALJ Kline held a status conference with the parties on February 23, 2021, wherein the parties confirmed that they did not come up with threshold metrics to avoid PG&E's filing of an executed PSA, and confirmed the need to review the PSA using the flexible Alternative 2 schedule provided in the scoping memo.

The evidentiary record in this proceeding consists of party testimony and workpapers. ALJ Kline set evidentiary hearings for April 12-14, 2021 by ruling, dated February 11, 2021. Cal Advocates and TURN served intervenor testimony on February 26, 2021. PG&E served rebuttal testimony on March 19, 2021. The parties confirmed the need for evidentiary hearing in a joint case management statement filed on March 26, 2021. The parties subsequently indicated they had reached a tentative settlement agreement and no longer required evidentiary hearings, by email dated April 6, 2021. ALJ Kline took evidentiary hearings off-calendar by ruling, dated April 6, 2021. PG&E, TURN, and Cal Advocates filed a

joint motion to admit testimony into the evidentiary record of the proceeding, dated April 16, 2021. ALJ Kline admitted nine exhibits into evidence by ruling, dated April 20, 2021.

On April 21, 2021, the parties jointly filed a motion for adoption of a settlement agreement. ALJ Kline proposed modifications to the settlement agreement at a status conference held on May 12, 2021. Based on discussions following the status conference, the parties filed a motion for adoption of an amended settlement agreement on May 26, 2021.

On May 28, 2021, ALJ Kline filed a ruling amending the procedural schedule, as proposed by PG&E in a case management statement, dated May 24, 2021. On June 11, 2021, PG&E served supplemental testimony in accordance with the modified procedural schedule. PG&E also filed a motion requesting the Commission set June 11, 2021 as the effective date of the memorandum accounts. On June 21, 2021, PG&E served updated workpapers detailing cost estimate information. On June 24, 2021, PG&E filed a motion to admit its supplemental testimony and updated exhibits into the evidentiary record of this proceeding.

No parties filed opening comments to PG&E's supplemental testimony on July 2, 2021. PG&E did not file reply comments by July 16, 2021.

PG&E served three additional exhibits on the service list, along with a motion to admit the exhibits into evidence on July 7, 2021. No parties opposed the admission of the three exhibits. This matter was deemed submitted on July 16, 2021. No public comments were submitted in this proceeding prior to the submission of the record.

3. 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.

4. Issues Before the Commission

The issues to be determined are:

1. Whether PG&E's proposed sale of its SFGO complies with all Commission rules, orders and decisions, including compliance with:
 - a. Property sale provisions of Public Utilities (Pub. Util.) Code Section 851;
 - b. Change of control provisions of Pub. Util. Code Section 854.2;
 - c. The Commission's Tribal Land Transfer Policy; and
 - d. California Environmental Quality Act (CEQA).
2. Whether PG&E's proposed ratemaking treatment of the following is reasonable and complies with Commission rules, orders, and decisions:
 - a. The proposed sale of its SFGO; and
 - b. The costs associated with relocation of PG&E's Corporate Headquarters to the Lakeside Building in Oakland.
3. Whether the Commission should impose conditions and restrictions on the sale of the SFGO and/or deny approval of the sale without an identified buyer.
4. Whether there are any safety issues identified with PG&E's proposed sale of its SFGO.
5. Whether the proposed sale of the SFGO impacts environmental and social justice communities, including the extent to which the proposed sale impacts any of the nine goals of the Commission's Environmental and Social Justice Action Plan.

5. Sale of the SFGO

This section considers whether the sale of the SFGO complies with Commission requirements. Section 5.1 considers the SFGO sale's compliance with Pub. Util. Code Section 851. Section 5.2 considers SFGO sale's compliance with CEQA. Section 5.3 considers whether the SFGO sale complies with the Commission's Tribal Land Transfer Policy. Section 5.4 considers whether the SFGO sale complies with the Pub. Util. Code Section 854.2. Section 5.5 considers whether the SFGO complies with the Commission's Environmental and Social Justice Action Plan. Section 5.6 considers any safety issues.

5.1. Compliance with Pub. Util. Code Section 851

Pub. Util. Code Section 851 provides, in relevant part, that no public utility:

shall sell, lease, assign, mortgage, or otherwise dispose of or encumber the whole or any part of its . . . line, plant, system, or other property necessary or useful in the performance of its duties to the public, or any franchise or permit or any right thereunder . . . without first having either secured an order from the commission authorizing it to do so for qualified transactions valued [at or] above five million dollars (\$5,000,000) . . .

In evaluating the transaction pursuant to Pub. Util. Code Section 851, we first look to see whether the project is "necessary or useful" for PG&E's performance of its duties for the public. The SFGO has served as PG&E's headquarters for almost a century.¹⁸ It currently houses 3,200 PG&E employees and is the site of critical utility operations including PG&E's electric and gas operations, customers care, health and safety, finance, human resources, IT and

¹⁸ Application at 5.

other shared services, and executive offices.¹⁹ No parties dispute that the SFGO is necessary to PG&E's operations. We agree that the SFGO is a property necessary or useful in the performance of PG&E's duties within the meaning of Pub. Util. Code Section 851.

We also look to the value of the property to determine whether it is at or above \$5 million. PG&E's PSA for the SFGO to Hines is \$800 million. Therefore, we find that the sale of the SFGO also meets the \$5 million threshold for evaluating the SFGO sale pursuant to Pub. Util. Code Section 851.

Having determined that the provisions of Pub. Util. Code Section 851 apply to PG&E's transaction and this application is properly before the Commission, our inquiry turns to an assessment of whether the transaction is in the public interest.²⁰ In reviewing whether the sale is in the public interest, we consider whether the sale is cost effective and whether the sale aligns with the Commission's policy regarding the sale of regulated utility headquarters buildings.

Turning to the issue of cost effectiveness, PG&E argues the sale of the SFGO is in the public interest because moving the corporate headquarters to the Lakeside Building will provide PG&E's ratepayers with substantial savings over a 40-year timeline. PG&E explains that the SFGO is expensive to repair, update and maintain, and that remaining at the SFGO would require "costly refurbishment, redesign and retrofits (such as for earthquake safety), as well as the costs and dislocations of temporary moves while such work was performed."²¹ PG&E supports its position by providing a cost and benefits

¹⁹ Application at 5.

²⁰ Pub. Util. Code § 853.

²¹ Exhibit PGE-1 at 1-3.

analysis of three potential options for the operation of its headquarters, as follows (in net present value dollars):

- 1) Alternative 1: PG&E estimates a total cost \$1,226 million to PG&E's ratepayers over the next 40 years if PG&E repairs and continues to occupy the SFGO; due to high property taxes, a necessary seismic retrofit, and other building maintenance costs at the SFGO;
- 2) Alternative 2: PG&E estimates a total cost of \$474 million to PG&E's ratepayers over the next 40 years to sell the SFGO, lease the Lakeshore Building for a 24-month period, then purchase the Lakeshore Building during the nine-month purchase option period; or
- 3) Alternative 3: PG&E estimates a total cost of \$638 million to PG&E's ratepayers over the next 40 years if PG&E sells the SFGO and leases the Lakeshore Building on a long-term basis.²²

PG&E's cost-benefit analysis of its three options shows that selling the SFGO will result in a net benefit of \$752 million (Alternative 2), as compared to the status quo (Alternative 1) and is more cost-effective than leasing the Lakeside Building on a long-term basis (Alternative 3). PG&E proposes to return 100 percent of its estimated \$301 million post-tax, net gain on sale for the SFGO²³ to PG&E's ratepayers over a five-year period, helping to offset significant wildfire mitigation and grid reliability costs ratepayers will incur in the near term.²⁴

²² Exhibit PGE-5 at 4-1.

