

Application: 09-10-xxx
Exhibit No.: _____
Witness: James P. Avery

Application of San Diego Gas & Electric
Company (U 902 E) for Approval Pursuant to
Public Utilities Code Section 851 to Lease
Transfer Capability Rights to Citizens Energy
Corporation

DIRECT TESTIMONY OF

JAMES P. AVERY

SAN DIEGO GAS & ELECTRIC COMPANY

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA
October 9, 2009**



1 **I. SUMMARY AND PURPOSE OF TESTIMONY**

2 San Diego Gas & Electric Company (“SDG&E”) and Citizens Energy
3 Corporation (“Citizens”) have signed a Development and Coordination Agreement, dated
4 May 11, 2009 (“DCA”).¹ The DCA provides Citizens with an option to lease a 50
5 percent portion of the transfer capability on that portion of the Sunrise Powerlink
6 Transmission Project (“Sunrise” or “Project”) located in Imperial County (“Border-East
7 Line”).² The term of the lease is for 30 years (“Lease Term”). The DCA that SDG&E is
8 requesting the California Public Utilities Commission (“CPUC”) to approve contains the
9 principal business terms to be incorporated into this lease. At the time of closing of the
10 lease, Citizens will pay to SDG&E prepaid rent (“Lease Payment”). The DCA provides
11 that regulatory approvals are required by both the CPUC and the Federal Energy
12 Regulatory Commission (“FERC”).

13 **A. Citizens’ Profile**

14 For background purposes and relying on the Citizens’ Petition for Declaratory
15 Order and supporting affidavits that are appended to SDG&E’s 851 Application as
16 Attachment 2, Citizens is a non-profit Massachusetts corporation exempt from federal
17 taxes under Section 501(c)(4) of the Internal Revenue Code, with its principal
18 headquarters located in Boston, Massachusetts. Citizens is a FERC-jurisdictional public
19 utility, whose commercial subsidiaries support a wide array of social and charitable
20 programs in the United States and abroad. Founded in Boston by Joseph P. Kennedy II in
21 1979, Citizens became a leading innovator in the energy and health care fields and used

¹ The DCA is appended as Attachment 1 to SDG&E’s Application for Public Utilities Code Section 851 Approval to Lease Transfer Capability Rights to Citizens Energy Corporation (“SDG&E’s 851 Application”).

² See Schedule 1.1 of DCA (Attachment 1 to SDG&E’s 851 Application).

1 its entrepreneurial ventures to help people in need in the U.S., Africa, Central and South
2 America, and the Caribbean. In its first decade, Citizens' commercial activities included
3 crude oil trading, oil exploration and production, electric power and natural gas
4 marketing, mail-order service pharmaceuticals, and environmental business consulting.

5 Citizens is structured as a non-profit company that owns 100% of a for-profit
6 holding company, which in turn wholly owns several for-profit subsidiaries, including
7 Citizens Business Enterprises. For the purposes of this lease, Citizens has confirmed that
8 it will operate under one of its for-profit subsidiaries.³ Citizens will utilize a limited
9 liability company, which will be a subsidiary of Citizens Business Enterprises, to
10 effectuate the ultimate lease transaction with SDG&E. Citizens takes no government
11 funds or private donations, and instead relies entirely on profits from the businesses it
12 owns and operates to generate revenues for charitable and social programs.

13 **B. Purpose of Testimony**

14 The purpose of my testimony is to describe (i) the history of Citizens'
15 participation leading to the execution of the DCA; (ii) the most significant terms of the
16 DCA; (iii) the general nature of the filings Citizens and SDG&E will be making at the
17 FERC to effectuate the Citizens transaction that is the subject of SDG&E's 851
18 Application; and (iv) the public interest basis for Commission approval of the transfer
19 contemplated by the DCA.

³ Affidavit of Peter F. Smith, Paragraph 65.

1 **II. THE SUNRISE POWERLINK TRANSMISSION PROJECT AND**
2 **BACKGROUND LEADING TO CITIZENS' PARTICIPATION**

3 **A. CPUC's Approval of Sunrise**

4 On December 18, 2008, in Decision ("D.") 08-12-058, the CPUC granted the
5 application of SDG&E for a Certificate of Public Convenience and Necessity ("CPCN")
6 to construct Sunrise using the Final Environmentally Superior Southern Route ("CPCN
7 Decision"). In its CPCN Decision approving the project, the CPUC determined that
8 Sunrise will generate net benefits, primarily reliability related, and the delivery of
9 renewable generation in the Imperial Valley of California, of over \$117 million per year
10 to California Independent System Operator ("CAISO") customers. On July 9, 2009, in
11 D.09-07-024, the CPUC issued its Order Modifying D.08-12-058 and Denying Rehearing
12 of Decision, As Modified ("Modified CPCN Decision").

13 As approved, Sunrise is comprised of a new electric transmission line of
14 approximately 120 miles between the existing Imperial Valley and Sycamore Canyon
15 Substations, a proposed new Suncrest Substation, and other system modifications in order
16 to reliably operate the new line. The segment from Imperial Valley Substation near El
17 Centro, California to the new Suncrest Substation near the town of Alpine in San Diego
18 County will be a 500 kV line and the segment from Suncrest Substation to Sycamore
19 Canyon Substation in the city of San Diego will be a double circuit 230 kV line. The
20 Project is described in three separate segments or "links" according to geographical
21 location: (i) the Imperial County 500 kV Link or the Border-East Line that traverses
22 approximately 30 miles; (ii) the San Diego 500 kV Link; and (iii) the San Diego County
23 230 kV Link. In addition, the Project requires three system upgrades (reconductors from
24 Sycamore Canyon Substation to Pomerado, Scripps and Elliott substations).

1 **B. Memorandum of Understanding and CAISO Approval**

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3 On March 16, 2006, SDG&E, the Imperial Irrigation District (“IID”) and Citizens
4 executed a Memorandum of Agreement (“MOA”), providing for the cooperative
5 development and shared ownership of Sunrise in Imperial Valley, subject to the
6 negotiation of further definitive agreements.

7 In the summer of 2006, CAISO initiated the CAISO South Regional Transmission
8 Plan - 2006 (“CSRTP”) to study three projects, including the Sunrise. The CSRTP’s
9 objective was “to assess the need and value of these three projects while accounting for
10 their interactions and interdependencies.”⁴ The CSRTP described SDG&E, Citizens and
11 IID as “Project Sponsors.”⁵ The CSRTP concluded its assessment in late July and
12 presented its findings in a report to the CAISO Board of Governors (“Board”) thereafter
13 on July 28, 2006. At its August 3, 2006 meeting, the Board unanimously approved
14 Sunrise. In approving the Project, the Board specifically determined that Sunrise is:

15 . . . a necessary and cost effective upgrade to the CAISO Controlled Grid
16 that will also facilitate compliance with California renewable energy
17 purchase requirements. . .

18 Indeed, the Board approval went so far as to “direct” SDG&E and Citizens
19
20 to develop the project:

21 [The CAISO] . . . directs San Diego Gas and Electric Company and
22 Citizens Energy (Project Sponsors) to proceed with the permitting and
23 construction of the transmission project by the summer of 2010 . . . ⁶
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⁴ CSRTP-2006, Findings and Recommendations on the Techachapi Transmission Project, January 24, 2007 at page 3 (<http://www.aiso.com/1b6b/1b6bb5f07ad2.pdf>).

⁵ CSRTP-2006, Presentation to the STEP Meeting, May 5, 2006 at page 5 (<http://www.aiso.com/17f0/17f0ca0029100.pdf>).

⁶ See General Session Minutes Board of Governor Meeting, August 3, 2006 (http://www.aiso.com/pubinfo/BOG/minutes/docs/060803_final_boggen_minutes.pdf); see also CSRTP-2006, Findings and Recommendations on the Techachapi Transmission Project, January 24, 2007 at page 4 (<http://www.aiso.com/1b6b/1b6bb5f07ad2.pdf>).

1 An accompanying news release issued by CAISO on August 3, 2006 is attached as
2 Appendix 1 to this testimony. This subject was addressed in my August 2006 testimony
3 for Phase 1 of SDG&E's Application No. 06-08-010 ("Sunrise Proceeding").

4 As reflected in the record in Phase 1 of the Sunrise Proceeding, IID had
5 substantial concerns about its participation in Sunrise primarily due to routing issues.
6 SDG&E recognized the uncertainty with IID and Citizens' possible participation in
7 Sunrise in its original December 2005 CPCN application, and in its revised August 2006
8 application, when, after describing the contemplated participation with IID and Citizens,
9 it asked the CPUC to process the application assuming that SDG&E would be the sole
10 owner of the Project. SDG&E's history of dealing with IID's ownership involvement in
11 the Southwest Powerlink ("SWPL") during the early 1980s supported the prudence of
12 proceeding with the Sunrise application assuming that SDG&E would be the sole
13 sponsor. That ownership involvement in SWPL was consummated by a definitive
14 agreement two and one half years after the CPUC issued a CPCN for SWPL. This
15 experience illustrates that bringing partners into a new project can be an uncertain and
16 time consuming process.

17 IID ultimately terminated its interest in co-development of Sunrise under the
18 MOA in November 2007 because its disagreements with SDG&E over routing were not
19 resolvable. SDG&E is still amenable to co-development of Sunrise with IID but that
20 avenue presently appears no longer feasible. Notwithstanding IID's withdrawal, SDG&E
21 continued to negotiate with Citizens as one of the signatories to the MOA for reasons
22 described in Section V below. Citizens had contributed to the advancement of Sunrise in
23 the Imperial Valley and, as described by Citizens in its Petition for Declaratory Order and

1 supporting affidavits filed at FERC, has continued to do so vis-à-vis IID. On May 11,
2 2009, SDG&E and Citizens signed the DCA. Unlike the MOA, the DCA provides for the
3 definitive transfer of a lease interest in the Project from SDG&E to Citizens, subject to
4 the conditions in the DCA. It is this transfer of utility property that requires prior
5 approval of the Commission under Section 851 of the Public Utilities Code.

6 Negotiations between SDG&E and Citizens were protracted for several reasons.
7 First, SDG&E's management was focused on concluding the Sunrise Proceeding.
8 Second, there existed substantial uncertainty as to the route of the Project. Third,
9 whether Citizens would proceed with its participation. And fourth, how to structure the
10 transaction if Citizens elected to move forward. From SDG&E's vantage point, we
11 wanted to ensure that if Citizens did participate, that there would be no significant impact
12 on CAISO customers in terms of the largest cost component in Citizens rates – the
13 Border East Line capital cost component. As for this last point, SDG&E needed
14 assurances that Citizens was willing to limit the capital cost component of its rate request
15 to FERC to a level that would leave CAISO customers generally indifferent whether
16 Citizens or SDG&E held the transfer capability that is the subject of Citizen' leasehold
17 entitlement ("Leasehold"). SDG&E also wanted to ensure that the transaction was
18 structured so as to eliminate any potential negative financial exposure. These concerns
19 were addressed both by the conclusion of the Sunrise Proceeding in December 2008 and
20 after several months of conversations with Citizens leading up to the signature of the
21 DCA.

