

**REPORT ON  
REAL ESTATE HOLDINGS OF  
JURISDICTIONAL ELECTRIC PUBLIC UTILITIES**

**TO  
THE GOVERNOR  
AND  
THE GENERAL ASSEMBLY OF VIRGINIA**



**SENATE DOCUMENT NO. 6**

**COMMONWEALTH OF VIRGINIA  
Department of Purchase and Supply  
Richmond  
1978**

COMMONWEALTH OF VIRGINIA



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STATE CORPORATION COMMISSION

November 7, 1977

TO: The Honorable Mills E. Godwin, Jr.  
Governor of Virginia

and


The General Assembly of Virginia

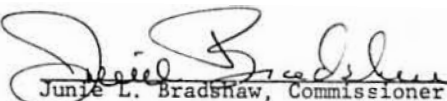
The report contained herein is pursuant to Senate Joint Resolution No. 138 of the 1977 Session of the General Assembly of Virginia.

This report comprises the response by the State Corporation Commission to the directive that a study be made of the real estate holdings of jurisdictional electric public utilities.

Respectfully submitted,

  
Preston C. Shannon, Chairman

  
Thomas P. Harwood, Jr. Commissioner

  
Junie L. Bradshaw, Commissioner

SENATE JOINT RESOLUTION NO. 138

*Requesting the State Corporation Commission to initiate a study of electric utility real estate holdings.*

Agreed to by the Senate, February 10, 1977

Agreed to by the House of Delegates, February 18, 1977

WHEREAS, the capitol requirements necessary to achieve the generation, transmission and distribution of electricity are extraordinarily high and represent only a portion of the costs incurred by an electric utility in producing power; and

WHEREAS, such costs are borne by the ratepayers of the electric utilities in the form of electric bills and the final price paid for consumer products; and

WHEREAS, it is essential to the economic well-being of the Commonwealth and her citizens that such costs be maintained as low as possible being cognizant that electricity is a vital necessity both to residential and industrial consumers; and

WHEREAS, the primary function of an electric utility is the delivery to consumers of electrical power at the lowest rates practical; and

WHEREAS, the possibility exists that some electric public utilities may possess, either directly or indirectly, real estate holdings which are speculative in nature and unrelated to the production of electrical power; and

WHEREAS, although such holdings may not be violative of law, they are not in the best interests of consumers since the costs of such holdings are ultimately borne by ratepayers who achieve no beneficial effects therefrom; now, therefore, be it

RESOLVED the Senate, the House of Delegates concurring, That the State Corporation Commission is requested to initiate a study of the real estate holdings of jurisdictional electric public utilities to determine:

1. The extent of such holdings;
2. The benefits and disadvantages resulting to ratepayers from such holdings;

3. Whether it would be in the public interest for such utilities to voluntarily divest themselves of any real estate holdings which are not, or cannot reasonably be expected to be, essential to the generation, transmission and distribution of electrical energy;

4. A proper and equitable schedule of divestiture for those companies voluntarily relinquishing their claim to such holdings deemed not in the public interest; and

5. Voluntarily divestiture not forthcoming, whether the Commission should preclude the costs of such holdings from the rate base of such utilities.

The Commission shall complete its report and submit its findings and recommendations to the Governor and the General Assembly not later than December first, nineteen hundred seventy-seven.

All agencies of the Commonwealth and political subdivisions shall assist the Commission upon request.

## Background

Pursuant to Senate Joint Resolution No. 138 of the General Assembly, the State Corporation Commission offers this report on investor-owned electric utility real estate holdings. The report pertains to those real estate holdings not presently used and useful in providing electric service. To obtain information for this report, the six investor-owned electric utilities were required to supply the following information:

1. List of all real estate holdings in Virginia (whether held directly or through a subsidiary) and include information with respect to such holdings showing:
  - (a) Location
  - (b) Acreage
  - (c) Purchase Date
  - (d) Purchase Price
  - (e) Present Value
2. Purpose for owning each parcel.
3. Plans, if any, for future utilization of each parcel.
4. How each parcel is reported for rate-making purposes, i.e., whether reported as used and useful property upon which the company expects to earn a rate of return or held at shareholder's expense.
5. Additionally, each utility was requested to give its position with respect to the following two questions:
  - (a) Would the Company consider it to be in the public interest to dispose of any present real estate holdings which are not reasonably expected to be used in the generation, transmission, and distribution of electric energy?
  - (b) If the Commission found it to be in the public interest for the company to dispose of any real estate holdings, would the company agree to do so?