²³ The after-tax, net gain on sale is based on a sale price of \$800 million, less the \$329 million book value of the SFGO, less \$53 million (estimated transaction costs), less \$117 million (equal to the pre-tax gain times the combined federal and state statutory tax rate of 27.984 percent). (Exhibit PGE-5 at 5-2 & 5-3)

²⁴ Exhibit PGE-5 at 1-2, Joint Motion for Adoption of Amended Settlement Agreement, Attach. A at 6.

Therefore, upon considering PG&E's cost-benefit analysis, we agree that the sale of SFGO is cost effective for ratepayers.

We also consider whether the public interest is met by evaluating whether the SFGO commanded a fair market price and find PG&E's sale price for the SFGO was reasonable given the current market conditions. PG&E began pre-marketing the SFGO in January 2021 and launched its marketing in March 2021. PG&E marketed the SFGO for 60 days, during which time 158 qualified investors executed nondisclosure agreements and accessed detailed marketing materials. PG&E's marketing firm CBRE, Inc. conducted 54 property tours and PG&E received multiple offers to purchase the SFGO during the bidding period.²⁵ PG&E ultimately selected an offer to purchase the SFGO from Hines for \$800 million, which included a waiver of additional due diligence and a release of a \$20 million non-refundable deposit.²⁶ Given that the amount of commercial real estate in San Francisco expanded 200 times due to the increase in remote work during the COVID-19 pandemic, we agree that the SFGO achieved a competitive market price.²⁷

In addition to the anticipated financial benefit resulting from the sale of the SFGO, we consider the sale of the SFGO with regard to the Commission's policy concerning the approval of utility headquarters sales. The Commission first articulated a policy that should apply to the sale of a regulated utility's headquarters buildings when considering the sale of Southern California Gas Company's (SoCalGas) Flower Street headquarters, which comprised a 161,000 square-foot parcel of land in downtown Los Angeles containing three

²⁵ Exhibit PGE-5 at 3-1 to 3-2.

²⁶ Exhibit PGE-5 at 3-2 to 3-3.

²⁷ See Exhibit PGE-5 at 3-4.

interconnected office buildings. In considering this sale, the Commission stated the following:

A utility headquarters should be sold when its value in some other economic use exceeds its value in utility service. This promotes the overall economy, as it permits a maximization of the goods and services which can be produced from limited resources. Our ratepayers also consume and produce other (non-utility) goods and services as well as invest in the suppliers of non-utility products. Ratepayers are better served when the overall economy is working efficiently and growing faster. We have consistently cited the welfare of the state's economy in general as an important factor in our decisions.²⁸

More recently, the Commission approved the sale of San Jose Water Company's (SWC) main office as in the public interest on similar grounds. The Commission agreed that the work environment was adversely affected by aircraft and freeway noise pollution, had inadequate floor space for SWC's employees, and could not be renovated to support upgrades for modern technology or Americans with Disability Act compliance due to the building's design and its status as a historic landmark.²⁹

PG&E articulates the real estate strategy which motivated its headquarters relocations using a similar rationale. PG&E explains that the SFGO, which includes five separate office buildings, is not ideally structured for PG&E's operations because "the complex is not laid out to be occupied efficiently for today's modern office, is not optimally conducive to collaborative work and

²⁸ D.90-04-028 at 40; *see also* D.05-12-036 at 9 (finding the sale of Global Valley Network's sale of its headquarters building and relocation to Patterson in the public interest because the utility property would be used for other productive purposes without interfering with the utility's operation or affecting service to customers).

²⁹ D.08-10-018 at 23-35.

PG&E's changing needs. . . ."³⁰ PG&E also cites the SFGO historic landmark status as further complicating any planned renovations.³¹ The SFGO is also undersized for PG&E's workforce, housing 3,200 employees and necessitating additional satellite offices.³² The Lakeside Building, on the other hand, will house up to an estimated 4,500 employees, and allow PG&E to consolidate at least two satellite offices.³³

We find the sale of the SFGO is consistent with the Commission's prior policy determinations approving the sale of utility headquarters. As was the case in the sale of SoCalGas's Flower Street headquarters, PG&E's SFGO is a limited, high-value real-estate resource which is suboptimal for PG&E's operational needs. As was the case with the SWC's main office building, the SFGO does not fit all of PG&E's workforce and portions of the SFGO are designated as historic landmarks, making seismic and other retrofits more difficult. As was the case for the sale of the SoCalGas' Flower Street headquarters and SWC's main office, PG&E has located a more cost-effective and efficient headquarters location better suited to meet the needs of its workforce. Accordingly, the Commission also finds the sale of the SFGO in the public interest based on the Commission's policy of promoting the growth of California's economy by maximizing the goods and services which can be produced from limited resources.

³⁰ Exhibit PGE-1 at 1-3.

³¹ Exhibit PGE-1 at 2-8.

³² Exhibit PGE-1 at 1-6.

³³ Exhibit PGE-1 at 1-5.

5.2. Compliance with CEQA

CEQA, codified in 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 environmental effects of the proposed activities.”³⁴

Since the Commission must issue a discretionary decision (*i.e.*, grant Pub. Util. Code 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.³⁵

The Commission is the Lead Agency for this project under CEQA. Therefore, CEQA requires that the Commission consider the environmental consequences of the sale of the SFGO since it is subject to the Commission’s discretionary approval.

PG&E states 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. Therefore, PG&E requests a categorical exemption from CEQA pursuant to CEQA Guidelines, which provides an exemption for any minor alterations of existing structures “involving negligible or no expansion of existing or former use....”³⁶ According to PG&E, the categorical exemption clearly applies and there is no possibility of a significant effect on the environment.

³⁴ Cal. Code Regs. § 15002(a)(1).

³⁵ Cal. Code Regs. § 15051(b).

³⁶ Cal. Code Regs. § 15301.

As in prior Commission decisions approving the sale and lease-back of a headquarters property, we find CEQA review is not implicated in transactions of this type. For example, in Decision 07-09-011, the Commission found the sale and lease-back of Verizon California, Inc.'s office headquarters, which would continue to be used as office building after the sale, categorical exemption from CEQA.³⁷ Similarly, we find that the sale and lease-back of the SFGO would have no significant impact on the environment and granting a CEQA exemption for existing facilities with negligible or no expansion of existing use is appropriate.

5.3. Compliance with the Commission's Tribal Land Transfer Policy

Next, we consider whether PG&E's sale of the SFGO comports with the Commission's Tribal Land Transfer Policy. The Commission's Tribal Land Transfer Policy³⁸ creates an expectation that investor-owned utilities requesting permission from the Commission to dispose of real property under Pub. Util. Code Section 851 will offer Tribes a right of first refusal before putting a property on the market.³⁹ The term "right of first refusal," within the context of this policy, means the investor-owned utility contacts the Tribe or Tribes whose ancestral territory surrounds the surplus property and provides such Tribe or Tribes the right of first refusal to take, purchase or refuse transfer of the property within a reasonable time period, before the investor-owned utility can seek third-party purchasers for such surplus property. A "Tribe" refers to a California Native American Tribe that is on the contact list maintained by the

³⁷ D.07-09-011 at 4-5.