22 In the following sections of my testimony, I describe these subjects and others of
23 significance to the Commission's consideration of this transaction.

1 **III. THE DEVELOPMENT AND COORDINATION AGREEMENT (“DCA”)**

2 **A. General Description Of The DCA**

3 Subject to CPUC and FERC approvals of the transaction, Citizens has the option
4 to lease for a 30-year term 50 percent of the power transfer capability on the Border-East
5 Line portion of Sunrise located in Imperial Valley. Citizens’ Leasehold in the Border-
6 East Line will not include switching facilities within the Imperial Valley substation. If
7 Citizens exercises its option prior to the in-service date of the line, which is currently
8 anticipated to be in June 2012, Citizens will invest what SDG&E currently estimates to
9 be approximately \$83 million as the Lease Payment to lease this entitlement to power
10 transfer capability over the Border-East Line. Citizens will sign a Transmission Control
11 Agreement with the CAISO and become a Participating Transmission Owner (“PTO”).⁷
12 Citizens will obtain FERC approval of its PTO Tariff and its revenue requirements
13 applicable to its capital lease investment in the line will be approved by FERC. The
14 DCA contemplates that SDG&E will remain responsible for the development, design,
15 permitting, engineering, procurement and construction of the project, as well as
16 operations and maintenance for the entire Project.

17 **B. Significant DCA Terms Involving Important Principles That Are In**
18 **The Public Interest**

19 I describe below the principal terms of the DCA.

⁷ Under the CAISO’s FERC tariff, by executing a Transmission Control Agreement, the PTO turns over to the CAISO Operational Control of its interest in a transmission facility. The interest thereby transferred becomes part of what the tariff terms the “ISO Controlled Grid,” and the costs of the transferred interest are recovered in FERC-jurisdictional transmission rates as described further in this testimony. Note that “Operational Control” is a defined by the CAISO tariff as the obligation to provide reliable, comparable and non-discriminatory access to the ISO Controlled Grid.

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1. The Transaction

As noted above, the DCA provides that SDG&E grant to Citizens an option to lease for a 30-year term 50 percent of the transfer capability on the 500kV facilities of the Border East Line (“Option”). Such transfer capability will revert to SDG&E upon expiration of such 30-year term or upon earlier termination of Citizens’ participation by reason of a material breach. The funding, ownership, and transfer capability of the various segments of Sunrise, after Citizens’ exercise of its Option, are outlined below. Citizens will fund its share of the costs shown below through the Lease Payment for use of the transfer capability.

SEGMENT	FUNDING	OWNERSHIP	TRANSFER CAPABILITY
IV Substation	100% SDG&E	100% SDG&E	100% SDG&E
Border-East Line *	50% Citizens 50% SDG&E	100% SDG&E	50% Citizens 50% SDG&E
Border-West Facilities	100% SDG&E	100% SDG&E	100% SDG&E

* Assumes that Citizens closes on its Option and all of the Border-East Line is comprised of 500 kV facilities. The allocation of costs and ownership interests are subject to future modification as a result of SDG&E funding upgrades, renewals, and replacements to the Project as described herein.

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2. Project Development and Construction

SDG&E is responsible for the development, design, permitting, engineering, procurement and construction of Sunrise. SDG&E will bear all costs for development and construction of Sunrise and will not convey the transfer capability to Citizens until such time as Citizens has exercised and closed its Option as described below.

3. Option Mechanics

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The Option is effective until no later than 10 days prior to the targeted commercial operation date for Sunrise. Citizens may exercise its Option by delivering

1 written notice to SDG&E no later than 90 days prior to the targeted commercial operation
2 date. If Citizens fails to exercise its Option within the defined period prior to the targeted
3 commercial operation date, such unexercised Option will expire.

4 **4. Prepaid Rent**

5 The Lease Payment owed by Citizens to SDG&E for the transfer capability is the
6 proportionate share of the actual cost incurred by SDG&E to develop, design, permit,
7 engineer and construct (including overheads and allowance for funds used during
8 construction and payments still due under pending construction contracts for work to be
9 completed after closing of the Option). The Lease Payment will be paid in a lump sum at
10 the closing of the transaction after Citizens exercises its Option. The parties will attach a
11 schedule to the lease allocating the Lease Payment over the Lease Term and will report
12 this payment as accruing for tax purposes quarterly in arrears according to the schedule.
13 The parties will treat the Lease Payment to the extent it exceeds the rent that has accrued
14 as a loan by Citizens to SDG&E that bears interest at a rate equal to 110 percent of the
15 “applicable federal rate” as required by Section 467 of the U.S. Tax Code. I describe the
16 tax aspects of this Leasehold in more detail in Section III, B, 8 below. Further details are
17 provided in the testimony of SDG&E witness Randall Rose.

18 **5. Citizens Rates**

19 One of SDG&E’s main goals in negotiating the DCA was to ensure that
20 ratepayers would be protected from rates above that which SDG&E would charge
21 without Citizens’ involvement, keeping in mind that such involvement could come at an
22 added cost. Specifically, SDG&E was concerned that Citizens could obtain a FERC-
23 approved rate much greater than the rate SDG&E would charge in the absence of the
24 DCA, to the detriment of ratepayers. However, it is also possible that FERC would

1 approve a rate much lower than the rate SDG&E would charge, to the great benefit of
2 ratepayers. With this in mind, the DCA includes a model designed to generate what is
3 called a “SDG&E Representative Rate,” which approximates the capital cost recovery
4 rate SDG&E would charge for Citizens’ interest including some of Citizens’ incremental
5 development costs.⁸ Under this approach, even if FERC were to approve a capital cost
6 recovery rate greater than the rate SDG&E would charge, Citizens would only be able to
7 charge the SDG&E Representative Rate. On the other hand, if FERC were to approve a
8 capital cost recovery rate 50% less than the SDG&E Representative Rate, Citizens could
9 not charge the higher SDG&E Representative Rate.

10 As described in greater detail in the testimony of SDG&E witness Michael
11 Calabrese, the SDG&E Representative Rate constitutes a ceiling or cap on the capital cost
12 rate Citizens may charge. Because this SDG&E Representative Rate is determined based
13 on actual costs incurred by SDG&E and Citizens, it is impossible to predict with 100%
14 certainty what the SDG&E Representative Rate will be at the time Citizens actually
15 exercises its option under the DCA. Nevertheless, these costs can be estimated and in an
16 effort to provide an illustrative comparative analysis of annual levelized revenue
17 requirements that include both incremental capital and expense related costs that arise as
18 a result of the DCA, Mr. Calabrese’s testimony includes a comparison of a current snap
19 shot case for SDG&E and a current snap shot case and high case for Citizens. The
20 SDG&E snap shot case was prepared from the perspective that Citizens would not
21 exercise its option under the DCA and therefore not participate in the Border-East Line.
22 Conversely, the Citizens snap shot case and high case were prepared from the perspective

⁸ It should be noted that the final FERC-approved rates for Citizens, including Citizens’ incremental development and operational costs, will be determined in a subsequent Section 205 rate proceeding that Citizens will file at the FERC.

1 that Citizens would exercise its option under the DCA and participate in the Border-East
2 Line. The annual levelized revenue requirements for this comparative analysis are
3 produced from the SDG&E Representative Rate Model (“Model”) referenced in the
4 DCA, with modifications made to the capital structure depending on the case.

5 Ultimately, Mr. Calabrese’s testimony shows that the annual discounted and
6 levelized revenue requirement under the snap shot case is slightly higher for Citizens by
7 \$77 thousand or 0.6% when compared to that of SDG&E. The annual discounted and
8 levelized revenue requirements under the high case is \$734 thousand or 5.8% higher for
9 Citizens when compared to SDG&E.

10 SDG&E requests that the Commission consider these possible rate impacts
11 together with the benefits of Citizens’ participation in the Border-East Line described
12 later in this testimony in its determination of whether this transaction is in the public
13 interest.

14 **a. SDG&E does not guarantee Citizens’ cost recovery**

15 While SDG&E is part of the CAISO, SDG&E shall not be responsible to
16 guarantee or financially support Citizens’ cost recovery.

17 **b. The capital cost component of Citizens rate is capped**

18 By far the largest cost component in the rate that Citizens will be able to charge
19 CAISO customers is the capital cost for the Border-East Line. In order to ensure that
20 Citizens’ participation would not adversely effect this cost (primarily as a result of
21 potentially high debt service costs), SDG&E structured the DCA so that the capital cost
22 component of Citizens’ rates is capped at a calculated rate that is intended to approximate
23 the capital cost that SDG&E would have charged for the same interest in the Border-East

1 Line, including some of Citizens' incremental development costs, on an equivalent
2 levelized basis. The SDG&E Representative Rate includes reasonably incurred
3 incremental Citizens project costs, development costs, regulatory costs, transactional
4 costs, sales costs, use or excise tax costs, and financing costs, as defined in the DCA, that
5 most likely would not be incurred without Citizens' involvement in the Border East Line.

6 As described above and in the testimony of SDG&E witness Michael Calabrese,
7 this cap on Citizens' cost of capital is established by the Model described in Schedule 2.2
8 of the DCA. The Model calculates a theoretical annual rate (for a fifty-eight-year
9 depreciable life) that SDG&E could recover at the time of commercial operation if
10 SDG&E held Citizens' Transfer Capability and then amortizes that rate over a thirty year
11 period on a level basis each year based on fixed and variable parameters set forth in the
12 model to produce a theoretical levelized annual amount referenced in the DCA as the
13 SDG&E Representative Rate. This rate comparison is made at the closing date of the
14 lease and this component of Citizens' rate will be fixed and not subject to modification
15 throughout the Lease Term. For the reasons described in Section V, C below, this one-
16 time rate comparison will benefit CAISO customers.