The companies submitted information responsive to the above listed requests. To facilitate consideration of the Commission's investigation on behalf of the General Assembly and the companies' responses to the above listed requests, a brief summary is now offered on each company.

COMMENT ON REAL ESTATE HOLDINGS  
OF INVESTOR-OWNED ELECTRIC UTILITIES  
(REAL ESTATE HOLDINGS NOT PRESENTLY  
USED IN PROVIDING SERVICE)

1. Appalachian Power Company

Of the six companies, Appalachian Power Company (APCO) has the largest real estate holdings not presently used in its current electric operations. The present investigation of APCO's real estate holdings is the second investigation in recent years by the SCC. The first investigation was in response to a finding made by the Commission in Case No. 19474, Application of Appalachian Power Company For an increase in its rates for electric service. Accordingly, separate comment is offered on the Commission's findings in Case No. 19474 and on the investigation under Resolution 138.

(A) Commission investigation in Case No. 19474 -

In an order entered in Case No. 19474 on February 28, 1975, the Commission directed APCO to,

file a report with the Commission within ninety days from this date responsive to the Staff's motion for creation of a new arrangement for property ownership in lieu of the present arrangement between the Company and Franklin Real Estate Company.

The order further directed APCO to submit its plans for disposing of all real property not used in providing electric service real estate owned directly or indirectly through a subsidiary.

APCO submitted its report in July, 1975. The real estate holdings which the Company agreed to sell were placed in one of three categories. The three categories included (a) parcels held for future potential utility use and the planned use was subsequently abandoned, (b) parcels held for industrial development, and, (c) real estate associated with hydroelectric projects. In its report, APCO expressed willingness to dispose of these real estate holdings but suggested that no time limit be imposed for the sale of real property. APCO contends that an arbitrarily selected time period could prevent the most economical disposition through a sales program tailored to the most favorable markets.

Since April, 1975, APCO has sold 1,046 acres. The purchase price of this land was \$260,529; the aggregate sales price for the 1,046 acres was \$1,824,855.

(B) APCO's Response to Commission Investigation  
For SJR 138

APCO owns 26,464 acres of real estate not used in present utility operations. It proposes to sell 18,108 acres or approximately 69 percent of the 26,464 acres. Included in the 18,108 acres are (a) 12,706 acres which were acquired for the Blue Ridge pumped storage - hydroelectric project; this project which was licensed by the Federal Power Commission was subsequently abandoned due to an act of Congress; (b) 4,900 acres associated with the Smith Mountain Dam project which are not considered necessary for the protection of this project; (c) 28 acres associated with the Niagara Hydro project which are not considered necessary for company operations; (d) 472 acres which were acquired for industrial development; and, (e) 2 acres held for miscellaneous purposes.

APCO proposes to hold 299 acres or approximately 1 percent of the 26,464 total acres for future use. Included in the 299 acres are (a) 142 acres for a fly ash disposal area at the Clinch River plant; (b) 88 acres associated with the Bent Mountain hydro site; and, (c) the remainder of the 299 acres are parcels for miscellaneous purposes such as office building sites and various service requirements.

APCO proposes to hold 8,057 acres or approximately 30 percent of the 26,464 total acres although it does not now plan to use this 8,057 acres directly in electric operations. Included in the 8,057 acres are (a) 5,500 acres at the Smith Mountain Dam project consisting of steep mountain terrain on each side of the Smith Mountain Gorge and land adjacent to the dam; this land will be held to protect the project from blasting, erosion, fire, etc.; most of this 5,500 acres is leased to the Virginia Commission of Game and Inland Fisheries; (b) 2,063 acres at the Claytor Lake project; this land is described as being steep, has minimal access from the outside; and alternate use is considered limited; this land, like that at Smith Mountain, is also held for project protection; (c) future plans for 468 acres at Ivy Creek (Lynchburg area), which was initially acquired for a substation, have not been finalized; and, (d) 11 acres are part of a parcel occupied by APCO's Brookville substation.