³⁸ The Commission's Tribal Land Transfer Policy is adopted pursuant to the California's Tribal Consultation Policy in Executive Order B-10-11 (Sep. 19, 2011) and Executive Order N-15-19 (Jun. 18, 2019).

³⁹ Commission Tribal Land Transfer Policy (Dec. 5, 2019) at 1.

Native American Heritage Commission (NAHC) for the purposes of Chapter 905 of the Statutes of 2004.⁴⁰ The NAHC contact list contains both federally recognized tribes and tribes that are not recognized by the federal government.⁴¹

In response to PG&E's inquiry, the NAHC identified no results for Tribal claims to the SFGO in its Sacred Lands File, by letter dated June 9, 2020 (the NAHC letter).⁴² The NAHC letter also contained a list of contacts for five Tribes potentially possessing knowledge of the cultural resources in the vicinity of the SFGO footprint.⁴³

On June 9, 2020, PG&E sent inquiry letters to the contacts listed in the NAHC letter notifying them of PG&E's intent to sell the SFGO.⁴⁴ PG&E received a response from one contact, Wayne Pierce (who identified as a Tribal Trustee of the Amah Mutsun Tribal Band), which stated an interest in purchasing the SFGO.⁴⁵ PG&E sent a responsive letter to Mr. Pierce on July 2, 2020, requesting the Tribe provide evidence of its financial ability to purchase the SFGO by August 7, 2020. PG&E's responsive letter also included a nondisclosure agreement for Mr. Pierce's signature.⁴⁶

PG&E also attempted to clarify the Amah Mutsun Tribe's claim in the vicinity of the SFGO. Specifically, PG&E sent Mr. Pierce correspondence regarding PG&E's findings that the Amah Mutsun Tribe's ancestral territory

⁴⁰ See Pub. Res. Code § 21073.

⁴¹ Commission Tribal Land Transfer Policy (Dec. 5, 2019) at 1.

⁴² Exhibit PGE-1 at 2-39; Application, Exhibit F.

⁴³ Exhibit PGE-1 at 2-39; Application, Exhibit H.

⁴⁴ Exhibit PGE-1 at 2-39; Application, Exhibit H.

⁴⁵ Exhibit PGE-1 at 2-39; Application, Exhibit H.

⁴⁶ Exhibit PGE-1 at 2-39; Application, Exhibit H.

appeared to encompass the Gilroy area and not the San Francisco Peninsula. PG&E also requested additional information regarding Mr. Pierce's Tribal leadership position for the Amah Mutsun Tribe, as a leadership dispute among the Amah Mutsun led to the U.S. Department of Interior declining to formally recognize the Amah Mutsun as a Tribe. Despite these ambiguities, PG&E reiterated its offer to consider the Amah Mutsun Tribe's financial qualifications, as represented by Mr. Pierce. However, Mr. Pierce never submitted financial qualification information or returned a signed nondisclosure agreement. Additionally, neither Mr. Pierce nor the Amah Mutsun Tribe sought party status in this proceeding.

No other parties commented on PG&E's compliance with the Commission's Tribal Land Transfer Policy. Since PG&E notified all potentially affected Tribes of its intent to sell the SFGO, and offered the potentially affected Tribes a right of first refusal prior to marketing the SFGO to third parties, we find that PG&E's sale of the SFGO meets the Commission's expectations as set in the Tribal Land Transfer Policy.

5.4. Compliance with Pub Util. Code Section 854.2

We now consider whether PG&E's sale of the SFGO and relocation of its headquarters to the Lakeside Building in Oakland meets the requirements of Pub. Util. Code Section 854.2. In Assembly Bill (AB) 1513 (Jan. 1, 2020), the California legislature recognized that “[c]hanges in the ownership or control of an electrical corporation or gas corporation may create uncertainty regarding the safe, efficient, and continuous provision of safe and reliable electrical and gas service to California, leading to economic instability.”⁴⁷ The term “change of

⁴⁷ Pub. Util. Code § 854.2(a)(3) (emphasis added).

control” includes events that trigger Pub. Util. Code Section 851 applications⁴⁸ as well as the sale of all or a material portion of the assets of the electrical or gas corporation.⁴⁹ The legislature also required that the “size of workforce be preserved or increased, and workers not be lost to other utilities offering more stable employment or better compensation.”⁵⁰

PG&E states that it remains the employer of personnel who were officed in the SFGO and therefore there is no “successor employer” that would trigger potential requirements under Pub. Util. Code Section 854.2.⁵¹ However, PGE’s application is triggered by its sale of a major corporate asset, which requires the filing of an application pursuant to Pub. Util. Code Section 851. Even if no successor employer is implicated, PG&E’s proposed migration of its workforce from its San Francisco headquarters and planned consolidation of Bay Area field offices affects 3,200 PG&E employees at the SFGO, 600 employees and contractors at PG&E’s field office in San Ramon, and over 700 employees and contractors working at PG&E’s field office in Concord. Therefore, the Commission finds it appropriate to consider the effects of the SFGO sale and corresponding headquarters migration on PG&E’s workforce to ensure the safe, efficient, and continuous provision of safe and reliable electrical and gas service to California.

Upon review, we foresee no adverse impacts on the safe, efficient, and continuous provision of safe and reliable electrical gas service to California as a result of PG&E’s headquarter transition from San Francisco to Oakland. The

⁴⁸ Pub. Util. Code § 854.2(b)(1)(A).

⁴⁹ Pub. Util. Code § 854.2(b)(1)(D).

⁵⁰ Pub. Util. Code § 854.2(a)(8)

⁵¹ Exhibit PGE-2 at 1-16.

Lakeside Building is in close proximity (approximately 10 miles away) from PG&E's current headquarters in San Francisco. The Lakeside Building is also centrally located within PG&E's service area, and closer to where many of PG&E's employees currently live.⁵² In addition, PG&E's stated intent is to shift but not reduce its workforce as a result of the headquarters consolidation.

Notably, ESC,⁵³ a labor union representing approximately 4,000 technical and professional employees at PG&E, does not dispute PG&E's proposed sale of the SFGO and consolidation of its Bay Area offices to the Lakeside Building.

Accordingly, we find that PG&E's sale of the SFGO and transfer of its headquarters to the Lakeside Building in Oakland does not trigger any safety, reliability and affordability of utility service concerns pursuant to Pub. Util. Code Section 854.2.

5.5. Compliance with the Commission's Environmental and Social Justice Action Plan

The Commission's Environmental and Social Justice Action Plan addresses the impacts of a utility's actions when they affect a community whose residents are "predominantly communities of color or low-income; underrepresented in the policy setting or decision-making process; subject to a disproportionate impact from one or more environmental hazards; and likely to experience disparate implementation or environmental regulations and socio-economic investments in their communities."⁵⁴ It also includes, but is not limited to, to disadvantaged communities located in the top 25 percent of the communities

⁵² Exhibit PGE-1 at 2-7.