17 **c. Citizens Operating Costs**

18 In addition to the Citizens capital cost rates capped by the Model, Citizens rates will
19 include additional non-capital related charges. Pursuant to the DCA, Citizens will be
20 responsible for operation and maintenance services incurred by SDG&E for the Border-East
21 Line. SDG&E will charge Citizens the actual costs incurred for the operations and
22 maintenance associated with Citizens' proportionate share of the Border-East Line, plus
23 applicable overheads. Citizens will recover these SDG&E operations and maintenance
24 ("O&M"), administrative and general ("A&G") charges and any other overheads, such as

1 general and common plant costs (overheads or general and common plant), through
2 Citizens' rates that will be the subject of its rate filings at the FERC. These costs would be in
3 CAISO customer rates even in the absence of Citizens.

4 In addition to the SDG&E component of the SDG&E flow through of its A&G costs,
5 Citizens will recover all of its own A&G costs through FERC-approved rates, such as those
6 required to effect billing and settlements with the CAISO. As more fully described in the
7 testimony of SDG&E witness Michael Calabrese, these Citizens-related A&G costs will be
8 incremental to charges that ratepayers would have paid in the absence of Citizens.

9 **6. Operations and maintenance, capital improvements, and**
10 **interconnection**

11 Pursuant to the DCA, SDG&E shall be responsible for operations and
12 maintenance services for the Border-East Line. SDG&E shall charge Citizens the actual
13 costs incurred for the operations and maintenance associated with Citizens' proportionate
14 share, plus applicable overheads.

15 To the extent of their proportionate share of transfer capability, SDG&E and
16 Citizens will share *pro rata* any increases in the transfer capability on the Border-East
17 Line resulting from changes to the configuration of adjoining systems or upgrades to
18 adjoining systems.

19 SDG&E shall be solely entitled to develop, design, engineer, procure, construct,
20 commission, own, operate, maintain and finance any upgrades after the commercial
21 operation date for purposes of increasing transfer capability. SDG&E shall be solely
22 responsible to pay the costs of such upgrades and will be entitled to all increases in
23 transfer capability resulting from such upgrades.

1 To the extent that additional capital investment is needed for replacement or
2 renewal of facilities, SDG&E shall be responsible for all costs of such replacement or
3 renewal. Each party's proportionate share of transfer capability on the Border-East Line
4 will be modified to an amount equal to the quotient of (a) the sum of (i) that party's then-
5 current percentage share of transfer capability on the Border-East Line multiplied by the
6 former net book value of the Border-East Line (excluding all new funding of
7 replacements or renewals from the former net book value); plus (ii) that party's new
8 funding of replacements or renewals as part of the new net book value, divided by (b) the
9 new net book value of the Border-East Line (including all new funding of replacements
10 or renewals as part of the new net book value).

11 Pursuant to the DCA and subject to the CAISO Tariff, SDG&E will be the
12 interconnection agent on behalf of Citizens with respect to Citizens' entitlement for all
13 requests for generator interconnection to the Border-East Line. Interconnecting
14 generators will initially advance funds for the costs of interconnection facilities and
15 related network upgrades, subject to repayment by SDG&E pursuant to the terms of the
16 CAISO Tariff. SDG&E will retain all ownership and transfer capability interests in all
17 generator interconnection facilities and related network upgrades on its transmission
18 system.

19 **7. Citizens will transfer operational control over its Lease Term**
20 **in the Border-East Line to the CAISO**
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22 As noted above, the DCA requires that Citizens become a PTO under the CAISO
23 tariff and turn over to the CAISO operational control of its transfer capability, as SDG&E
24 will do with its transfer capability. In the end, the entire transfer capability of Sunrise
25 will be under the operational control of the CAISO and available to CAISO customers.

1 Citizens' commitment to do so is consistent with the economic analysis utilized by the
2 Commission in D.08-12-058 for Sunrise that was based on a CAISO ratepayer
3 perspective. CAISO operation of Citizens' and SDG&E's shares of Sunrise will be
4 seamless, given that the CAISO will ensure comparable and non-discriminatory access to
5 Sunrise for all generators and power sellers. The net benefits to the CAISO customers
6 that underpin the Commission's approval of Sunrise are undiminished by this transaction.

7 The Project shall remain in the control area of the regional transmission entity, if
8 any, that has operational control over SDG&E's transmission system (CAISO) or
9 SDG&E if SDG&E is no longer a member of the CAISO.

10 For so long as SDG&E is part of the CAISO, Citizens shall assign to CAISO
11 operational control over its transfer capability. If SDG&E ceases its participation in the
12 CAISO, Citizens will assign to SDG&E (or whatever entity has operational control over
13 SDG&E's transmission system) operational control over Citizens' transfer capability.
14 Citizens shall obtain and maintain status as a PTO for so long as SDG&E is a part of
15 CAISO.

16 **8. The transaction is structured pursuant to Internal Revenue**
17 **Code §467 to meet IRS requirements for lease transactions**

18 Under general tax principles, any amount received by a taxpayer as gross income
19 is taken into taxable income in the year payment is received. An exception to the general
20 rule is provided for lease transactions by Internal Revenue Code Section 467 ("IRC
21 §467"). Where a lease agreement calls for prepaid rent, the parties must recognize the
22 expenses and revenues from the transaction in a reciprocal manner over the life of the
23 lease agreement. SDG&E and Citizens agreed to structure the transaction as an IRC
24 §467 lease in order to obtain more certainty regarding the tax treatment that both parties

1 desired. A full description of this IRC §467 treatment of the lease is found in the
2 testimony of SDG&E witness Randall Rose.

3 **9. Termination and Reinstatement**

4 SDG&E has the right to terminate the definitive agreement establishing the
5 Option and be under no obligation to pursue additional development activities if:

- 6 (a) any of the applications for the regulatory approvals are denied, or
7 are approved with conditions that are unacceptable to SDG&E or
8 otherwise materially inconsistent with the Border-East Line as
9 described herein;
- 10 (b) the receipt of any regulatory approvals is delayed such that
11 SDG&E will not be able to reasonably complete construction
12 activities until 12 months after the targeted commercial operation
13 date;
- 14 (c) FERC issues a final and binding order that would preclude
15 SDG&E from recovering, in SDG&E's reasonable estimation, a
16 return of and on any portion of its investment; or
- 17 (d) it is no longer reasonably feasible for SDG&E to continue
18 development, design, permitting, engineering, procurement and
19 construction activities for the Border-East Line.

20 If within five years of the effective date SDG&E resumes development of the
21 Border-East Line, then this termination will no longer be effective and the option will be
22 automatically reinstated.

23 **10. Low Income Energy Programs**

24 Among other expenditures Citizens will make, Citizens agrees that it will pay
25 annually 50 percent of its profits attributable to assets located in Imperial County to
26 programs assisting low income families of Imperial County.

1 **11. Right of First Refusal**

2 SDG&E has a right of first refusal in any proposed sale of Citizens’ Leasehold in
3 the Border-East Line.

4 **IV. NECESSARY REGULATORY FILINGS**

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6 As noted above, the effectiveness of the DCA is contingent on approvals both by
7 the CPUC through the instant Application and by the FERC. A description of the
8 respective obligations of the parties to obtain necessary authorizations and the Citizens
9 and SDG&E FERC filings follows.

10 SDG&E takes the primary responsibility for obtaining the regulatory approvals
11 necessary for SDG&E to develop, design, engineer, procure, construct, commission, own,
12 operate, maintain and finance Sunrise and Citizens agree to cooperate with and assist
13 SDG&E in obtaining such approvals. Citizens takes the primary responsibility for
14 obtaining the regulatory approvals necessary for Citizens to exercise its Option, or to
15 lease and finance its Lease Payment for use of the Border-East Line, and SDG&E agrees
16 to cooperate with and assist Citizens in obtaining such approvals (*i.e.*, FERC and
17 CAISO).

18 **A. Citizens FERC Filings**

19 Simultaneously with this filing, Citizens is filing at the FERC a Petition for
20 Declaratory Order seeking approval of two rate treatments for its entitlement in the
21 Border-East Line⁹. Specifically, Citizens is requesting authorization to recover its (i)
22 prudently incurred transmission-related development and construction costs pertaining to
23 its entitlement interest in the Project in the event it is canceled or abandoned as a result of
24 factors beyond Citizens’ control consistent with Congress’ directive to the Commission

⁹ Citizens’ Petition is appended as Attachment 2 to SDG&E’s 851 Application.

1 to enhance transmission investment and the Commission’s Order No. 679; and (ii)
2 operating costs and capital requirements, pertaining to its entitlement interest in the
3 Border-East Line under a formula rate it will file with FERC for acceptance at a later
4 point. Pursuant to this formulaic rate, Citizens’ capital requirements will be determined
5 using a return on rate base approach incorporating a hypothetical capital structure and
6 proxy return on equity similar to what the Commission has approved for public power
7 participants who are PTOs in the CAISO.

8 After the FERC acts on its Petition, Citizens will have to file an application
9 pursuant to Section 205 of the Federal Power Act to obtain FERC acceptance of a
10 transmission formula rate and the costs to be recovered there under. Citizens’ formula
11 rate methodology will recover operating expenses on an actual incurred basis, and capital
12 requirements on a fixed basis levelized for the Lease Term. SDG&E’s actual O&M and
13 A&G costs will be a straight flow through the Citizens formula rate. Citizens’ own actual
14 A&G costs will also flow through this formula. No later than sixty days prior to the in-
15 service date for Sunrise, Citizens will submit to FERC its revenue requirements reflecting
16 the prepaid rent and other costs identified in the DCA that will flow through Citizens
17 FERC-approved formula.

18 **B. SDG&E FERC Filings**

19 Simultaneously with this filing, SDG&E is filing with FERC a Petition for
20 Declaratory Order and the supporting affidavit of R. Craig Gentes (“SDG&E’s FERC
21 Petition”) that I incorporate by reference into my testimony as Appendix 2. The purpose
22 for this filing is to obtain authorization to account for ratemaking purposes for the
23 Citizens transaction so that during the Lease Term, SDG&E will not seek to recover in its

1 transmission rates any capital costs that are the subject of the lease. Further, at the
2 conclusion of the Lease Term, SDG&E will not have on its books any capital costs
3 associated with the Citizens transaction because it will have fully depreciated that portion
4 of the Border-East Line that was the subject of the lease. Accordingly, this Petition seeks
5 to provide assurances to the Commission and to CAISO customers that SDG&E will not
6 be permitted to “double recover” both from Citizens and from CAISO customers the
7 capital costs for the Border-East Line that is the subject of the Leasehold.

