

Application: 17-11-XXX
Exhibit No.: SDGE-X
Witness: Peter F. Smith

Application of San Diego Gas & Electric
Company (U 902 E) and Citizens Energy
Corporation for Authorization Pursuant
to Public Utilities Code Section 851 to
Lease Transfer Capability Rights to
Citizens Sycamore-Penasquitos
Transmission LLC

DIRECT TESTIMONY OF

PETER F. SMITH

CITIZENS ENERGY CORPORATION

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA
NOVEMBER 13, 2017**

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

2 The purpose of this testimony is to support San Diego Gas & Electric
3 Company's ("SDG&E") application for authorization to lease certain transfer
4 capability rights in the Sycamore to Penasquitos 230 kV Transmission Project
5 ("SX-PQ") to Citizens Sycamore-Penasquitos Transmission LLC ("CSPT"),
6 pursuant to Section 851 of the Public Utilities Code. CSPT is a wholly owned
7 subsidiary of Citizens Energy Corporation ("Citizens"). My testimony will
8 provide background on Citizens generally, and its participation in the SX-PQ
9 Project. As discussed in more detail below, Citizens is contractually committed
10 to dedicating 50 percent of its after-tax profits associated with the SX-PQ Project
11 to supporting transportation electrification for low income ratepayers and
12 disadvantaged communities in San Diego County. Citizens estimates that its
13 involvement will generate approximately \$12 million over the 30 year length of
14 its lease for this purpose. Citizens' involvement therefore provides a dedicated
15 and stable source of funding to advance the state of California's goals of ensuring
16 disadvantaged communities benefit from California's clean energy initiatives.

17 **II. QUALIFICATIONS**

18 I am Chief Executive Officer of Citizens Energy Corporation. My office
19 address is 88 Black Falcon Avenue Center Lobby, Suite #342, Boston,
20 Massachusetts, 02210. I joined Citizens Energy in November 2000 as Chief
21 Operating Officer, and became Chief Executive Officer in December 2014. In
22 this role, I report directly to the Chairman, President, and Founder, Joseph P.

1 Kennedy II, and am responsible for all aspects of Citizens' business and
2 charitable activities. I am currently leading Citizens' efforts to develop high-
3 voltage electricity transmission lines in California to facilitate the delivery of
4 energy, including renewable energy sources. Additionally, I directly oversee
5 Citizens' renewable energy development division, which works to develop,
6 construct, own, and operate renewable energy generation projects in the U.S.
7 and Canada.

8 Prior to joining Citizens Energy, I was a Manager at the Boston
9 Consulting Group (BCG), an international strategy and general management
10 consulting firm focused on helping leading corporations create and sustain
11 competitive advantage. I also spent five years on active duty with the United
12 States Coast Guard. I hold a B.S. in economics from the U.S. Coast Guard
13 Academy and an M.B.A. from Harvard Business School.

14 **III. BACKGROUND ON CITIZENS ENERGY**

15 Citizens Energy Corporation was formed during the oil-price shocks of the
16 late 1970s to provide low-cost home heating oil to the poor and the elderly.
17 Joseph P. Kennedy II founded the company with the belief that profits from
18 successful oil industry ventures could be used to write down the cost of fuel to
19 vulnerable families having to choose between heating and eating and other basic
20 needs. Citizens Energy Corporation is structured as a non-profit company that
21 owns 100% of a for-profit holding company, which in turn wholly owns several

1 for-profit subsidiaries. Citizens Energy relies on profits from the businesses it
2 owns and operates to generate revenues for charitable and social programs.

3 Following its success in the oil trading, exploration, and production fields,
4 Citizens Energy went on to become a leading innovator in the electricity, natural
5 gas, and pharmaceutical drug industries, all the while using profits from its
6 business activities to support a wide array of charitable programs in the U.S.
7 and abroad. Citizens' commercial activities in its first decade included crude oil
8 trading, oil exploration and production, electric power and natural gas
9 marketing, mail-order pharmaceuticals, and environmental business consulting.
10 Citizens was granted the first authorization to market electricity ever issued to a
11 non-utility company in the mid-1980s and brokered the first independently
12 marketed kilowatt hour of electricity in the United States on June 27, 1986.