⁵³ Engineers and Scientists of California motioned for party status with the intent of addressing issues related to the safety, reliability and affordability of utility service and the effect of the proposed move on PG&E's workforce.

⁵⁴ Environmental and Social Justice Action Plan at 9.

identified by California Environmental Protection Agency's CalEnviroScreen, all tribal lands, low-income households and low-income census tracts.⁵⁵

PG&E indicated that, while the SFGO is not located in a disadvantaged community, the community surrounding the Lakeside Building is "in the top 25th percentile of communities of poverty according to the Draft CalEnviroScreen 4.0 and is a low-income community identified by CARB for purposes of AB 1550."⁵⁶

PG&E states that moving the PG&E headquarters to the Lakeside Building will not adversely affect the environment of the surrounding community because PG&E is moving into an existing building. According to PG&E, moving PG&E's headquarters is likely to have a positive economic impact on the surrounding community "by providing employment opportunities in connection with the building renovations and by bringing additional economic activity to the local community and local businesses."⁵⁷

No other party commented on this issue. Upon review, we foresee no adverse environmental or social justice impacts resulting from the relocation of PG&E's headquarters from the SFGO in downtown San Francisco to the Lakeside Building in downtown Oakland.

5.6. Safety Issues

No safety issues were identified.

6. Amended Settlement Agreement

This decision approves the amended settlement agreement, dated May 26, 2021, which addresses disputed issues related to the sale of the SFGO and associated ratemaking (Amended Settlement Agreement). The Amended

⁵⁵ Environmental and Social Justice Action Plan at 9-10.

⁵⁶ Exhibit PGE-2 at 1-15.

⁵⁷ Exhibit PGE-2 at 1-15 to 1-16.

Settlement Agreement is entered into by all parties to this proceeding, including PG&E, Cal Advocates, TURN, and ESC (the “Settling Parties”).

PG&E noticed a settlement conference pursuant to the Commission’s Rules of Practice and Procedure, Rule 12.1 by email on March 26, 2021. The Settling Parties held an initial meeting on April 2, 2021. An initial settlement agreement was finalized on April 20, 2021 (Settlement Agreement).

The assigned ALJ held a status conference with the Settling Parties on May 12, 2021, to discuss proposed modifications to the Settlement Agreement. The parties finalized the Amended Settlement Agreement on May 26, 2021.

The Amended Settlement Agreement resolves several material issues of fact or law in dispute, including the following: 1) the rate of return for the SFGO gain on sale and PG&E’s moving costs and expenses, 2) ratemaking treatment for costs related to PG&E’s relocation to the Lakeside Building, 3) inclusion of \$171 million in the contracted Lakeside Building purchase price for development fees, carry costs, transaction fees and /or profits, and 4) inclusion of \$62.66 million in the Lakeside Building purchase price for tenant improvement costs. In reviewing the Amended Settlement Agreement, we look at whether the agreement is: 1) reasonable in light of the record as a whole, 2) consistent with the law, and 3) in the public interest, as the Commission historically favored such agreements.

6.1. Terms of the Amended Settlement Agreement

The parties entered into the Amended Settlement Agreement to resolve disputed issues of fact and law in opening testimony, which was made prior to the full record development in this proceeding. The parties did not give up their right to object to additional evidence contemplated for review subsequent to initial testimony, including the review of the PSA for the SFGO and other

evidence submitted as part of PG&E's supplemental testimony or following PG&E exercise of the Lakeside Building purchase option. Therefore, we review the Amended Settlement Agreement as a resolution of the limited issues it resolves among the parties, which are not subject to further dispute in this proceeding, or the upcoming petition for modification or application to review the reasonableness of PG&E's actual future moving-related costs.

Disputed issues resolved in the Amended Settlement Agreement include: 1) the gain on sale and associated interest for the SFGO, *see* Section 6.1.1., 2) ratemaking treatment of the headquarters relocation-related costs, *see* Section 6.1.2, and 3) disallowance recommendation related to the Lakeside Building PSA, *see* Section 6.1.3. We also address the undisputed issue of PG&E's ratemaking treatment of the SFGO gain on sale in Section 6.1.4 because it is included as a term in the Amended Settlement Agreement.

6.1.1. SFGO Gain on Sale Allocation and Associated Interest

Prior to the settlement agreement, the parties disputed the ratemaking treatment of the SFGO's gain on sale. PG&E sought to allocate 100 percent of the gain on sale to ratepayers over five years, and to give ratepayers an interest rate equivalent to the federal reserve three-month commercial paper rate, which was 0.1 percent at the time of PG&E's application.⁵⁸ While no party disputed PG&E's proposal to grant 100 percent of the gain on sale to ratepayers over a five-year period, TURN requested the Commission grant ratepayers an interest rate closer to the time value of money, such as the interest rate given to utilities for a rate of return or the interest rate of credit card debt.⁵⁹ Cal Advocates requested the

⁵⁸ Exhibit PGE-1 at 6-2, Exhibit PGE-2 at 1-7.

⁵⁹ Exhibit TURN-01 at 3-4.

Commission adopt an interest rate equivalent to “working cash not used for shareholders,” as given to PG&E in its General Rate Cases (GRC).⁶⁰

In the Amended Settlement Agreement, the parties agreed to a 4.17 percent interest rate on the after-tax, net gain on the sale of the SFGO recorded in the SFGO balancing account for the ratepayers’ benefit. The parties also agreed that PG&E will accrue a 4.17 percent rate of return on its costs and expenses associated with the SFGO sale and its headquarters relocation. Based on the final PSA with Hines, the after-tax, net gain on sale subject to distribution to ratepayers over five years and subject to 4.17 percent interest, from 2022 to 2026, is estimated at \$301 million.⁶¹ PG&E’s total estimated costs and expenses subject to a 4.17 percent interest are substantially less than the estimated gain on sale that is subject to the 4.17 percent interest for the benefit of the ratepayers.⁶²

6.1.2. Ratemaking treatment of Other Headquarters Relocation-related Costs

Prior to settlement, the parties also disputed the ratemaking treatment of costs associated with PG&E’s headquarters relocation and Bay Area office optimization, which was not directly tied to the sale of the SFGO. PG&E sought to record its costs in a balancing account and proposed to submit a Tier 2 advice letter for Commission consideration of these costs. Subsequently, in rebuttal testimony, PG&E amended its position to propose a Tier 3 advice letter. TURN proposed reviewing these costs in either the 2023 GRC proceeding or in a standalone application. Cal Advocates proposed reviewing PG&E’s operating

⁶⁰ Exhibit CalPA-1 at 4-5 to 4-6.

⁶¹ Exhibit PGE-5 at 5-3.

⁶² Exhibit PGE-5 at 4-2.

and capital expenditures for the headquarters relocation in the 2023 GRC proceeding.

The Settlement Agreement proposed PG&E record its headquarters relocation-related costs in a balancing account and submit a Tier 3 advice letter for Commission review of these costs after PG&E exercised its option to purchase the Lakeside Building. In the event PG&E decided not to exercise its purchase option for the Lakeside Building, the Settlement Agreement provided that PG&E would file a separate application for recovery of its relocation-related and long-term leasing costs for the Lakeside Building.