8 Further, in the Petition SDG&E seeks authorization that it is appropriate to
9 recover O&M and A&G costs specifically identified to the Border-East Line and an
10 allocated portion of SDG&E’s overheads, such as general and common plant costs from
11 Citizens during the Lease Term. During the lease term, SDG&E’s receipt of revenues
12 from Citizens for O&M and A&G costs will be treated as a reduction to expense, and
13 overheads, such as general and common plant costs, will be treated as an increase to
14 miscellaneous revenues in SDG&E’s revenue requirements that ultimately flow through
15 the FERC-approved high voltage transmission access charge to all CAISO customers. In
16 this way, this SDG&E’s FERC petition seeks to provide assurances to the Commission
17 and to CAISO’s customers that SDG&E will not be permitted to “double recover” both
18 from Citizens and from CAISO customers the O&M, A&G and overheads for that
19 portion of the Border-East Line that is the subject of the Leasehold. These accounting
20 and ratemaking principles are fully described in SDG&E’s FERC Petition (appended as
21 Appendix 2 to this testimony).

22 Separately, SDG&E will also file with FERC no later than sixty days prior to the
23 in-service date for Sunrise, an application pursuant to Section 205 for acceptance of the

1 lease and transmission services agreement. This agreement will reflect terms of the lease
2 in substantial form similar to those terms set forth in the DCA that I describe in this
3 testimony. This agreement will also set forth SDG&E's role as the responsible party for
4 the operations and maintenance of the Border-East Line, for interconnection activities
5 through the CAISO's interconnection procedures and agreement, and for compliance
6 with applicable NERC/WECC transmission owner and operator reliability standards.

7 Note that both the SDG&E and Citizens petitions for declaratory orders set forth
8 in the DCA and described above are necessary devices to get FERC's guidance as to
9 whether the ratemaking principles of the DCA will be found in the public interest. In
10 recent years, it has not been uncommon for parties to ask FERC to confirm principles
11 necessary, for example, to get project financing, or to proceed with regulatory approvals
12 in other forums, and I understand that FERC has generally been receptive to timely
13 providing such guidance. In any event, if FERC accepts the proposed principles in ruling
14 on the declaratory order petitions, the parties still must file, and the FERC must approve,
15 rate applications based on those principles.

16 **V. THE DEVELOPMENT AND COORDINATION AGREEMENT WITH**
17 **CITIZENS IS IN THE PUBLIC INTEREST**

18 SDG&E believes that the public interest is served by the DCA for the following
19 reasons.

20 **A. It Is In The Public Interest To Encourage Diverse Interests, Such As**
21 **Citizens, In Transmission Development**

22 As described above, both IID and Citizens originally joined SDG&E in an effort
23 to develop the Border-East Line, as reflected in the parties' March 16, 2006 MOA.
24 Following IID's subsequent election to withdraw its participation under the MOA,

1 Citizens expressed an interest to continue its involvement. Since it was SDG&E's
2 objective to involve both IID and Citizens in Sunrise since early on in the process, we
3 saw no reason to try to exclude either party if they wished to continue their participation
4 in the development of the Border-East Line portion of Sunrise. Citizens, however, is not
5 a public utility with an obligation to serve and, as such, is significantly different from a
6 traditional utility, both in structure and in its exposure to regulatory risk. Citizens, as a
7 non-utility financial participant in electric transmission, is a new competitor in an
8 industry that is traditionally absent of competition. As evidenced by a June 25, 2009
9 letter that the CPUC filed in a Startrans, IO, LLC proceeding in Docket No. ER08-413-
10 002, the CPUC recognizes the value of bringing new entrants into transmission
11 development.¹⁰

12 SDG&E believes that it is important to bring such diverse participating interests
13 not only into Sunrise but also into other feasible projects that result in benefits for CAISO
14 customers. The value of Citizens' participation goes beyond the Border-East Line
15 portion of Sunrise. SDG&E's interest has been primarily focused on the reliability
16 benefits to the San Diego region and for gaining access to the renewable resources that
17 are stranded within the Imperial Valley region. As described by Citizens in its Petition
18 for Declaratory Order and supporting affidavits filed at FERC, Citizens has expressed an
19 interest in helping to unlock additional resources within the Imperial Valley. Citizens has
20 expressed an interest in facilitating the development of new transmission resources
21 beyond the Border-East Line. Citizens has been a partner in discussions around the
22 Green Path North project, and more recently, Citizens has entered into a Memorandum of

¹⁰ The CPUC's June 25, 2009 letter can be found at:
<http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=12083655>

1 Understanding in July of this year with the Western Area Power Administration
2 (“WAPA”) (“Citizens-WAPA MOU”), with WAPA acting under its new American
3 Recovery and Reinvestment Act of 2009 (“Recovery Act”), Public Law No. 111-5, which
4 directed Western to facilitate the delivery of renewable resources. As described by
5 Citizens in its FERC filings, Citizens, in conjunction with WAPA, intends to study the
6 feasibility of Citizens’ Imperial Valley Renewables Transmission Project (“IVRTP”).
7 The proposed IVRTP would interconnect the transmission systems of major utilities in
8 Arizona and California with new 500 kV transmission lines. This project could enhance
9 the transfer capacity between Arizona and California by up to several thousand
10 megawatts and would provide renewable developers with greater opportunities to reach
11 both the California and Arizona transmission grids.

12 Citizens’ FERC filings describe Citizens’ efforts under its Citizens-WAPA MOU
13 to develop the IVRTP have already triggered a broader discussion among WAPA,
14 Citizens, SDG&E, IID, and other regional utilities examining the feasibility of pursuing
15 the IVRTP in conjunction with extensive transmission additions in western Arizona
16 which would even further strengthen the transmission system needed to deliver
17 renewable resources in southern California and the desert southwest. While these
18 discussions are in their early stages, it is expected that WAPA, Citizens, SDG&E and
19 other utilities will be undertaking a feasibility study in the fall of 2009 of several projects
20 on a combined basis. As reflected in Mr. Peter Smith’s verification of Citizens-related
21 facts stated in the pending Section 851 Application, Citizens has been a leader in
22 spearheading the discussion which has led to these developments so far.

1 **B. Citizens’ Participation In The Border-East Line Is In the Public**
2 **Interest Because It Benefits Imperial County**

3 Importantly, Citizens’ participation in Sunrise also benefits the interests of
4 Imperial County – in which the Boarder-East Line is located and one of the poorest
5 counties in California. Citizens does so by investing in Sunrise, which will enhance the
6 development potential of renewable projects in this area of the State of California. This
7 will improve both the employment opportunities and the tax base in Imperial County.
8 Citizens has gone further to publicly commit that its participation in the Border-East Line
9 will not affect property tax proceeds paid to Imperial County.

10 This transaction will have a further positive effect on the community. As noted
11 above, Citizens has committed to spend fifty percent of its profits after taxes on programs
12 serving low income families in Imperial County. Although these expenditures will not
13 directly benefit CAISO customers, the Commission can nonetheless consider these public
14 benefits to an area impacted by the Border-East Line in its determination that the Citizens
15 transaction is in the public interest.

16 **C. Customers Will Have The Benefit Of The Remaining Useful Life**
17 **After The Expiration Of The Lease**

18 While the capital cost component of Citizens’ rate will be capped during the
19 Lease Term, at the end of this lease the capital costs for the portion of the Border-East
20 Line will be fully depreciated and CAISO customers will have the benefit of 28 years
21 remaining useful life for this facility.

22 **D. It Is In the Public Interest That Under The DCA CAISO Customers**
23 **Will Have Perpetual Rights To 100% of The Border-East Line**

24 The DCA secures for the benefit of the CAISO’s customers perpetual rights to
25 100 percent of the transfer capability on Citizens’ portion of the 500kV line, in order to

1 ensure that SDG&E's ratepayers will realize the full benefits of SDG&E's portion of the
2 500kV line. So long as Citizens remains a PTO entitled to cost recovery under CAISO's
3 FERC tariff, SDG&E ratepayers will have access to Citizens' portion of the 500kV line
4 at reasonable rates. In the event that Citizens is no longer participating in the Project,
5 ceases to be a PTO, or upon a breach of Citizens' obligations, Citizens' entitlement in the
6 Border-East Line will revert to SDG&E and, of course, be placed under the CAISO's
7 operational control. Citizens' agreement to transfer operational control of its entitlement
8 in Sunrise to the CAISO will ensure comparable and non-discriminatory access to
9 Sunrise for all generators and power sellers.

10 **E. SDG&E's Commitment To Meet Its 33% RPS Commitment Is**
11 **Unaffected By The Citizens Lease**

12 This lease to Citizens of a portion of the transfer capability of the Border-East
13 Line does not affect SDG&E's commitment made to the Commissioners in the Sunrise
14 Proceeding to meet its 33-percent RPS commitment. With or without the DCA, the
15 CAISO will operate and control access to this line. Whether Citizens leases a portion of
16 the line has no effect on SDG&E's voluntary commitment to 33-percent renewables.
17 Whether Citizens leases a portion of the line has no effect on the CAISO's duty to
18 provide non-discriminatory access to Sunrise. Sunrise will provide the avenue for
19 delivery of resources from the renewable-rich Imperial Valley region and is essential to
20 meeting SDG&E's voluntary commitment to 33-percent renewables.

21 **F. The Citizens Transaction Is In The Public Interest Even If The Rate**
22 **It May Ultimately Charge (the SDG&E Representative Rate) Is**
23 **Higher Than The Rate SDG&E Would Charge Without Citizens.**

24 As described above, the capital cost recovery rate that Citizens will be able to
25 charge is capped at the SDG&E Representative Rate. This cap protects CAISO electric

1 consumers if FERC approves a rate for Citizens in excess of the SDG&E Representative
2 Rate. If FERC approves a lower rate, the lower rate will apply. In addition, Citizens will
3 have its own A&G-related costs that will be incremental to charges that ratepayers would
4 have paid in the absence of Citizens. As described in the testimony of SDG&E witness
5 Michael Calabrese, an illustrative comparative analysis shows that the annual discounted
6 and levelized revenue requirement under a current snap shot case is slightly higher for
7 Citizens by \$77 thousand or 0.6% when compared to that of SDG&E. It also shows that
8 the annual discounted and levelized revenue requirements under a possible high case is
9 \$734 thousand or 5.8% higher for Citizens when compared to SDG&E. As previously
10 noted, Citizens' costs will be collected pursuant to a FERC-regulated transmission tariff.
11 The aforementioned cost comparisons are necessarily based on estimates at this time.
12 Ultimately, however, before any costs can be collected, Citizens will have to file its
13 proposed tariff with FERC in a Section 205 rate proceeding where all affected parties will
14 have an opportunity to examine their justness and reasonableness. Finally, it should also
15 be noted that Citizens' costs will be recovered from all California electric consumers who
16 receive transmission service from load serving entities which are participants in the
17 CAISO, through the CAISO's Transmission Access Charge.