13 Citizens Energy Corporation has launched a number of innovative
14 businesses and programs, including:¹

- 15 • Citizens Resources. One of the largest independent lifters of crude oil
16 from Angola, Nigeria, and Venezuela, with over \$6 billion in sales and
17 daily trading volumes of over 250,000 barrels a day.
- 18 • Citizens Gas Supply. A leading marketer of natural gas to Local
19 Distribution Companies after successfully challenging monopoly
20 control of the nation's natural gas pipelines, the company generated
21 \$1.1 billion in sales.
- 22 • Citizens Conservation. A leading innovator in the energy conservation
23 field, achieving average energy savings of up to 40% through retrofits
24
- 25

¹ The specific details on these activities may be found on Citizens' website at www.citizensenergy.com

1 in thousands of housing units across the U.S.

- 2
- 3 • Citizens Medical. The nation’s largest marketer of mail-order
- 4 prescription drugs, facilitating annual sales of over \$3 billion and 40%
- 5 savings over conventional delivery for consumers.
- 6
- 7 • Citizens Power & Light Corporation. After securing a landmark
- 8 decision from FERC², authorizing non-traditional utilities to engage in
- 9 power marketing, Citizens commenced its brokering of electric energy
- 10 at wholesale. It formed Citizens Power & Light to continue that work
- 11 and closed more than 30 major power sale contracts within a few years
- 12 achieving over \$10.5 million in sales and becoming a nationally
- 13 recognized leader in the field of electric power marketing.
- 14
- 15 • Citizens Wind. Citizens Wind is Citizens Energy’s wind development
- 16 division. It has developed 235 megawatts of operational wind projects
- 17 in the U.S. and Canada, and has an active development portfolio of
- 18 over 200 megawatts. Additionally, Citizens Wind is currently
- 19 negotiating partnerships with offshore wind developers in the U.S. to
- 20 participate in the growing offshore wind industry. Citizens Wind’s
- 21 profits are used to fund Citizens Energy’s assistance programs and it
- 22 operates with the social mission of Citizens Energy in mind.
- 23
- 24 • Citizens Solar. Citizens has developed, constructed, owns, and operates
- 25 a \$190 million portfolio of solar generating assets with a capacity of 86
- 26 megawatts. The projects are ground-mounted, utility-scale,
- 27 distributed solar arrays in Massachusetts and Georgia. Additionally,
- 28 Citizens has an active development portfolio of more than 300
- 29 megawatts of solar projects. Like its other ventures, Citizens Solar
- 30 generates profits to help fund the parent company’s charitable mission.
- 31
- 32
- 33 • Citizens Energy Oil Heat Program. Created in response to the oil crisis
- 34 of the late 1970s, the Oil Heat Program has delivered millions of
- 35 gallons of discounted home heating oil to poor and elderly households
- 36 in the Northeast. Since 2006, in partnership with CITGO Petroleum,
- 37 the Oil Heat Program has distributed over \$500 million of assistance to
- 38 more than one million households.
- 39

² *Citizens Energy Corp.*, 35 FERC ¶ 61,198 (1986).

1 Hundreds of millions of dollars in dividends from these and other ventures have
2 gone to support charitable programs as innovative as the businesses that
3 financed them, including social programs in the countries where Citizens Energy
4 runs business operations.

5 **IV. CITIZENS ENERGY - OPERATIONS IN ELECTRICITY**
6 **INDUSTRY**

7 Citizens Energy Corporation began its operations in the electricity
8 industry with a program launched in 1985 to buy power from utilities with
9 surplus generating capacity, resell the excess power to other utilities, and then
10 use the profits to help low-income families pay their electricity bills. Since then,
11 Citizens has become involved in electric transmission and energy generation
12 projects. Citizens is confronting two relatively new industry problems: (1)
13 Resolution of transmission congestion and (2) Facilitating the delivery of
14 renewables, including mitigation of the cost of relatively expensive renewable
15 energy to economically vulnerable customers such as the poor and the elderly.
16 Citizens is seeking to find innovative, market opportunities to address these
17 issues and resolve them.