After considering the assigned ALJ's proposed modifications at the status conference held on May 12, 2021, the parties filed an Amended Settlement Agreement, which modified the ratemaking treatment to state that PG&E will record its relocation-related costs in two memorandum accounts (the General Office Memorandum Account (electric) and the General Office Memorandum Account (gas)). Under the Amended Settlement Agreement terms, PG&E will file a petition for modification in this proceeding within 90 days of closing the sale of the Lakeside Building, which would include: 1) the Lakeside Building purchase price, 2) the Lakeside Building costs and related operating expenses, 3) the SFGO leaseback costs, and 4) moving expenses.⁶³ PG&E agrees to provide Cal Advocates and TURN an advance copy of the petition for modification, workpapers, and process for serving data requests. The parties also agreed that PG&E would file an application for cost recovery of these expenses if PG&E did not exercise its option to purchase the Lakeside Building.⁶⁴

⁶³ Joint Motion for Adoption of Amended Settlement Agreement, Attach. A at 9-10.

⁶⁴ Joint Motion for Adoption of Amended Settlement Agreement, Attach. B at 4.

6.1.3. Disallowance Recommendations Related to the Lakeside Building PSA

Finally, the parties disputed two terms in PG&E's PSA prior to settlement. First, Cal Advocates objected to including \$62.66 million in tenant improvement costs in the purchase option price for the Lakeside Building. Cal Advocates alleged that this provision would require PG&E's ratepayers to pay a portion of the costs TMG already agreed to fund.⁶⁵ Second, Cal Advocates objected to PG&E's inclusion of \$171 million for development fees, carry costs, and transaction fees because PG&E did not offer any supporting documentation for these costs.⁶⁶

PG&E opposed Cal Advocates' proposed disallowance of the \$62.66 million tenant improvement costs. PG&E explained that TMG agreed to fund the up-front costs of the tenant improvements, but that PG&E is still responsible for paying for these improvements as a component of the \$892 million Lakeside Building purchase price.⁶⁷

PG&E also opposed Cal Advocates' proposed disallowance of \$171 million for development fees, carry costs, and transaction fees and costs related to the Lakeside Building.⁶⁸ PG&E explained that these costs were reasonable and customary components of PG&E's transaction, and include developer fees, transaction fees, developer's profits, mortgage payments, insurance, utilities and security.⁶⁹ By negotiating upfront costs, PG&E argues the \$171 million cost is

⁶⁵ Exhibit CalPA-1 at 3-3.

⁶⁶ Exhibit CalPA-1 at 3-5 to 3-6.

⁶⁷ Exhibit PGE-2 at 2-2.

⁶⁸ Exhibit PGE-1 at 2-12.

⁶⁹ Exhibit PGE-2 at 2-4 to 2-6.

favorable for PG&E's ratepayers because the developer bears the risks of cost-overruns.⁷⁰ In the Amended Settlement Agreement, Cal Advocates agreed to withdraw both of its disallowance recommendations.⁷¹

6.1.4. Ratemaking Treatment of SFGO Gain on Sale

In the Amended Settlement Agreement, the parties propose to record the actual closing costs and the resulting net gain on sale for the SFGO in a Tier 1 advice letter that PG&E will submit to the Commission's Energy Division within 75 days of the close of the sale of the SFGO. The Amended Settlement Agreement also proposes PG&E adjust its 2020 GRC rate base and depreciation expenses to remove the SFGO from rate base and remove the SFGO depreciation expense, effective as of the beginning of the month following the closure of the sale of the SFGO. Finally, the Amended Settlement Agreement proposes PG&E adjust its 2020 GRC amounts for ongoing capital expenses and operating expenses to reflect the lower cost estimate in light of PG&E's planned reduction in the occupancy of the SFGO, with the lowered cost estimate effective at the beginning of the month following the sale.

Under the terms of the Amended Settlement Agreement, PG&E will adjust its rates to reflect the SFGO sale in the Annual Electric True-Up and Annual Gas True-Up advice letter process for revenue requirements adjustments, effective January 1, 2022. If PG&E does not close the sale in time to incorporate the rate adjustment through the Annual Electric True-Up and the Annual Gas True-Up, the Amended Settlement Agreement directs PG&E to pursue an alternative

⁷⁰ Exhibit PGE-1 at 2-12.

⁷¹ Joint Motion for Adoption of Amended Settlement Agreement, Attach. A at 7.

approach to incorporating the adjustment into customer rates using the earliest practicable adjustment mechanism.

6.2. Consistent with the Record as a Whole

We now consider the parties' Amended Settlement Agreement terms based on the record in this proceeding. On the whole, we find the Amended Settlement Agreement terms consistent with the record. First, we consider the Amended Settlement Agreement's treatment of the SFGO gain on sale and associated interest. The treatment of the gain on sale and interest allocation is consistent with parties' testimony in this proceeding. All parties have supported a 100 percent return on the gain of sale to ratepayers over five years in testimony. The Amended Settlement Agreement's allocation of the interest rate on the gain on sale, which sets the Amended Settlement Agreement's interest rate at 4.17 percent is also consistent with the record because it places the interest rate at a midpoint between PG&E's request for the commercial interest rate of 0.1 percent and Cal Advocates and TURN's request for an interest rate closer to PG&E's guaranteed rate of return for depreciable assets, which is around 7 to 9 percent, and reflects a compromise of the parties' positions. It is also consistent with both TURN and Cal Advocates understanding that the interest income of 4.17 percent would come from shareholder profits.⁷²

Finally, PG&E's proposal to assess the 4.17 percent interest amount as a one-time allocation made at the time of amortization elaborates on the Amended Settlement Agreement's term allowing "all gain on sale and capital and operating expenses items in the balancing accounts to bear interest at a common

⁷² RT 58:23–60:6; Amended Settlement Agreement at 6, fn. 6.

rate of 4.17 [percent].”⁷³ In supplemental testimony, PG&E states that “the amortization of the after-tax gain used to compute the interest credit would be \$60.2 million per year.”⁷⁴ This provides PG&E’s ratepayers with additional credits of \$35.6 million, from 2022 to 2026, made up of declining monthly amounts as the unamortized gain on sale balance declines. PG&E’s total memorandum account charges, estimated at \$51.168 million⁷⁵ over the period from 2021 to 2023, would earn an estimated interest of \$2.134 million at the time of amortization. No parties protested or commented on PG&E’s proposal to assess the one-time allocation of the 4.17 percent interest amount at the time of amortization. Upon review, we find the gain on sale and interest allocation in the Amended Settlement Agreement consistent with the record as a whole.

The ratemaking treatment for both the SFGO sale and other relocation-related expenses adopted in the Amended Settlement Agreement, as discussed in Sections 6.1.2 and 6.1.4, is also consistent with the record as a whole. Recording the actual costs of PG&E’s PSA and SFGO sale-related costs through a balancing account is consistent with the record as a whole because the costs are known and the reasonableness of those costs are considered and approved in this decision.

Recording the ongoing costs of relocation-related expenses in a memorandum account is also consistent with the record as a whole because the full extent of PG&E’s costs are not known and PG&E’s real estate strategy continues to evolve. For example, in supplemental testimony, PG&E explains how its real estate strategy changed during the course of the proceeding, as PG&E identified the need for an increased level of seismic upgrades, new office

⁷³ Amended Settlement Agreement at

⁷⁴ Exhibit PGE-5 at 5-3.