2. Virginia Electric and Power Company

VEPCO owns 2,253 acres of real estate not used in present utility operations. It proposes to sell 1,713 acres or approximately 76 percent of the 2,253 acres. The 2,253 acres primarily consists of parcels no longer used as a result of abandoned projects and the residue from parcels currently being used.

VEPCO proposes to hold 513 acres (40 parcels) or approximately

23 percent of the 2,253 total acres for future use. Future plans for the 513 acres include use for substations, switching stations, transmission facilities, and district offices.

VEPCO proposes to hold the remaining land although it does not plan to use this real estate in electric operations. Included in the remainder are (a) 1 acre leased for an indefinite period to Standard Paper Manufacturing Company; (b) 18 acres used for a canal on the south side of the Appomattox River; and (c) 8 acres purchased adjacent to the Yorktown Power station; this land was acquired to aid in controlling noise and dust which had caused nearby owners to threaten court action; this property is being leased.

3. The Potomac Edison Company

This company owns only 3 parcels not presently used. Two parcels are for sale and the third is to be used for additional 138 kv lines emanating from the Page substation, planned for operation in 1982.

4. Delmarva Power

This company owns 4 parcels not being used. Two parcels are for sale, one is being held for future use as a substation to serve the NASA installation on Wallops Island, and the remaining parcel is partially used for a 150-foot wide transmission right of way.

5. Potomac Electric Power Company

This company owns no real estate not presently used and useful in Virginia.

6. Old Dominion Power Company

This company owns no real estate not presently used and useful in Virginia.

The following table is intended to summarize and consolidate the information which has been obtained in the Commission's investigation. Among other things, this table shows total real estate holdings which are not considered to be used in electric utility operations, that portion of real estate holdings which the companies will agree to sell, and that portion of real estate holdings which the companies intend to hold for future use. These and other categories of land are shown as a percentage of total investment. While the latter figures are reasonable for comparison figures, these figures should not be considered absolute and final for all purposes. Obviously, the present value of the land was estimated, and in some instances, the percentages represent ratios of estimated present value to net original cost.



REAL ESTATE PROFILES  
INVESTOR-OWNED ELECTRIC UTILITIES  
COMMONWEALTH OF VIRGINIA

<u>Company</u>	<u>Acreage</u>	<u>Est. Present Value</u>	<u>% of Plant Investment</u>	<u>Reported for Ratemaking Purposes</u>	<u>% of Plant Investment</u>
Appalachian					
For Sale	18,108	\$12,443,000	1.8	0	0
Future Use	229	737,700	0.1	0	0
Other	8,057	3,646,900	0.5	0	0
Total	26,464	16,827,600	2.4	0	0
Veeco					
For Sale	1,713	5,784,371	0.1	0	0
Future Use	513	2,396,089	0.1	\$131,119	0.003
Other	27	217,361	0	0	0
Total	2,253	8,397,821	0.2	\$131,119	0.003
Potomac Edison					
For Sale	10	14,122	0.02	0	0
Future Use	1	10,210	0.02	6,000	0.010
Other					
Total	11	24,332	0.04	\$ 6,000	0.010
Delmarva					
For Sale	1	4,500	0.02	4,500	0.021
Future Use	2	3,700	0.02	3,700	0.017
Other	3	1,500	0.01	1,500	0.007
Total	6	9,700	0.05	9,700	0.045
Potomac Electric	0	0	0	0	0
Old Dominion	0	0	0	0	0
Consolidated					
For Sale	19,832	18,245,993	0.38	4,500	0.000
Future Use	815	3,147,699	0.07	140,819	0.003
Other	8,087	3,865,761	0.08	1,500	0.000
Total	28,734	\$25,259,453	0.53	146,819	0.003

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GENERAL COMMENT

In recent electric rate cases, particularly those of APCO and VEPCO, the Commission has been actively investigating the real estate holdings of electric companies. The Commission is of the opinion that the findings in these rate cases has caused the companies to evaluate their real estate holdings and to decide to proceed with disposal of many parcels which are not necessary for current or future electric operations. For this report, language is quoted from several Commission opinions:

A. Case No. 19474, Application of Appalachian Power Company For an increase in its rates or electric service, order of May 1, 1975;

[Findings]

(8) That Apco should file a report with the Commission within ninety days from this date responsive to the Staff's motion for creation of a new arrangement for property ownership in lieu of the present arrangement between the Company and Franklin Real Estate Company. The Company should specifically state in the report its plans for disposing of all property, whether owned by the Company or held by Franklin Real Estate, in which Apco has a legal, equitable or other interest, and which is not used and useful in providing electric service.

