

MINUTE ITEM

This Calendar Item No. 46 was approved as
Minute Item No. 46 by the California State Lands
Commission by a vote of 3 to 0 at its
1-29-99 meeting.

**CALENDAR ITEM
46**

A 78, 79
S 39, 40

01/29/99
G 10-8.10
AD 365 Fossum
Valentine

**CONSIDER APPROVAL OF THE PROPOSED EXPENDITURE OF
PUBLIC TRUST FUNDS BY THE SAN DIEGO UNIFIED PORT DISTRICT FOR THE
ACQUISITION OF THE SOUTH BAY POWER PLANT FROM
SAN DIEGO GAS & ELECTRIC COMPANY,
INVOLVING LANDS ADJACENT TO SOUTH SAN DIEGO BAY,
IN THE CITIES OF CHULA VISTA AND NATIONAL CITY, SAN DIEGO COUNTY**

APPLICANT:

San Diego Unified Port District
PO Box 488
San Diego, CA 92122-0488
Attention: David R. Chapman, Port Attorney

CURRENT STATUS:

The San Diego Unified Port District (Port) is trustee of tide and submerged lands granted to it by the Legislature by Chapter 67, Statutes of 1962, 1st Executive Session, as amended. The Port desires to purchase from San Diego Gas and Electric Company (SDG&E) the South Bay Power Plant (SBPP) and related facilities located along South San Diego Bay in the Cities of National City and Chula Vista. (See Exhibit A, attached hereto). The Port has requested that the Commission review and approve the proposed acquisition pursuant to the San Diego Unified Port District Act and Chapter 30.5 thereof and Chapter 2, commencing with Section 6701 of Part 2 of Division 6, of the Public Resources Code.

THE PROPERTY:

The property proposed to be purchased consists of the 116 acre SBPP site, a 33 acre parcel known as the Liquid Natural Gas Site and a 16 acre transmission corridor.

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(See Exhibit B, attached hereto). The proposed purchase price for the three parcels is \$110 million dollars. The Port's purchase of the property would be with the intent of decommissioning and demolishing the plant for the betterment of the San Diego region and to make these bayfront lands available for Public Trust purposes as authorized by Chapter 67, Statutes of 1962, 1st Executive Session, as amended. The SBPP has been designated by the California Public Utilities Commission as a plant which must remain in operation until a replacement facility has been constructed. As a result, the Port has entered into agreements with Duke Power (Duke) to : 1) lease the SBPP and maintain current operations; and 2) use commercially reasonable efforts to develop a replacement plant and to decommission and remediate the existing facility. Milestones have been established in the agreements between the Port and Duke requiring Duke to proceed with the development of a replacement plant during the 10 year base lease term. Duke will also be responsible to demolish the power plant structures and perform environmental remediation as appropriate.

The Commission staff has reviewed the information submitted by the Port for the proposed acquisition pursuant to Section 30.5 and Public Resources Code Section 6701 et seq. The staff believes that the proposed acquisition is consistent with the public trust needs in the area and the lands to be held by the Port will be managed consistent with their statutory trust and recommends that the Commission consent to the proposed acquisition as described herein.

FINANCING

The Port does not anticipate that assets or revenues of the Port will be obligated or pledged for purposes of the acquisition. Instead, the cost of acquisition of the South Bay Power Plant will be-financed by sale of bonds. The Bond Issuer will issue the bonds and loan the proceeds to the Port. The Port will then acquire the SBPP and lease it to Duke for a term at least equal to the term of the bonds issued for the acquisition. The bonds will be secured by a first priority security interest in all pledged revenues under the Bond Trust Indenture, which include basic rent payable under the Lease and payments under the Lease Guaranty. The Bond Trustee will not be granted a deed of trust or security interest in the power plant or plant site. Under the lease, Duke will be obligated to make semi-annual lease payments to the Bond Trustee on dates corresponding to the bond payment dates. Basic rent throughout the term of the lease will be equal to debt service on the bonds. The lease to Duke will extend at least to the final maturity of the bonds and the amortization term (subject to change based on issuance costs and interest rate) is 10.42 years.

OTHER PERTINENT INFORMATION:

Chapter 324, Statutes of 1998 (AB 1656 - Ducheny) appropriated \$15,000,000 to facilitate the acquisition, decommissioning, demolition and remediation of the South Bay Power Plant by the San Diego Unified Port District.

On December 3, 1998 the California Public Utilities Commission adopted a Mitigated Negative Declaration and Mitigation Monitoring and Reporting Program for the San Diego Gas and Electric Company's Proposal for Divestiture of the South Bay Power Plant. The San Diego Board of Port Commissioners considered the mitigated negative declaration prepared by the Public Utilities Commission before approving the proposed acquisition of the SBPP. Staff of the California State Lands Commission has reviewed the mitigated negative declaration as prepared and adopted by the Public Utilities Commission.