18 The absolute amounts of any rate differences are, however, *de minimis*, given the
19 benefits of Citizens' participation enumerated above, the consumer protections built into
20 the cap on Citizens' rate in the SDG&E Representative Rate, the permanently locked in
21 nature of Citizens' rate discussed below, and the relative magnitude of the overall dollars
22 at stake (Citizens' participation will be only to the extent of approximately \$83 million
23 out of a total Sunrise cost of approximately \$1.9 billion). It should further be noted that
24 these differences of between 0.6% and 5.8 % in the present value of rates are being

1 calculated in the context of 30 year forecasts and are easily within the margin of
2 forecasting error. Moreover, even if one assumes an increase in rates over what SDG&E
3 would charge, the DCA remains in the public interest because such costs would be
4 outweighed by all the other benefits described above.

5 Another significant benefit associated with Citizens' participation in Sunrise
6 under the DCA is rate stability. That is, although the present value of Citizens' rate may
7 be higher than the present value of the rate SDG&E would charge without Citizens,
8 Citizens' rate will not be subject to change once Citizens rate is finally approve by FERC
9 (compared to SDG&E's capital cost recovery rate for which SDG&E can seek a higher
10 rate of return after the Settlement Agreement expires in 2013). In contrast, SDG&E's
11 financing is traditionally balanced with equal debt and equity, with debt financing tenure
12 normally matching the term of the asset life. Citizens would be providing long-term rate
13 stability to the extent that capital market costs ever increased significantly during the 30
14 years of Citizens' participation by locking in its rate for capital cost recovery over the
15 Lease Term, as opposed to a traditional investor-owned utility's rate that would be based
16 upon swings in both the equity and debt markets. Of course, while rates of return
17 increase or decrease over time, Citizens fixed return over thirty years is likely to be a
18 valuable customer benefit resulting from this transaction.¹¹

19 **G. The Citizens Transaction Is Unique**

20 SDG&E's transaction with Citizens is unique. Citizens has discussed in its
21 Petition to FERC for a Declaratory Order why its transaction with SDG&E does not
22 implicate any FERC regulated issues, including any aspect of the Settlement Agreement.

23 This concludes my direct testimony.

¹¹ See further discussion of this subject in Section V, C, above.

1 **VI. QUALIFICATIONS**

2 My name is James P. Avery. My business address is 8330 Century Park Court,
3 San Diego, California, 92123. I am employed by SDG&E as Senior Vice President –
4 Power Supply. I oversee the company’s electric and gas procurement, generation
5 business unit, resource planning and electric transmission planning operations. I attended
6 Manhattan College, New York City, New York, graduating with a Bachelor of
7 Engineering Degree in Electrical Engineering with a major field of study in Electric
8 Power. Prior to that, I attained an Associates Degree in the field of Electrical
9 Engineering from New York City Community College. Prior to joining SDG&E in 2001,
10 I was a consultant with R.J. Rudden Associates, one of the nation’s leading management
11 and economic consulting firms specializing in energy and utility matters. Prior to that, I
12 functioned as the chief executive officer of the electric and gas operations at Citizens
13 Utilities Company, a multi-service organization that provided electric, gas, telecom,
14 water and wastewater services in over 20 states across the nation. I am currently on the
15 Board of Directors of the California Power Exchange, and I also served as a member of
16 the Board of Directors of Vermont Electric Power Company, a transmission only
17 company serving the state of Vermont and R. J. Rudden Associates, and I held positions
18 at American Electric Power Service Corporation. I have previously testified before this
19 Commission.

Appendix 1

NEWS RELEASE

FOR IMMEDIATE RELEASE

August 3, 2006

Contact: Stephanie McCorkle
Director of Communications
1 (888) 516-NEWS

California ISO Board Approves Sunrise/Greenpath Transmission Project

Power Line Gets Green Power on Grid and Brings Economic/Reliability Benefits

(Folsom, CA) The California Independent System Operator Corporation (California ISO) Board of Governors today unanimously approved the Sunrise/Greenpath transmission project proposed jointly by San Diego Gas and Electric (SDG&E), Imperial Irrigation District (IID) and Citizens Energy. The project will provide a vital “electricity on ramp” from the southeastern corner of the state to San Diego and the rest of the California grid. The combination 500-thousand/230-thousand volt transmission link will also provide access to hundreds of megawatts in renewable generation, bringing much-needed green power onto the grid.

In approving the Sunrise/Greenpath project, the California ISO Board found it will lower costs for San Diego consumers and provide significant reliability benefits to San Diego, Imperial Valley and Southern California in general by bolstering a weak link in the transmission network. The Board also found the Sunrise/ Greenpath project will help deliver hundreds of megawatts of solar, geothermal and wind power proposed for development in Imperial County. Getting the green power on the grid will help utilities meet the state’s requirement to procure or generate 20 percent of their power supply from renewable resources by the year 2010.

“As an independent grid planner, the California ISO takes a critical eye to every transmission project proposed—making sure the investment is sound and responsible,” said ISO Board Chair Mason Willrich. “We agree with our staff assessment that Sunrise/Greenpath provides a comprehensive solution that will strengthen the grid, provide economic and reliability benefits as well as access to renewable resources. The transmission grid can continue to perform as well as it did during last week’s incredible heat wave only with the addition of projects like this.”

-MORE-

Sunrise 2-2-2-2

The California ISO Board approval is a significant step in the overall approval process for new transmission lines, but the Sunrise portion of this project also needs approval from the California Public Utilities Commission. The Greenpath portion needs approval from its local regulatory authority. These reviews will include analysis of environmental line-routing issues.

The California ISO is a not-for-profit public benefit corporation charged with managing the flow of electricity along California's open-market wholesale power grid. The mission of the California ISO is to safeguard the reliable delivery of electricity, and ensure equal access to 25,000 circuit miles of "electron highway." As the impartial operator of the wholesale power grid in the state, the California ISO conducts a small portion of the bulk power markets. These markets are used to allocate space on the transmission lines, maintain operating reserves and match supply with demand in real time.

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Appendix 2



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October 9, 2009

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: Petition for Declaratory Order of San Diego Gas & Electric Company and
Affidavit of R. Craig Gentes, Docket No. EL10-____-000**

Dear Secretary Bose:

San Diego Gas & Electric Company ("SDG&E") tenders for filing an original and fourteen (14) copies of a Petition for Declaratory Order ("Petition") and Affidavit of R. Craig Gentes pursuant to Rule 207 of the Federal Energy Regulatory Commission ("Commission" or "FERC") Rules of Practice and Procedure and Regulations, 18 C.F.R. §207. A check in the amount of \$22,550 payable to the United States Treasury pursuant to 18 C.F.R. §381.302(a) is also enclosed.

I. NATURE AND PURPOSE OF FILING

In this Petition, SDG&E requests Commission approval of SDG&E's proposed accounting and ratemaking treatment for a portion of SDG&E's 500 kV Sunrise Powerlink Project ("Sunrise"), to be located in Imperial Valley County between the San Diego County line and the Imperial Valley Substation ("Border-East Line"), that will be subject to a 30 year long lease between SDG&E and Citizens Energy Corporation ("Citizens"). SDG&E's Petition in this docket addresses accounting and rate treatment for that portion of the Border-East Line that SDG&E is not leasing to Citizens. Separately, Citizens is filing a Petition for Declaratory Order to Confirm Rate Treatments for High Voltage Lines. SDG&E is not requesting a consolidation of these two petitions, although the Commission's ultimate treatment of both petitions is interwoven.

II. LIST OF DOCUMENTS SUBMITTED

This Filing consists of the following:

1. Transmittal Letter;
2. Petition and Verification;
3. Affidavit of R. Craig Gentes (Exhibit No. SCG-___(RCG-1) with Attachment A); and
4. Form of Notice suitable for publication in the Federal Register.

III. SERVICE

Copies of this Filing have been served on all parties to Docket No. ER07-284-000, including the California Public Utilities Commission, the California Independent System Operation Corporation, Pacific Gas and Electric Company, Southern California Edison Company and other participating transmission owners that have transferred operational control over their transmission facilities and entitlements to the ISO.

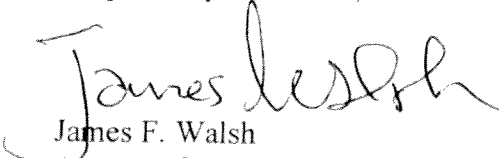
IV. COMMUNICATIONS

Correspondence and other communications concerning this filing should be addressed to:¹

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Respectfully submitted,


James F. Walsh
Attorney for
San Diego Gas & Electric Company

Enclosure(s)

Copy to: Debi Le Vine, Director, CAISO
Nicholas Sher, California Public Utilities Commission

¹ SDG&E requests waiver of Rule 203(b)(3) to the extent necessary to permit each of the individuals identified above to be placed on the Commission's official service list in this proceeding.

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

San Diego Gas & Electric Company)

Docket No. EL10-__-000

**SAN DIEGO GAS & ELECTRIC COMPANY’S
PETITION FOR DECLARATORY ORDER**

Pursuant to Rule 207 of the Federal Energy Regulatory Commission’s (“Commission” or “FERC”) Rules of Practice and Procedure, 18 C.F.R. Section 385.207 (2008), San Diego Gas & Electric Company (“SDG&E”) respectfully petitions the Commission for a declaratory order on the accounting and ratemaking treatment for its interest in that portion of SDG&E’s 500 kV Sunrise Powerlink Project (“Sunrise”), to be located in Imperial Valley County between the San Diego County line and the Imperial Valley Substation (“Border-East Line”) (See Attachment A). The Border East Line will be subject to a lease for a 30 year term (“Lease Term” or “Leasehold”) between SDG&E, as lessor, and Citizens Energy Corporation (“Citizens”) as lessee. Both this Petition and the Affidavit of R. Craig Gentes (Exhibit No. SDG-__ (RCG-1), in support of this Petition (“Gentes Affidavit”), address the accounting and rate treatment for the portion of the Border-East Line that will be the subject of the Leasehold with Citizens. Separately, Citizens is filing a Petition for Declaratory Order to Confirm Rate Treatments for High Voltage Lines associated with its Leasehold of the Border East Line. SDG&E is not requesting a consolidation of this Petition with the Citizens Petition although the Commission’s ultimate treatment of both Petitions is interrelated.

I. BACKGROUND ON THE SUNRISE PROJECT

The Sunrise Project is approximately a 120 mile, 500 kV transmission line and associated upgrades that will extend from SDG&E's existing Imperial Valley substation to the load-centers in western San Diego County. The CAISO management recommended that Sunrise be built to ensure transmission grid reliability in the San Diego area and in the State of California, and the CAISO's Board of Governors unanimously approved the recommendation on August 3, 2006.