⁷⁵ Exhibit PGE-5 at 5-3, Attach. A at 1 (sum of line 17)

leases, a new field office closure, and an early lease termination in one office building. Therefore, the record supports PG&E's recording of its estimated costs in a memorandum account until the actual costs can be considered in the upcoming petition for modification or application filed subsequent to the Lakeside Building purchase option date.

The Amended Settlement Agreement's ratemaking treatment of PG&E's actual costs for its headquarters relocation through a petition for modification is reasonable based on the record as a whole. This proceeding has already developed a record detailing the categories on PG&E's expected costs related to its planned headquarters relocation and purchase of the Lakeside Building, and its other planned Bay Area field office consolidations. The petition for modification will update the record based on PG&E's actual costs for these expenses without the need to create a new record for these same categories of expenses in a separate proceeding.

In the event of PG&E's failure to exercise the purchase option for the Lakeside Building, the Amended Settlement Agreement's ratemaking treatment directing PG&E to file an application for approval of its headquarters relocation costs is reasonable based on the record as a whole. PG&E's testimony shows it will incur additional obligations if it does not exercise its purchase option for the Lakeside Building by the end of the 24-month option period.⁷⁶ For example, TMG will be allowed to draw down on two \$75 million letters of credit in the event PG&E defaults on its obligations as a tenant or chooses not to exercise its purchase option.⁷⁷ These additional costs and obligations are appropriately

⁷⁶ Exhibit PGE-1 at 2-11 to 2-19.

⁷⁷ Exhibit PGE-1 at 2-12 to 2-13.

reviewed in a separate application or a petition for modification, where further record development will allow PG&E to explain the rationale for its decision and show the underlying economic analysis supporting its decision.

Finally, we find Cal Advocates' withdrawal of its disallowance recommendations in the Amended Settlement Agreement, as discussed in Section 6.1.3, reasonable in light of the record as a whole. PG&E's rebuttal testimony provided sufficient explanation of these charges and we find their inclusion in the final purchase price of the Lakeside Building reasonable.

6.3. Complies with the Law

Next, we turn to whether the proposed ratemaking treatment in the Amended Settlement Agreement is consistent with the law. First, we consider the gain on sale and interest allocation for the SFGO. There are no Commission rules regarding the allocation of after-tax gains over \$50 million on the sale of depreciable assets.⁷⁸ Depreciable assets include but are not limited to buildings, equipment, machinery, materials and vehicles.⁷⁹ For routine asset sales where the gain or loss is less than \$50 million, the Commission has adopted the percentage allocation rule, which allocates "100 [percent] of the after-tax gain or loss on sale for depreciable assets to a utility's customers."⁸⁰ The percentage allocation rule does not automatically apply to sales of assets that are extraordinary in character, in which case the utility or a party may ask the Commission to except the transaction from [the Commission's] general rule."⁸¹

⁷⁸ Prior to D.06-05-041, the ratemaking treatment of the sale of headquarters depreciable was assessed according to "ratepayer indifference." D.90-04-028

⁷⁹ D.06-05-041 at 103 (OP 2).

⁸⁰ D.06-05-041 at 103 (OP 1, 3) as modified by D.06-12-043 at 21.

⁸¹ D.06-05-041 at 103 (OP 6-7).

“If an asset causes an after-tax loss greater than \$50 million, the utility shall [] seek case-by-case determination of how to allocate the loss.”⁸²

Since PG&E’s headquarters building comprises a whole city block of downtown San Francisco, includes a building which is a historical landmark, and has a market value of \$800 million, the percentage allocation rule for routine assets less than \$50 million does not apply and we will consider the SFGO as an asset of extraordinary character warranting cost allocation on a case-by-case basis.

Therefore, the Amended Settlement Agreement’s term applying a 4.17 percent interest rate to the gain on sale is consistent with the Commission’s policy of determining cost allocation for assets of extraordinary character on a case-by-case basis. While the Commission is not guided by the percentage allocation rule in reviewing this transaction, we note that the Amended Settlement Agreement’s treatment of the after-tax, net gain on the sale of the SFGO is consistent with the Commission’s ratemaking treatment for depreciable assets. Accordingly, we find the Amended Settlement Agreement’s proposed ratemaking treatment of providing 100 percent of after-tax gain on sale of the SFGO to ratepayers, along with a 4.17 percent interest rate for gain on sale, as well as PG&E’s headquarter-relocation costs, consistent with existing law, rules, and Commission orders.

We also find the proposed ratemaking treatment of PG&E’s costs consistent with the Commission’s Rules of Practice and Procedure, and well as General 96-B.

⁸² D.06-05-041 at 104 (OP 9).

6.4. In the Public Interest

Finally, we review whether the Amended Settlement Agreement is in the public interest. Prior to the Amended Settlement Agreement, the parties disputed several material issues of fact and law, as discussed above. The Amended Settlement Agreement promotes the public interest by avoiding costly and protracted litigation. It conserves the resources of the Commission and the parties by avoiding the need for evidentiary hearing. It also commands the sponsorship of all parties to this proceeding. Accordingly, we find the Amended Settlement Agreement is in the public interest.

7. Motion to set Memorandum Account Effective Date and Other Procedural Matters.

PG&E requested, by motion dated June 11, 2021, to set the effective date of PG&E's proposed General Office Sale Memorandum Accounts (electric) and General Office Sale Memorandum Accounts (gas) as June 11, 2021. This effective date would allow PG&E to recover costs for moving out of the SFGO prior to the close of the sale with Hines.

While PG&E originally planned to begin a phased move out of its SFGO employees from 2022 to 2023,⁸³ PG&E estimates it will save \$92 million in lease-back costs by moving the majority of its SFGO workforce out of the complex prior to the close of sale.⁸⁴ PG&E is able to avoid this additional cost by maintaining a remote workforce through 2021 and by leasing additional cost-effective office-space in the Lakeside Building.

This decision finds PG&E's cost optimization strategy reasonable and grants PG&E's motion to set June 11, 2021 as the effective date of the General

⁸³ Exhibit PGE-1 at 2-37.

⁸⁴ Exhibit PGE-5 at 2-2.

Office Sale Memorandum Account (electric) and General Office Sale Memorandum Account (gas). We have granted similar requests pursuant to Pub. Util. Code Section 1731(a), which states that the Commission “may set the effective date of an order or decision prior to the date of issuance.”⁸⁵ Based on Commission precedent and statutory authority, we find it appropriate to establish the effective date of the General Office Sale Memorandum Accounts (electric) and General Office Sale Memorandum Accounts (gas) as of June 11, 2021, the date PG&E filed its motion to set the effective date for these accounts.

This decision also affirms all rulings by the assigned Commissioner and assigned ALJ. All motions not specifically addressed herein or previously addressed by the assigned Commissioner or ALJ, are denied.

8. Admission of Exhibits into the Record

On June 11, 2021, PG&E served supplemental testimony on the service list according to the procedural schedule adopted in the assigned ALJ ruling, dated May 28, 2021. PG&E served updated workpapers on all parties on June 21, 2021. PG&E filed a motion to admit exhibit into evidence on June 24, 2021 (Motion to Admit Exhibits). No parties opposed the admission of these three exhibits. Therefore, we mark and identify these exhibits in this decision, and admit them into the evidentiary record in this proceeding.⁸⁶

⁸⁵ See D.19-09-026.