[Order]

(4) That Apco shall submit within ninety days from this date the report required in (8) of the above findings;

B. Case No. 19426, Application of Virginia Electric and Power Company For an increase in rates, Opinion of September 26, 1975;

Mr. Vassar's \$2,809,000 exclusion is based on his finding that many of these properties have been included in the "property held for future use" account for a considerable period of time without any use having been made of them. He has eliminated from the account all sites which did not have a definite estimated date for the start of construction by 1978. We accept the Chief Accountant's recommendation as reasonable for the purposes of this proceeding, except where property has been acquired as discussed hereafter.

Two of the parcels excluded above are claimed to be potential generating sites. This Commission is acutely aware of escalating real estate prices and the declining number of sites. We expect a prudent management team to evaluate and acquire generating sites in advance of immediate need. In the instant proceeding we heard testimony from the Staff's witness, Mr. Heuchling of Arthur D. Little, Inc., that energy capacity requirements should be planned on a twenty year basis, that uranium contracts should be entered into eight to ten years in advance, and that it is reasonable to acquire generating sites ten years in advance of construction. The Commission is fully cognizant of the legal, regulatory, engineering and environmental problems that must be solved after acquisition of a generating site and before commencement of construction -- especially in the case of nuclear sites. However, we expect the Company to demonstrate that property acquired for future use is for the benefit of ratepayers. The two aforementioned generating sites are not shown to be part of a definite and necessary public service plan. Acquiring and maintaining generating sites, as well as other properties, may be prudent management, but unless such acquisitions can be shown to be part of a definite public service plan, they are properly excluded. We find, therefore, that these two parcels were properly excluded from rate base.

C. Case No. 19730, Application of Virginia Electric and Power Company For an increase in rates, Opinion of December 6, 1976;

The Chief Accountant's rate base excludes \$1,118,000 invested by Company in certain "property held for future use", some \$364,000 more than a similar adjustment by Company. This exclusion is premised on his determination that many of these parcels of land have been carried in VEPCO's "property held for future use" account for a considerable period of time without being used for public service. In our opinion, VEPCO has not demonstrated that the property represented by Mr. Vassar's exclusion is part of a planned integrated electric system devoted to public service. Accordingly, for the purposes of this proceeding, we accept Staff's adjustment.

D. Case No. 19723, Application of Appalachian Power Company  
For an increase in rates, Opinion and Final Order of October 14,

Staff excluded real property owned by the utility for future use which did not have an estimated date of use before 1981. The result of this adjustment is to reduce Company's proposed rate base by \$3,284,000. The Staff's adjustment is consistent with the Commission's prior practice of excluding from the rate base of utilities property held for future use when a reasonably definitive plan for future use is not shown. We accept Staff's adjustment in this instance.

The Commission will continue to evaluate the real state holdings of electric utilities in the future. It is questionable whether any final, definitive rules can or should be developed controlling the acquisition of real property for future use. It would be difficult, if not impossible, to formulate a rule or set of rules which anticipates the need for acquisition of sites for generating plants, pumped storage projects, substations sites, or right-of-way for transmission lines. And it would be equally difficult to formulate rules which anticipate the changing land use plans of the State, planning regions, and localities.

The Commission will, however, continue to insist that the utility be able to demonstrate that real estate holdings are owned for the purposes of a definite public service plan and that ownership will ultimately benefit ratepayers. If this cannot be demonstrated by the electric utilities, the Commission will not hesitate to exclude such holdings from the rate base as it has done in the past. These reviews will help prompt management to continually review the merit of ownership of real estate.