After three years of litigation and vociferous opposition from various interest groups, on December 18, 2008 in Decision 08-12-058 ("the CPCN Decision"), the CPUC granted SDG&E a Certificate of Public Convenience and Necessity ("CPCN") to construct Sunrise. On July 9, 2009, the CPUC issued Decision 09-07-024 that modified the CPCN Decision and denied rehearing of the decision, as modified ("Modified CPCN Decision").¹

A. Sunrise is needed to support reliability in Southern California and the development of renewable resources in the Imperial Valley

Sunrise provides significantly-needed infrastructure in a region that is widely acknowledged to be severely transmission constrained. The CPCN Decision found that Sunrise would: (1) enhance regional reliability and make use of the National Interest Electric Transmission Corridor,² (2) advance the State's renewable goals of reducing greenhouse gas emissions through renewable generation procurement at a 33% Renewable Portfolio Standards

¹ The CPCN Decision and the Modified CPCN Decision can be found at http://docs.cpuc.ca.gov/word_pdf/FINAL_DECISION/95750.pdf and at http://docs.cpuc.ca.gov/word_pdf/FINAL_DECISION/104312.pdf

² The CPCN Decision expressly noted that Sunrise "makes use of a Draft Department of Energy ["DOE"] Section 368 West-wide Energy corridor." *Id.*, *mimeo* at 249. The draft DOE designation was finalized in the "National Electric Transmission Congestion Report" ("Report") (72 Fed. Reg. 56992 (October 5, 2007)), which Report designates two National Interest Electric Transmission Corridors, pursuant to section 204 of the Federal Power Act, 16 USC §824o. The Southwest Area National Interest Electric Transmission Corridor includes San Diego County and Imperial County. *Id.* at 57025. The Report indicates, among other things, that consumers in the referenced geographic area are experiencing electric energy transmission capacity constraints or congestion. *Id.* at 56992.

(“RPS”) by 2020 by facilitating the development of renewable generation in the Imperial Valley area³ and (3) provide economic benefits to customers utilizing the transmission grid operated by CAISO.⁴

The CPUC also found that there exists a “reliability need” for SDG&E’s service area by 2014 and perhaps sooner, given the many uncertainties in the modeling assumptions adopted in the CPCN Decision.⁵ The CPCN Decision held that Sunrise will create a more robust southern California transmission system and will provide insurance against unexpected high load growth in SDG&E’s service territory that may occur prior to 2014.⁶ According to the CPCN Decision, Sunrise will provide a projected reliability benefit of \$214 million per year beginning in 2012 over the 58 year modeling period adopted by the CPUC.⁷

Sunrise will also benefit California consumers by ensuring the continued development of renewable energy, which is critical to the State of California’s plans to reduce emissions of greenhouse gases. The CPUC found that without Sunrise, the development of the renewable rich Imperial Valley area would not occur.⁸ CAISO customers will receive a benefit of approximately \$61 million per year beginning in 2012 over the modeling period adopted by the CPCN Decision as a result of the development of renewable resources made possible by Sunrise.⁹

³ CPCN Decision, Findings of Fact 15 and 19.

⁴ *Id.*, Findings of Fact 17 and 19.

⁵ *Id.*, Finding of Fact 7, *mimeo* at 283.

⁶ *Id.*, Findings of Fact 16, *mimeo* at 285.

⁷ *Id.*, Findings of Fact 14 and 15, *mimeo* at 285.

⁸ *Id.*, at 67.

⁹ *Id.*, Table 15, row 7, *mimeo* at 161 and Finding of Fact 19 at 285.

Additionally, the CPUC found that Sunrise will benefit California consumers by reducing congestion-related costs in southern California by approximately \$18 million per year at a 33% RPS.¹⁰

Taking into account the Project's cost, the reliability, RPS and the improved grid efficiency benefits of Sunrise, the CPUC found that the Project would provide a net benefit of \$117 million to California customers.¹¹

B. SDG&E has signed the Development and Coordination Agreement to transfer a portion of Sunrise to Citizens Energy Corporation

Citizens has entered into the Development and Coordination Agreement, dated May 11, 2009, ("DCA") with SDG&E whereby Citizens will finance one half of the cost of a portion of the Border-East Line portion of Sunrise in exchange for a 30-year entitlement of 50% of the transfer capability associated with the Border-East Line. Under the DCA, Citizens will prepay the 30-year lease amount ("Lease Payment") to SDG&E. This lease will be structured, for tax purposes, as a lease transaction under Section 467 of the Internal Revenue Code.

The DCA requires that Citizens become a Participating Transmission Owner ("PTO") under the CAISO tariff and turn over to the CAISO operational control of its transfer capability, as SDG&E will do with its transfer capability. At the end of the lease, the entire transfer capability of Sunrise will be under the operational control of the CAISO and available to CAISO customers.

¹⁰ *Id.*, at Table 15, row 7, *mimeo* at 161 and Finding of Fact 8 at 283.

¹¹ *Id.*, at Table 15, row 7, *mimeo* at 161.

II. REQUEST FOR COMMISSION DECLARATIONS

To assure ratepayers that SDG&E will recover only once—and never twice—for transmission capital costs, Operation and Maintenance costs (“O&M”), Administrative and General costs (“A&G”) and Overhead costs, such as General and Common Plant costs (“Overheads” or “General and Common Plant”), for the Border-East Line portion of Sunrise, SDG&E urges the Commission to approve SDG&E’s proposed accounting and rate treatment for the Citizens lease transaction. Specifically, SDG&E requests Commission approval to permit SDG&E to:

1. Record the Citizens prepaid rent amount as a contra-account credit in SDG&E’s Uniform System of Accounts (“USOA”) Nos. 350-359 so that SDG&E’s Gross Transmission Plant balance, for purposes of setting SDG&E’s transmission revenue requirements, will be net of this prepaid Lease Payment.
2. Record the prepaid rent amount in USOA No. 186, Miscellaneous Deferred Debits, to be amortized evenly over the Lease Term.
3. Record all O&M, A&G and Overheads, such as General and Common Plant, cost reimbursements SDG&E receives from Citizens during the Lease Term as either a reduction to expense or as a miscellaneous revenue credit in applicable accounts used to determine SDG&E’s transmission revenue requirements.

A. SDG&E requests approval to record the Citizens prepaid Lease Payment as a contra-account credit in its USOA Nos. 350-359 so that SDG&E’s Gross Transmission Plant balance for purposes of setting transmission rate revenue requirements will be net of this prepaid Lease Payment

SDG&E will initially account for the Citizens prepaid Lease Payment as an increase to cash with an off-setting increase to a deferred liability (revenue) account. Subsequently, SDG&E will amortize the deferred liability (revenue) into income over the Lease Term. With respect to the 50% portion of the Border-East Line retained by SDG&E that is not subject to the Citizens’ entitlement, SDG&E will include that portion of the Border-East Line in its Transmission Plant USOA Nos. 350-359 upon commercial operation of this facility and

depreciate it over its estimated useful life of fifty-eight years. Upon Commission approval of Citizens' inclusion of the prepaid Leasehold Payment in Citizens' transmission rate base for accounting and ratemaking purposes, and presuming such approval occurs prior to the Border-East Line becoming operational, the contra-account credit in SDG&E's Transmission Plant USOA Nos. 350-359 will not be recorded until the East-Border Line becomes operational. To the extent Commission approval occurs after the Border-East Line became operational, SDG&E will discontinue its Transmission Plant rate base recovery of the Citizens-related Border-East Line capital costs by recording a contra-account credit in its Transmission Plant USOA Nos. 350-359. As a result of these contra account entries, for ratemaking purposes, SDG&E's Transmission Plant USOA accounts will be reduced by the full amount recorded in these contra-accounts. Accordingly, for purposes of determining the revenue requirements for Transmission Plant through SDG&E's transmission rate formula, the prepaid Lease Amount will offset the referenced Transmission Plant accounts. SDG&E will show in its FERC Form No. 1, at pages 206 and 207, the amount of Transmission Plant reflecting the offset by the full amount of Citizens prepaid Lease Amount.

B. SDG&E requests approval to record the prepaid rent amount in USOA No. 186, Miscellaneous Deferred Debits and amortize this amount evenly over the 30-year Lease Term

Concurrently with the entry of the prepaid Lease Payment in the contra-account credit to the Transmission Plant USOA Nos. 350-359, SDG&E will record this same amount in USOA No. 186, Miscellaneous Deferred Debits. SDG&E will amortize this recorded amount on a pro rata basis over the Citizens Lease Term. The combination of the accounting and ratemaking treatment for the Citizens lease transaction in USOA Nos. 350-359 and 186 will provide transparent assurance that CAISO customers paying the CAISO's High Voltage Transmission

Access Charge will not be exposed to any risk of double recovery by SDG&E for the Citizens' entitlement during the Lease Term.

C. SDG&E requests approval to record all O&M, A&G and Overhead, such as General and Common Plant, cost reimbursements it receives from Citizens during the lease term as either a reduction to expense or as a miscellaneous revenue credit in applicable accounts used to determine SDG&E's transmission revenue requirements

SDG&E proposes to record and account for all O&M, A&G and General and Common Plant cost reimbursements that SDG&E receives from Citizens during the Lease Term pursuant the transaction documents necessary to implement the DCA as either a reduction to expense or as a miscellaneous revenue credit. This approach will either reduce the expense costs recorded in the applicable USOA for these categories of expense or increase miscellaneous revenues presently flowing through SDG&E's transmission rate formula. Grant of the requested treatment of the revenues received from Citizens during Lease Term will provide transparent assurance that CAISO customers paying the CAISO's High Voltage Transmission Access Charge will not be exposed to any risk of double recovery by SDG&E of O&M, A&G or Overheads, such as General and Common Plant, costs during the Lease Term. The allocation factors that SDG&E will utilize for O&M, A&G, and General and Common Plant costs will be the subject of future filings at the FERC.

D. Consistent with Generally Accepted Accounting Principles, for accounting purposes, SDG&E will depreciate that portion of the Border-East Line leased to Citizens over the Lease Term of the lease to match the revenues received from Citizens

To be consistent with Generally Accepted Accounting Principles, SDG&E will depreciate the Border-East Line that is the subject of the Citizens lease over thirty years in order to match the corresponding revenues derived from the DCA. This depreciation treatment by

SDG&E of the Citizens Leasehold entitlement in the Border-East Line will transparently ensure that CAISO transmission customers will not be exposed, after the termination of this Leasehold Term, to any risk that SDG&E would seek to recover the capital cost attributable to the initial capital investment in the Border-East Line that had already been fully recovered through Citizens' cost-of-service-based revenue requirements stream.