⁸⁶ Exhibit PGE-5 -- PG&E, Supplemental Testimony, dated June 11, 2021.

Exhibit PGE-6 -- PG&E, Chapter 4 “Cost Benefit Analysis” Workpapers (Rev 3), dated June 21, 2021.

Exhibit PGE-6E -- PG&E, Chapter 4 “Cost Benefit Analysis” Workpapers (Rev 3)[native excel], dated June 21, 2021.

PG&E also served three additional exhibits on the service list, along with a motion to admit the exhibits into evidence on July 7, 2021. No parties opposed the admission of these three exhibits. Therefore, we mark and identify these exhibits in this decision, and admit them into the evidentiary record in this proceeding.⁸⁷

9. Compliance with the Authority Granted Herein

PG&E must submit a Tier 1 advice letter to the Commission's Energy Division within 75 days of the PSA closing date to implement the authority granted herein. The Tier 1 advice letter shall include the final calculation of the gain-on-sale and tax information related to the transaction.

PG&E will submit a Tier 1 advice letter to the Commission's Energy Division within 30 days of the issuance date of this decision requesting approval of the tariff sheets establishing the General Office Sale Memorandum Account (electric) and the General Office Sale Memorandum Account (gas).

PG&E will file a petition for modification within 90 days of PG&E's exercise of its purchase option for the Lakeside Building in Oakland, California, wherein PG&E will request a reasonableness review and cost recovery for expenses incurred in the General Office Sale Memorandum Accounts. In the event PG&E does not exercise its purchase option for the 300 Lakeside Drive building, PG&E will file an application for recovery of the costs recorded in the General Office Sale Memorandum Accounts.

⁸⁷ Exhibit PGE-7 – PG&E, Amendment to the Supplemental Testimony, Chapter 4, dated July 7, 2021.

Exhibit PGE-8, PG&E, Updated Workpapers to the Supplemental Testimony, Chapter 4, dated July 7, 2021.

Exhibit PGE-8E, Updated Workpapers to the Supplemental Testimony, Chapter 4[native excel], dated July 7, 2021.

10. Reduction of Comment Period

Pursuant to Rule 14.6(b) of the Commission's Rules of Practice and Procedure, all parties stipulated to reduce the 30-day public review and comment period required by Section 311 of the Public Utilities Code to 10 days. Pursuant to the parties' stipulation, PG&E filed opening comments on August 2, 2021. No parties filed reply comments.

PG&E's opening comments generally support the proposed decision, and provide clarifications and modifications. We find these recommendations reasonable and incorporate them in the decision.

11. Assignment of Proceeding

Marybel Batjer is the assigned Commissioner and Zita Kline is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The SFGO consists of six buildings at 215 Market Street, 245 Market Street, 77 Beale Street, 45 Beale Street, and 50 Main Street in San Francisco; five of which are office buildings and one which is a 3-story parking structure.
2. The SFGO has served as PG&E's headquarters for almost a century.
3. The SFGO houses 3,200 employees and is the site of critical utility operations including PG&E's electric and gas operations, customer care, health and safety, finance, human resources, and IT and other shared services, and executive offices.
4. PG&E leases an office at 1850 Gateway Boulevard in Concord, where over 700 employees and contractors perform electric operations, human resources, internet technology, health and safety and shared services.
5. PG&E leases an office at 3401 Crow Canyon Road in San Ramon, where nearly 600 employees and contractors perform corporate functions.

6. PG&E has a 24-month lease at the 300 Lakeside Building in Oakland California with an option to purchase the building for \$892 million (subject to adjustments under the terms of the Lease and Purchase Option Agreement) at the end of the 24-month lease.

7. On May 21, 2021, PG&E entered into a PSA with Hines to purchase the SFGO for \$800 million, which includes an option to lease 134,934 square feet of space back through December 31, 2023.

8. The majority of PG&E's SFGO workforce will remain remote through 2021.

9. PG&E began moving employee materials out of the SFGO prior to June 11, 2021, and plans to vacate a majority of the SFGO prior to the close of the sale.

10. PG&E estimates the accelerated move out of the SFGO will save PG&E approximately \$92 million in interim lease costs.

11. PG&E has and continues to optimize its Bay Area workforce in the upcoming years by subleasing additional office space in the Lakeside Building currently occupied by other tenants.

12. The total cost to PG&E's ratepayers over the next 40 years if PG&E repaired and continue to occupy the SFGO, due to high property tax costs and necessary seismic retrofit and other building maintenance at the SFGO, is estimated at \$1,226 million.

13. The total cost to PG&E's ratepayers over the next 40 years to sell the SFGO Complex, lease the Lakeshore Building for a 24-month period, then purchase the Lakeshore Building during the nine-month purchase option period is estimated at \$474 million.

14. The total cost to PG&E's ratepayers over the next 40 years if PG&E sells the SFGO and leases the Lakeshore Building on a long-term basis is estimated at \$638 million.

15. Selling the SFGO and purchasing the Lakeside Building is more cost effective for PG&E than continuing to own and operate the SFGO, or selling the SFGO and leasing the Lakeside Building on a long-term basis.

16. CBRE conducted premarketing and subsequently marketed the SFGO for 60 days, during which time 158 qualified investors executed nondisclosure agreements and accessed detailed marketing materials.

17. CBRE conducted 54 property tours and PG&E received multiple offers to purchase the SFGO complex during the bidding period.

18. The SFGO is undersized to house PG&E's workforce, has an inefficient layout, and cannot accommodate the majority of its workforce.

19. The SFGO is expensive to maintain and requires costly renovations and seismic upgrades which are complicated by the building's historic landmark status.

20. The sale of the SFGO will have no significant impact on the environment.

21. The sale and lease-back of the SFGO will involve negligible or no expansion of use.

22. In response to PG&E's inquiry, the NAHC identified no results for Tribal claims to the SFGO in its Sacred Lands File, by letter dated June 9, 2020.

23. On June 9, 2020, PG&E sent inquiry letters to the contacts listed in the NAHC letter notifying the contacts of PG&E's intent to sell the SFGO.

24. PG&E received a response from one contact, Wayne Pierce (who identified as a Tribal Trustee of the Amah Mutsun Tribal Band), which stated an interest in purchasing the SFGO.

25. Mr. Pierce never submitted financial qualification information or returned a signed nondisclosure agreement.

26. Neither Mr. Pierce nor the Amah Mutsun Tribe sought party status in this proceeding.

27. The Lakeside Building is in close proximity, approximately 10 miles away, from PG&E's current headquarters in San Francisco.

28. The Lakeside Building is centrally located within PG&E's service area, and closer to where many of PG&E's employees currently live.

29. PG&E's stated intent is to shift but not reduce its workforce as a result of the headquarters consolidation.

30. The SFGO is not located in a disadvantaged community.

31. The Lakeside Building is "in the top 25th percentile of communities of poverty" according to the Draft CalEnviroScreen 4.0 and is a low-income community identified by CARB for purposes of AB 1550.