EXHIBITS:

- A. Location Map
- B. Site Map

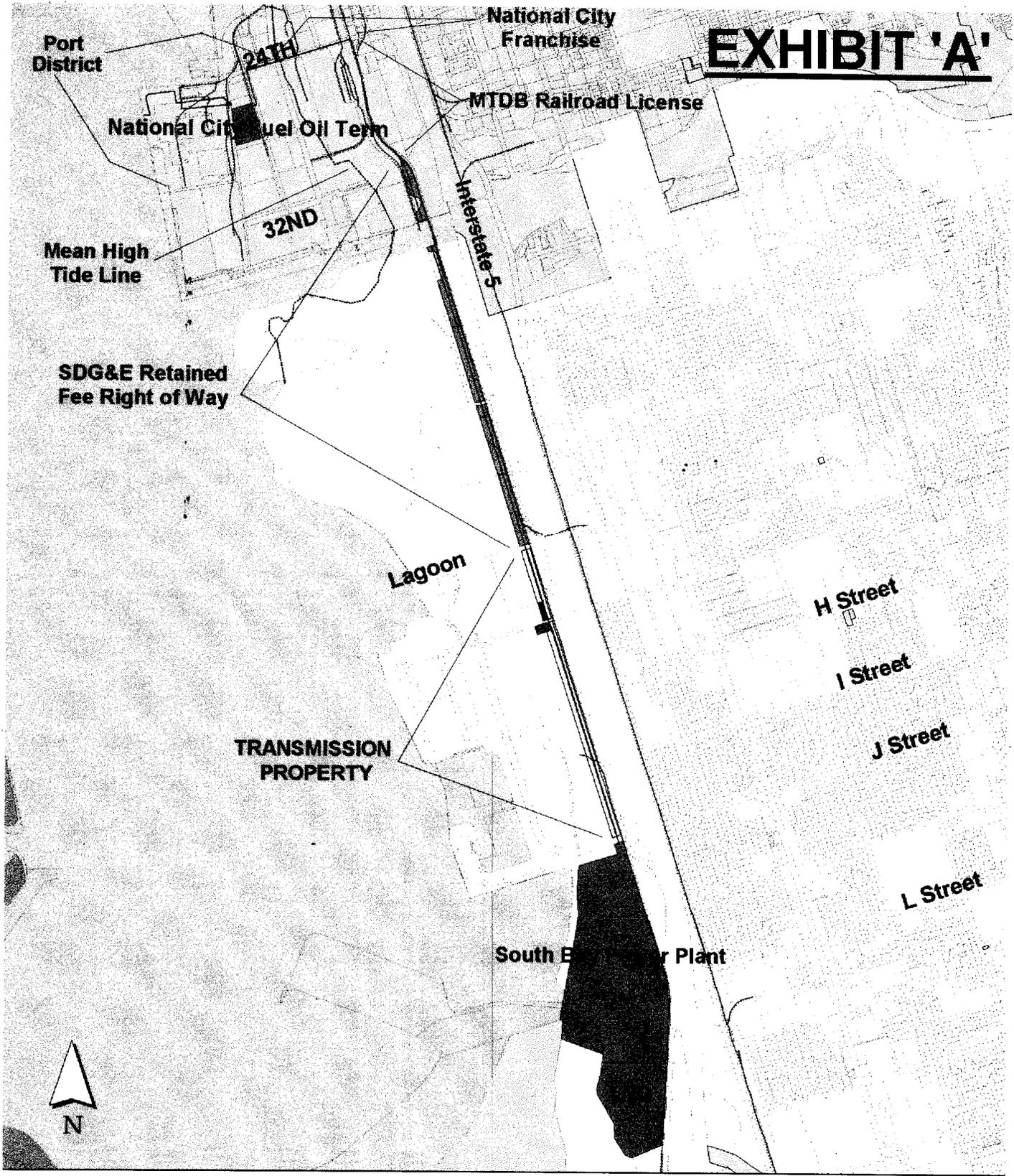
IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT A MITIGATED NEGATIVE DECLARATION AND A MITIGATION MONITORING PROGRAM WERE PREPARED AND ADOPTED FOR THIS PROJECT BY THE CALIFORNIA PUBLIC UTILITIES COMMISSION AND THAT THE STATE LANDS COMMISSION HAS REVIEWED AND CONSIDERED THE INFORMATION CONTAINED THEREIN.
2. FIND THAT:
 - A. ACQUISITION OF THE SBPP BY THE SAN DIEGO PORT DISTRICT IS IN ACCORDANCE WITH THE TERMS OF THE LEGISLATIVE TRUST GRANT, CHAPTER 67, STATUTES OF 1962, 1ST EXECUTIVE SESSION, AS AMENDED;
 - B. ANY PROCEEDS OF THE TRANSACTION OF WHICH THE ACQUISITION IS A PART WILL BE DEPOSITED IN AN APPROPRIATE FUND EXPENDABLE ONLY FOR PUBLIC TRUST PURPOSES OF STATEWIDE BENEFIT AS AUTHORIZED

BY THE LEGISLATIVE GRANT, CHAPTER 67, STATUTES OF 1962, 1ST EXECUTIVE SESSION, AS AMENDED.