III. CORRESPONDENCE AND COMMUNICATIONS

Correspondence and communications regarding this Petition should be sent to the following individuals:

James F. Walsh
Attorney
Sempra Energy
101 Ash Street, HQ12
San Diego, CA 92101
Telephone: 619-699-5022
Facsimile: 619-699-5027
E-mail: jwalsh@sempra.com

Steven Williams
FERC Case Manager
San Diego Gas & Electric Company
8330 Century Park Court
San Diego, CA 92123
Telephone: 858-650-6158
Facsimile: 858-654-1788
E-mail: swilliams@semprautilities.com

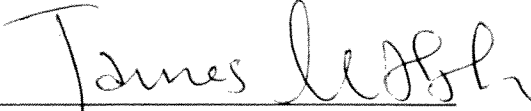
IV. CONCLUSION

For the reasons set forth above and in the Gentes Affidavit, SDG&E respectfully requests the Commission to promptly issue a declaratory order directing SDG&E, for accounting and ratemaking purposes, to treat the Citizens transaction as follows:

1. Record the Citizens prepaid rent amount as a contra-account credit in its USOA Nos. 350-359 so that SDG&E's Gross Transmission Plant balance for purposes of setting transmission rate revenue requirements will be net of this prepaid rent.
2. Record the prepaid rent amount in USOA No. 186, Miscellaneous Deferred Debits and amortize this amount evenly over the 30-year Lease Term.

3. Record all O&M, A&G and Overheads, such as General and Common Plant, cost reimbursements SDG&E receives from Citizens during the Lease Term as either a reduction to expense or as a miscellaneous revenue credit to applicable accounts used to determine SDG&E's transmission revenue requirements.

Respectfully submitted,



James F. Walsh

Attorney for

San Diego Gas & Electric Company

101 Ash Street

San Diego, CA 92101

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Facsimile: (619) 699-5027

E-mail: jwalsh@sempra.com

October 9, 2009

VERIFICATION

I am an officer of the applicant corporation herein, and am authorized to make this verification on its behalf. I am informed and believe that the matters stated in the foregoing document are true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 8th day of October, 2009, at San Diego, California.

A handwritten signature in black ink, appearing to read "Robert Schlax", is written over a horizontal line.

Robert Schlax
Vice President, Controller and Chief Financial
Officer
SAN DIEGO GAS & ELECTRIC COMPANY

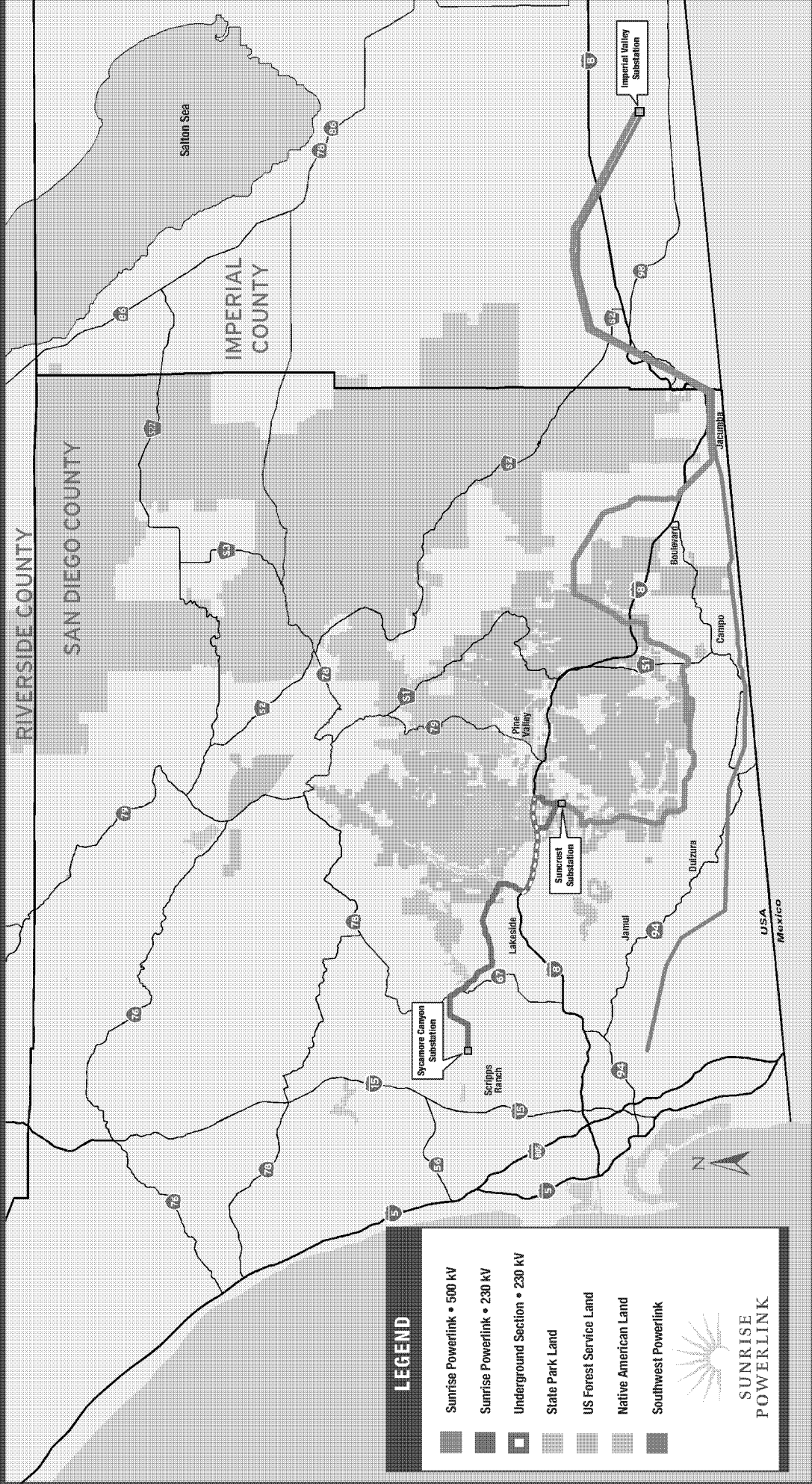
8330 Century Park Court
San Diego, CA 92123

ATTACHMENT A



A Scampia Energy utility

Approved Route for Sunrise Powerlink



LEGEND

- Sunrise Powerlink • 500 kV
- Sunrise Powerlink • 230 kV
- Underground Section • 230 kV
- State Park Land
- US Forest Service Land
- Native American Land
- Southwest Powerlink



SUNRISE
POWERLINK

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing **San Diego Gas and Electric Company's Petition for Declaratory Order and Affidavit of R. Craig Gentes** on each person named in the official service list for proceeding **ER07-284-000** via electronic service, and by U.S. Mail to those parties who have not provided an electronic address.

Executed this 9th day of October 2009 at San Diego, California.

/s/ Susan A. Long
Susan A. Long

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

San Diego Gas & Electric Company) Docket No. EL10- ____ - 000

PETITION FOR DECLARATORY ORDER OF
SAN DIEGO GAS & ELECTRIC COMPANY

AFFIDAVIT OF R. CRAIG GENTES FOR
SAN DIEGO GAS & ELECTRIC COMPANY

STATE OF CALIFORNIA)

COUNTY OF SAN DIEGO)

**AFFIDAVIT OF R. CRAIG GENTES FOR
SAN DIEGO GAS & ELECTRIC COMPANY**

R. Craig Gentes, being first duly sworn, on oath deposes and states:

I. QUALIFICATIONS

1. My name is R. Craig Gentes. My business address is 8330 Century Park Court, San Diego, California 92123. I am the Director for Accounting Operations within the Controller's organization for San Diego Gas & Electric Company ("SDG&E").

2. I am responsible for the Cost Accounting, the Affiliate Billing and Costing and Sundry Services functions for SDG&E and the Southern California Gas Company.

3. In 2007, I assumed my current role of Director of Accounting Operations. I am responsible for the Cost Accounting, the Affiliate Billing and Costing and Sundry Services functions for SDG&E and Southern California Gas Company. Previously I have served as Director of Compliance, responsible for the California Public Utilities Commission ("CPUC") and Federal Energy Regulatory Commission ("FERC" or "Commission"), Affiliate Compliance activities, the Accounts Payable function, and Financial Policies and Controls; Manager of Financial Policies and Controls, responsible for the implementation of the compliance process to meet the requirements of the Sarbanes-Oxley Act; and Financial Accounting Manager, primarily responsible for the monthly closing of the financial statements, Generally Accepted Accounting

Principles (“GAAP”) issues and research, and participating in Security Exchange Commission and CPUC financial reporting issues and requirements.

4. Prior to joining SDG&E, I worked for Deloitte Haskins & Sells, now Deloitte & Touche, in the auditing department. I obtained my California CPA license in 1984, and that license is currently in active status.

5. I received a Bachelor of Science degree in Business Administration with a major in Accounting from the University of Nebraska-Lincoln in 1982.

6. I have previously testified before the CPUC; however, I have not testified before the FERC.

II. PURPOSE

7. The purpose of my affidavit is to:

(a) explain SDG&E’s proposed accounting and ratemaking treatment for its interest in that portion of SDG&E’s 500 kV Sunrise Powerlink Project (“Sunrise”) located between county lines for San Diego County and Imperial Valley County and the Imperial Valley Substation (“Border-East Line”) that will be the subject of a 30-year term of the lease between SDG&E as lessor and Citizens Energy as lessee (“Leasehold Interest”);

(b) explain the expense crediting mechanism that SDG&E will utilize to reflect reimbursements received from Citizens as a flow through of Operations and Maintenance costs (“O&M”), Administrative and General costs (“A&G”) and Overhead costs, such as General and Common Plant (“Overheads” or “General and Common Plant”); and

(c) support SDG&E's request for a declaration that this Commission approve SDG&E's proposed ratemaking and accounting treatment for the Border-East Line that is the subject of the Leasehold Interest.

III. GENERAL DESCRIPTION OF SDG&E'S SUNRISE POWERLINK TRANSMISSION PROJECT AND THE CALIFORNIA PUBLIC UTILITIES COMMISSION APPROVAL PROCESS

8. On December 18, 2008, the CPUC granted SDG&E a Certificate of Public Convenience and Necessity ("CPCN") to construct Sunrise in Decision 08-12-058 (the "CPCN Decision"). On July 9, 2009, the CPUC issued Decision 09-07-024 that modified the CPCN Decision and denied rehearing of the decision, as modified ("Modified CPCN Decision").¹ As approved by the CPUC, Sunrise is an approximate 120-mile 500 kilovolt ("kV") transmission line and associated upgrades to interconnect the Imperial Valley substation and load centers in the San Diego area. The CPUC has characterized Sunrise as "one of the largest and most complicated transmission projects in California's history." CPCN Decision at 276, Findings of Fact 44 at 290.