32. Moving PG&E's headquarters from the SFGO to the Lakeside Building is likely to have a positive economic impact on the surrounding community by providing employment opportunities in connection with the building renovations and by bringing additional economic activity to the local community and local businesses.

33. There are no safety issues identified with the sale of the SFGO and PG&E's headquarters relocation to the Lakeside Building, or its Bay Area office consolidation.

34. PG&E requests admittance of six exhibits into evidence pursuant to Rule 13.8 of the Commission's Rules of Practice and Procedure.

35. The reasonableness determinations set forth in the parties' Amended Settlement Agreement are consistent with and supported by the record in this proceeding.

Conclusions of Law

1. The SFGO is necessary and useful for PG&E's performance of its duties for the public.

2. The SFGO sale meets the monetary threshold for evaluation pursuant to Section 851 of the Public Utilities Code.

3. The sale of the SFGO is in the public interest and should be approved.

4. The sale of the SFGO is exempt from CEQA pursuant to Guidelines Section 15301.

5. The sale of the SFGO is consistent with the Commission's policy of promoting growth of California's economy and maximizing the goods and services which can be produced from limited resources and should be approved.

6. The sale of the SFGO complies with Pub. Util. Code Section 851 requirements.

7. The sale of the SFGO will have no significant impact on the environment and is exempt pursuant to CEQA Guidelines Section 15301.

8. The sale of the SFGO complies with the Commission's Tribal Land Transfer Policy.

9. PG&E's headquarters relocation and consolidation of its Bay Area workforce complies with Pub. Util. Code Section 854.2.

10. The sale of the SFGO complies with the Commission's Environmental and Social Justice Action Plan.

11. The Joint Motion for Adoption of Amended Settlement Agreement, dated May 26, 2021 should be granted because: 1) it is consistent with the record as a

whole, 2) does not violate any rule, law or order of the Commission, and 3) it is in the public interest and should be approved.

12. Tracking the costs associated with moving its corporate headquarters to the 300 Lakeside Building in Oakland, California through the General Office Sale Memorandum Account (electric) and the General Office Sale Memorandum Account (gas) is reasonable because the Commission should still review these costs for reasonableness in a petition for modification in this proceeding or in a separate application.

13. PG&E's request to admit six exhibits into the evidentiary record of this proceeding should be granted.

14. PG&E's request to set the effective date of the memorandum accounts at June 11, 2021, to correspond with the start of its move out of the SFGO is reasonable, consistent with Commission precedent and statute, and should be granted.

15. All rulings of the assigned Commissioner and the assigned ALJ should be affirmed; and all motions not specifically addressed herein or previously addressed by the assigned Commissioner or ALJ, should be denied.

16. PG&E should submit a Tier 1 advice letter to the Commission's Energy Division within 75 days of the PSA closing date to implement the authority granted herein. The Tier 1 advice letter should include: 1) the final calculation of the gain-on-sale and tax information related to the transaction, 2) adjustments to the 2020 GRC rate base and depreciation expense, to remove the San Francisco General Office Complex depreciation expense, effective as of the beginning of the month following the closing of the sale, and 3) adjustments to the approved 2020 GRC rate base amounts for ongoing capital expenses and operating expenses for the SFGO, effective as of the beginning of the month following the closing of the

sale, to reflect lower estimates in light of reduced occupancy of the SFGO as a result of the sale.

17. PG&E should submit a Tier 1 advice letter to the Commission's Energy Division within 30 days of the issuance date of this decision requesting approval of the tariff sheets establishing the General Office Sale Memorandum Account (electric) and the General Office Sale Memorandum Account (gas).

18. PG&E should file a petition for modification within 90 days of PG&E's exercise of its option to purchase the Lakeside Building (including the final amount paid to purchase the building), wherein PG&E should request a reasonableness review and cost recovery of actual costs incurred in connection with the move to, and leasing and operation of, the Lakeside Building, and the leaseback of portions of the SFGO, through approximately the date of the purchase of the Lakeside Building.

19. In the event PG&E does not exercise its purchase option for the Lakeside Building, PG&E should file an application for recovery of the costs relating to the Lakeside Building lease, including but not limited to tenant improvements, lease rate, and letter of credit costs within 90 days of the exercise option date.

20. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. Pursuant to Public Utilities Code Section 851, Pacific Gas and Electric Company is authorized to enter into and perform under a Purchase and Sale Agreement with Hines Atlas US LP to sell its San Francisco General Office Complex, which consists of the buildings at 215 Market Street, 245 Market Street, 77 Beale Street and 50 Main Street, 25 Beale Street and 45 Beale Street in San Francisco, California, as provided in Attachment A.

2. The Amended Settlement Agreement, as provided in Attachment B, is approved.

3. Pacific Gas and Electric Company's motion, dated June 24, 2021, to admit three exhibits into the evidentiary record of this proceeding is granted.

4. Pacific Gas and Electric Company's motion, dated July 7, 2021, to admit three exhibits into the evidentiary record of this proceeding is granted.

5. Pacific Gas and Electric Company will track the costs associated with moving its corporate headquarters to the building at 300 Lakeside Drive in Oakland, California through the General Office Sale Memorandum Account (electric) and the General Office Sale Memorandum Account (gas).

6. Pacific Gas and Electric Company's motion to set an effective date of June 11, 2021 for cost recovery through the General Office Sale Memorandum Account (electric) and the General Office Sale Memorandum Account (gas) is granted.

7. All rulings of the assigned Commissioner and the assigned Administrative Law Judge (ALJ) are affirmed herein; and all motions not specifically addressed herein or previously addressed by the assigned Commissioner or ALJ, are denied.

8. Pacific Gas and Electric Company must submit a Tier 1 advice letter to the California Public Utilities Commission's Energy Division within 75 days of the Purchase and Sale Agreement closing date to implement the authority granted herein. The Tier 1 advice letter will include: 1) the final calculation of the gain-on-sale and tax information related to the transaction, 2) adjustments to the 2020 General Rate Case (GRC) rate base and depreciation expense, to remove the San Francisco General Office Complex (SFGO) depreciation expense, effective as of the beginning of the month following the closing of the sale, and

3) adjustments to the approved 2020 GRC rate base amounts for ongoing capital expenses and operating expenses for the SFGO, effective as of the beginning of the month following the closing of the sale, to reflect lower estimates in light of reduced occupancy of the SFGO as a result of the sale.

9. Pacific Gas and Electric Company must submit a Tier 1 advice letter to the California Public Utilities Commission's Energy Division within 30 days of the issuance date of this decision requesting approval of the tariff sheets establishing the General Office Sale Memorandum Account (electric) and the General Office Sale Memorandum Account (gas).

10. Pacific Gas and Electric Company (PG&E) must file a petition for modification within 90 days of PG&E's exercise of its option to purchase the building at 300 Lakeside Drive in Oakland, California (Lakeside Building), wherein PG&E will request 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.

11. In the event Pacific Gas and Electric Company (PG&E) does not exercise its purchase option for the building located at 300 Lakeside Drive in Oakland, California (Lakeside Building), PG&E may file an application for recovery of the costs relating to the Lakeside Building lease, including but not limited to tenant improvements, lease rate, and letter of credit costs within 90 days of the exercise option date.

12. Application 20-09-018 is closed.

This order is effective today.

Dated _____, at San Francisco, California.