

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 14, 2015

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: March 25, 2015

TO: Public Utility Commission

FROM: ^{MM}
Mitchell Moore

THROUGH: ^E Jason Eisdorfer and [#] Marc Hellman

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UP 317) Requests approval of sale of residential property to private buyer.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve the application by Portland General Electric Company (PGE or Company) to sell certain residential property (Property) to Jon Randolph Haber (Buyer) subject to the following condition:

1. The Company shall notify the Commission in advance of any substantive changes to the transfer of properties, including any material changes in price. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved shall be submitted for approval in an application for a supplemental order (or other appropriate form) in this docket.

DISCUSSION:

This application was filed on February 17, 2015, pursuant to ORS 757.480(1)(a) and OAR 860-027-0025.

PGE seeks approval from the Commission for an order authorizing the sale of certain Property located in the City of Portland. The Property is no longer needed for the utility's purposes and will not affect its ability to provide safe and reliable electric services.

The Property, located at 3231 SE Yamhill, is a residential lot with a 1,455 square foot single family residence built in 1902. The Property is adjacent to the Alder substation. It was purchased by the Company in 1977 to support the future expansion of the

substation. However, between 2010 and 2011, PGE rebuilt the substation using improved technology which required substantially less space. Consequently, the Property is no longer needed for its originally intended purpose.

In order to take advantage of the improving residential real estate market and financing options in the Portland Metropolitan area, PGE decided to market the Property to prospective buyers in 2014.

The Property was purchased in 1977 for \$29,019 and subsequently the Company invested \$5,289 in improvements for a total Book cost of \$34,308. In August, 2014 the Property was valued by an independent appraiser at approximately \$300,000. According to the appraisal, the Company had originally listed the Property in early 2014 for \$360,000. Although there was a high volume of interested buyers, there were no viable offers made. PGE lowered the asking price to \$330,000, which resulted in renewed market attention and multiple offers. However, several buyers backed out of potential transactions due to negative home inspection reports indicating the need for expensive repairs. The Company accepted an offer from the Buyer for \$330,000.

The Company and the Buyer have executed an agreement for sale and purchase of the Property, and the agreement is contingent on the Company receiving all necessary regulatory approvals prior to closing. Under the agreement, the Buyer has advanced \$3,000 in earnest money, will pay the balance of the down payment in the amount of \$63,000, at or before closing, and will pay the balance of the purchase price in the amount of \$264,000 at closing and upon delivery of the property deed.

The Company will record \$23,450 in sale expenses, including the appraisal fee, realtor commission and escrow fees.

Issues

Staff investigated the following issues:

1. Scope and Terms of the Asset Purchase Agreement
2. Appraisal History
3. Transfer Pricing and Allocation of Gain
4. Public Interest Compliance
5. Records Availability, Audit Provisions, and Reporting Requirements

Scope and Terms of the Asset Purchase Agreement

Staff reviewed the property Purchase Agreement and appraisal, which was included in the Company's filing as Exhibit I, and did not identify any unusual or restrictive terms or

conditions. The purchase order contains the details of the transaction, as well as the accompanying terms and conditions.

Appraisal History

The filing application indicates an appraisal fee of \$3,000 booked against the gain on the sale of the Property, which seemed high for a residential appraisal. Upon further investigation through data requests, Staff learned that three appraisals were performed on the Property. First, there was an initial walk around of the Property in 2013 that led PGE to list the Property at the initially appraised value of \$360,000. Since no offers were received at this price, the Company selected an MAI appraiser to perform a thorough inspection once the tenants had vacated in May 2014. This second appraisal valued the Property at \$330,000, and PGE accepted a conditional offer for this amount. However, the lender's appraisal would not support this value because of a significant number of defects requiring about \$20,000 in repairs. The appraisal was updated in August 2014 for a value of \$300,000, which reflects the defects and the fact that a cash buyer would likely be needed.

Staff reviewed the appraisals and invoices, and is satisfied that appropriate measures were taken to ensure that the Company received fair value for the sale of the Property.

Transfer Pricing and Allocation of Gain

The Purchase Price of the Property is \$330,000. Expenses associated with selling the Property are recorded as \$3,000 appraisal fee; \$600 escrow costs; \$19,800 (6 percent of sales price) realtor fee; and a \$50 recording fee. As the book value of the Property is estimated at \$34,308, the Company proposes recording \$272,242 as the gain on the property.

The Company has agreed to adhere to the Commission's desired treatment of gain/losses on the sale of land for the purposes of the Property sale. The standard treatment by the Commission for transfer of the benefits of such gains to ratepayers is the addition to a balancing account with interest accruing at the utility's authorized rate of return until amortized and returned through an approved rate schedule. The gain from this Property sale is \$272,242, which the Company proposes to credit to the FERC Account 254 – Deferred gain on property sale.

As part of its review, Staff inquired as to whether the Property is included in the rate base for the 2016 test year in Docket No. UE 294. The Company confirmed that it is included and that the rental revenues from the Property are included as well.¹

¹ Staff will ensure that the property are removed from rate base in UE 294 if the Commission approves the sale. The rental income should also be removed from the 2016 test year.

Staff also questioned why the Property was considered used and useful, and thus included in rates, rather than Plant Held for Future Use, given that the Company purchased the property in 1977 for expansion of the adjacent substation that never occurred. In response, PGE asserts that the Plant Held for Future use category was not appropriate because, shortly after the acquisition, a law change by the City of Portland prohibited demolishing residential property, with the result that the Property could not be used to expand the substation.

The Company states that it does not appear that customers have been harmed by the Property's classification. The rents from the Property were credited to customers, and with this filing PGE is proposing to credit customers with the substantial appreciation in the value of the Property. Staff agrees with this assessment.

Public Interest Compliance

The Property is not needed by the Company, as the original reason for its purchase is no longer valid. The proposed sale will not affect the Company's ability to provide safe and reliable electric service. The Buyer is paying fair market value, reflective of an independent appraiser's valuation.

The Commission customarily applies a "no harm" standard with regard to the public interest criterion relating to property sales. Because customers will not be harmed by this transaction, and because customers will realize the gain on the Property sale when it is amortized in a future rate schedule, Staff concludes that the sale is in the public interest.

Records Availability, Audit Provisions, and Reporting Requirements

Staff notes that the Commission retains the ability to review all property sales of the Company through general rate case filings. Staff's recommended condition provides for documentation of this Property sale. The Company has reviewed this memo and has no objections or concerns.

PROPOSED COMMISSION MOTION:

PGE's application to sell the Property to John Randolph Haber be approved, subject to Staff's recommended condition.