9. The Border-East Line comprises approximately 30 miles of Sunrise located in Imperial County and does not include any substation components.

10. Citizens has entered into the Development and Coordination Agreement, dated May 11, 2009, ("DCA") with SDG&E whereby Citizens will finance one half of the cost of a portion of the Border-East Line portion of Sunrise in exchange for an entitlement of 50% of the transfer capability associated with the Border-East Line it finances for the 30-year duration of the

¹ A map showing the location of Sunrise as approved by the CPCN Decision is attached hereto as Attachment A. The CPCN Decision and the Modified CPCN Decision can be found respectively at http://docs.cpuc.ca.gov/word_pdf/FINAL_DECISION/95750.pdf and at http://docs.cpuc.ca.gov/word_pdf/FINAL_DECISION/104312.pdf

Leasehold Interest. Under the DCA, Citizens will pre-pay the 30-year lease amount to SDG&E.

This lease will be structured, for tax purposes, as a lease transaction under Section 467 of the Internal Revenue Code.

IV. SDG&E'S ACCOUNTING AND RATEMAKING TREATMENT FOR THE BORDER-EAST LINE THAT IS THE SUBJECT OF THE CITIZENS LONG TERM LEASEHOLD INTEREST

11. As a result of the pre-paid leasehold rent, SDG&E will initially account for this transaction as an increase to cash with an off-setting increase to a deferred liability (revenue) account. Subsequently, SDG&E will amortize the deferred liability (revenue) into income over the 30 year term of the lease. With respect to the 50% portion of the Border-East Line that is retained by SDG&E, *i.e.*, not subject to the Citizens' entitlement, SDG&E will include that portion of the Border-East Line within the Transmission Plant Uniform System of Accounts ("USOA") Nos. 350-359 upon commercial operation of this facility and depreciate it over its estimated useful life of fifty-eight (58) years.

12. When the Commission approves Citizens' inclusion of the prepaid Leasehold Payment in Citizens' transmission rate base for accounting and ratemaking purposes, and presuming such approval occurs prior to the Border-East Line becoming operational, the contra-account credit in SDG&E's Transmission Plant USOA Nos. 350-359 will not be recorded until the Border-East Line becomes operational. To the extent Commission approval occurs after the Border-East Line became operational, SDG&E will discontinue its Transmission Plant rate base recovery of the Citizens-related Border-East Line capital costs by recording a contra-account credit in its Transmission Plant USOA Nos. 350-359. As a result, for ratemaking purposes SDG&E's Transmission Plant accounts will be reduced by the full amount recorded in this

contra-account so that for purposes of determining the revenue requirements for Transmission Plant through SDG&E's transmission rate formula, the pre-paid rent will offset the Transmission Plant accounts USOA Nos. 350-359. SDG&E will accordingly show in its FERC Form No. 1 at pages 206 and 207 the amount of Transmission Plant offset by the full amount of Citizens pre-paid rent.

13. Concurrently with the entry of the pre-paid rent amount in the contra-account described in Paragraph 12 above, SDG&E will record this same amount within the USOA No. 186, Miscellaneous Deferred Debits, to be amortized on a pro rata basis over the 30-year Citizens lease term.

14. The combination of the accounting and ratemaking treatment described in Paragraphs 11 through 13 for the Citizens lease transaction in USOA Nos. 350-359 and 186, and illustrated on Attachment A hereto, will provide transparent assurance that CAISO customers paying the CAISO's High Voltage Transmission Access Charge will not be exposed to any risk of double recovery by SDG&E for the Citizens' entitlement during the Lease Term.

15. Consistent with GAAP, for accounting purposes, SDG&E will amortize Citizen's portion of the Border-East Line over the 30-year term of the lease in order to match the corresponding revenues derived from the DCA.

16. This amortization treatment of the Citizens portion of the Border-East Line avoids even an appearance that CAISO transmission customers could be exposed, after the termination of this Leasehold Interest, to any risk that SDG&E would seek to recover the capital cost attributable to the initial capital investment in the Border-East Line that had already been fully recovered through Citizens' cost-of-service based revenue requirements stream.

17. Under the DCA, SDG&E is solely responsible for any future capital costs that may be required for replacement or renewal of the facilities. Such capital costs will be recorded in SDG&E's Transmission Plant USOA Account Nos. 350-359 and included in SDG&E's revenue requirements at the appropriate time.

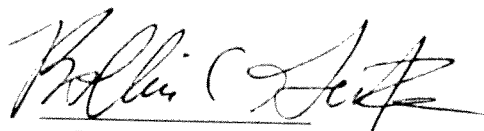
18. SDG&E proposes to record and account for all O&M, A&G and Overheads, such as General and Common Plant, reimbursements that SDG&E receives from Citizens during the 30-year term of the lease pursuant to the transaction documents necessary to implement the DCA as either a reduction to the applicable expenses or as a miscellaneous revenue credit. This treatment would either reduce the expenses recorded in the applicable USOA for these categories of expense or increase miscellaneous revenues that SDG&E presently flows through under its transmission rate formula.

19. In summary, the result of the proposed accounting entries as described above and as illustrated in Attachment A has an overall objective of:

- Line #1: Recording the gross Sunrise Powerlink construction cost,
- Line #2: Recording SDG&E's estimated receipt of Citizens 50% Border-East Line prepaid lease payment,
- Line #3: Recording a contra Transmission Plant account assuming that the Border-East Line is operational and FERC approval was granted to allow Citizens to ratebase their prepaid lease,
- Line #4: Amortizing deferred revenue into revenue in the income statement over the 30 year Citizens contract term,

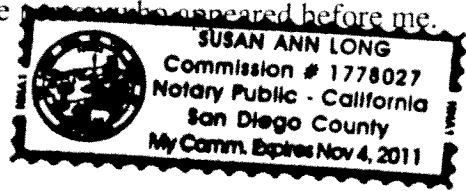
- Line #5: Amortizing an expense equal to the revenue recorded in the income statement over the 30 year Citizens contract term,
- Line #6: Recording 100% of SDG&E's estimated Border East Line O&M, A&G and Overhead costs,
- Line #7: Billing Citizens for 50% of the estimated Border East Line O&M and A&G costs and a portion of Overheads, such as General and Common Plant.

Based on the above accounting entries, the SDG&E ratepayers will not pay SDG&E a return for 50% of the Border East Line. Additionally, SDG&E's cost of service recovery from its ratepayers will be net of its cost recovery from Citizens associated with the 50% Border East Line O&M, A&G and a portion of General and Common Plant.


R. Craig Gentes

Subscribed and sworn to before me this 8th day of October 2009 by R. Craig Gentes,
proved to me on the basis of satisfactory evidence to be the _____ who appeared before me.

Susan Ann Long
Signature



Notary Seal

Attachment A

ATTACHMENT A

ILLUSTRATIVE CONTRA ACCOUNTING AND DEFERRED BILLING ASSOCIATED WITH THE BORDER-EAST LINE

No.	Description	FERC Accounts	Balance Sheet	Income Statement
1	Transmission Plant Cash / Debt To record the estimated cost to build Sunrise Powerlink and the corresponding outflow of cash and an increase in debt.	350-359	1.9 Billion (1.9 Billion)	
2	Cash Deferred Revenue To record Citizens estimated cash remittance to SDG&E resulting from Citizens exercising its option to lease 50% of the Border East Line and the corresponding deferral of revenue that will be amortized into income over the 30 year contract term.		83 Million (83 Million)	
3	Misc Debit Contra Transmission Plant To record a contra Transmission Plant account assuming that the Border-East Line is operational and FERC approval was granted to allow Citizens to ratebase its prepaid lease	350-359	83 Million (83 Million)	
4	Deferred revenue Miscellaneous Revenue To amortize the annual deferred estimated revenue into income over the 30 year Border East Line contract term (\$83M/ 30 years)		2.77 Million	(2.77 Million)
5	Amortization expense Miscellaneous Debit To amortize the miscellaneous debit as an expense over the 30 year Border East Line contract term (\$83M/ 30 years)		(2.77 Million)	2.77 Million
6	O&M / A&G Expenses Cash To recognize 100% of SDG&E's estimated Border East Line O&M / A&G costs.		(2.0 Million)	2.0 Million
7	Cash O&M / A&G Expenses Miscellaneous Revenues To bill Citizens 50% of the estimated Border East Line O&M / A&G and a portion of General & Common Plant costs.		1.2 Million	(1.0 Million) (0.2 Million)

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

San Diego Gas & Electric Company

Docket No. EL10-_____

NOTICE OF FILING

(DATE)

Take notice that on October 8, 2009 San Diego Gas & Electric Company, pursuant to Rule 207 of the Commission's Rules of Practice and Procedure 18 CFR 385.207, filed a Petition for Declaratory Order on specified accounting and ratemaking treatment for that portion of SDG&E's 500 kV Sunrise Powerlink Project to be located in Imperial Valley County between the San Diego County line and the Imperial Valley Substation that will be the subject of a thirty-year lease to Citizens Energy Corporation ("Citizens"). Separately, Citizens is filing a Petition for Declaratory Order to Confirm Rate Treatments for High Voltage Lines associated with its Leasehold of the Border East Line.

Any person desiring to intervene or to protest this filing must file in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 CFR 385.211, 385.214). Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a notice of intervention or motion to intervene, as appropriate. Such notices, motions, or protests must be filed on or before the comment date. On or before the comment date, it is not necessary to serve motions to intervene or protests on persons other than the Applicant.

The Commission encourages electronic submission of protests and interventions in lieu of paper using the "eFiling" link at <http://www.ferc.gov>. Persons unable to file electronically should submit an original and 14 copies of the protest or intervention to the Federal Energy Regulatory Commission, 888 First Street, NE, Washington, DC 20426.

This filing is accessible on-line at <http://www.ferc.gov>, using the "eLibrary" link and is available for review in the Commission's Public Reference Room in Washington, DC. There is an "eSubscription" link on the web site that enables subscribers to receive email notification when a document is added to a subscribed docket(s). For assistance with any FERC Online service, please email FERCOnlineSupport@ferc.gov, or call (866) 208-3676 (toll free). For TTY, call (202) 502-8659.

Comment Date:

Nathaniel J. Davis, Sr.
Deputy Secretary