- C. ACQUISITION OF THE SBPP BY THE SAN DIEGO PORT DISTRICT AS SET FORTH IN THOSE DOCUMENTS ON FILE IN THE OFFICES OF THE COMMISSION IS IN THE BEST INTERESTS OF THE STATE.
- D. THE LANDS TO BE ACQUIRED BY THE PORT AS REFERRED TO HEREIN ARE TO BE ACCEPTED AS PUBLIC TRUST LANDS FOR THE BENEFIT OF THE PEOPLE OF THE STATE OF CALIFORNIA, TO BE HELD BY THE PORT AS PUBLIC TRUST LANDS SUBJECT TO CHAPTER 67, STATUTES OF 1962, 1ST EXECUTIVE SESSION, AS AMENDED.

EXHIBIT 'A'



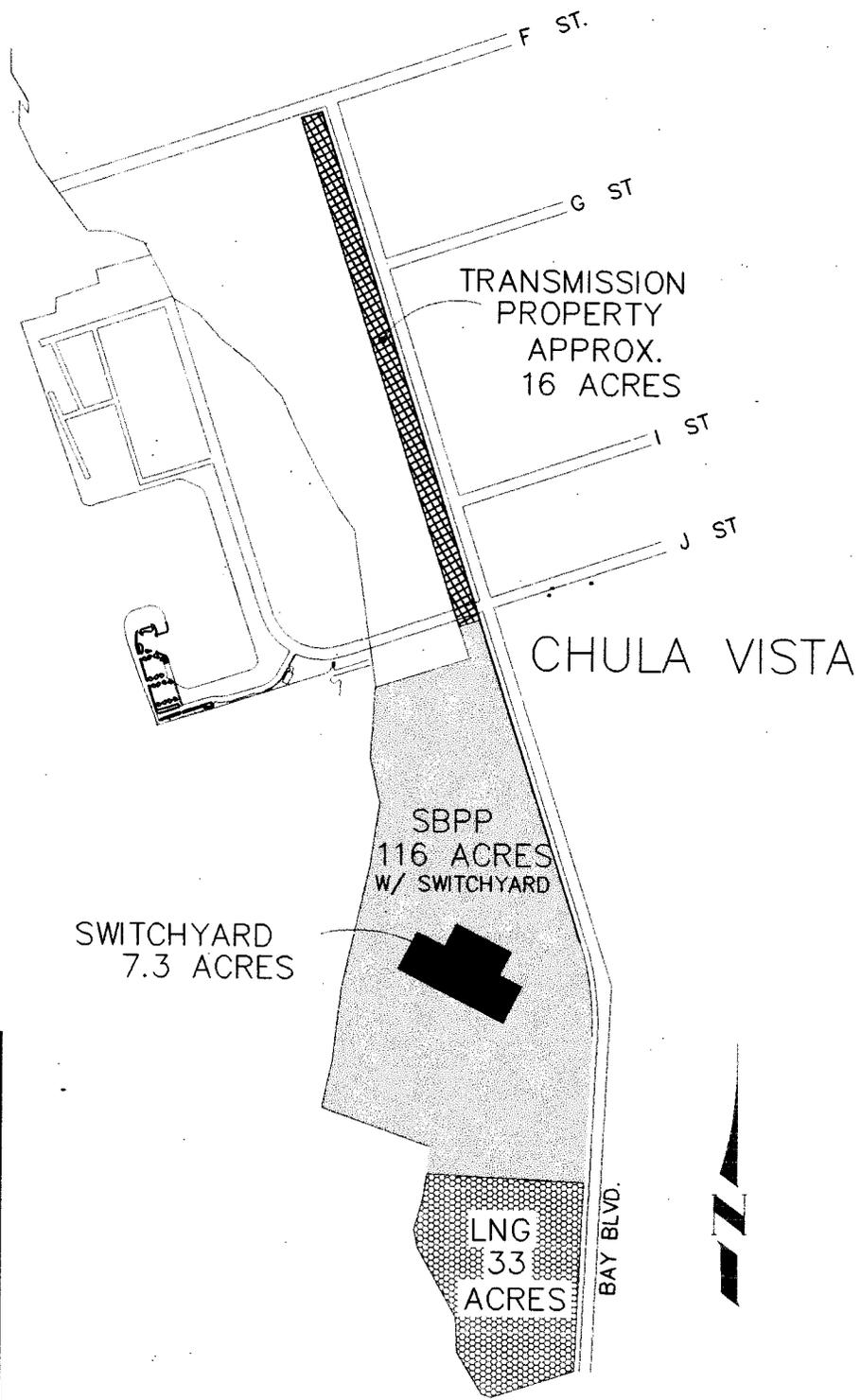


EXHIBIT B

EXHIBIT B
 SITE MAP
 G-10-8.10



NO SCALE

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