18 Citizens continues to use its ingenuity to find and resolve, on a
19 commercial basis, impediments and bottlenecks in the electric power industry
20 and use the profits it earns to further extend its assistance to disadvantaged
21 energy consumers in the United States. In late 2004, Citizens began to turn its
22 attention to the problem of transmission constraints in the new, disaggregated

1 electric industry which impede the free flow of renewable and lower cost
2 electricity to consumers, much the way it did when it first investigated the once
3 closed, vertically integrated electric utility power marketing structure. In so
4 doing, Citizens found that there are significant opportunities for independent
5 developers in transmission projects to resolve transmission bottlenecks, promote
6 the development of renewable electric resources and improve the performance of
7 newly emerging electricity markets.

8 Citizens seeks to tackle transmission congestion through innovative
9 business and market relationships, while facilitating the delivery of renewable
10 energy (including mitigation of the cost of relatively expensive renewable
11 generation to economically vulnerable customers such as the poor and the
12 elderly). Citizens is accomplishing that objective through its involvement in
13 transmission projects, including its involvement in the Sunrise Powerlink
14 Project, the Central Valley Power Connect Project, and the SX-PQ Project.

15 Citizens' involvement in the Sunrise Powerlink Project began in 2005, and
16 culminated in Citizens financing of its \$100 million investment in the Sunrise
17 Powerlink Project. Through its wholly owned subsidiary, Citizens Sunrise
18 Transmission ("CST"), Citizens financed 50% of the cost of the 500 kV
19 transmission line in Imperial County (the "Border-East Line"), and has become a
20 Participating Transmission Owner ("PTO") within the California Independent
21 System Operator, Corp. ("CAISO"). The Citizens-Sunrise arrangements were

1 approved by the California Public Utilities Commission in Decision
2 No. 11-05-048, and by the Federal Energy Regulatory Commission.

3 Thanks to Citizens' participation, the Sunrise Powerlink Project has
4 achieved significantly greater public benefits. Citizens has contractually
5 committed to spend 50% of its after-tax profit from the Sunrise project on
6 programs assisting low income families of Imperial County. Since becoming
7 operational in June of 2012, CST's ownership in the Sunrise Powerlink Project
8 annually generates approximately \$1.5 million of low-income assistance that
9 directly benefits the ratepayers in Imperial County. To date, Citizens has
10 installed 421 solar rooftop systems on low-income houses – at no cost to the
11 homeowner – resulting in more than \$400,000 in ratepayer savings to-date, and
12 an installed capacity of more than 1.6 megawatts. The program continues to be
13 highly respected and appreciated by the community, local elected officials, and
14 the local municipally-owned utility, Imperial Irrigation District, which had
15 previously been unable to experience any material level of residential rooftop
16 solar in Imperial County. In addition to the direct low-income rate payer
17 benefits, Citizens' solar homes program in the Imperial Valley has created local
18 jobs, further assisting the local economy.

19 Citizens is additionally contractually partnered in the development and
20 financing of the Central Valley Power Connect Project ("CVPC Project"), through
21 its wholly owned subsidiary Citizens Power Connect, LLC ("CPC"). The CVPC
22 Project is an approximately \$150 million, 68 mile long 230 kV overhead

1 transmission line that will run from just northwest of Bakersfield, California to
2 just north of Fresno, California. Citizens’ participation in the CVPC Project is in
3 partnership with Pacific Gas & Electric Co. (“PG&E”) and MidAmerican Central
4 California Transco, LLC (“MCCT”).

5 Citizens’ involvement in the CVPC Project is substantively similar to that
6 of its involvement in the Sunrise Project. Citizens has agreed to finance 25
7 percent of the CVPC Project in exchange for a 30-year leasehold interest on 25
8 percent of the CVPC Project’s capacity. Citizens has additionally committed to
9 spend 50 percent of its after-tax profits to assist low-income consumers in the
10 affected service areas.

11 **VI. CITIZENS’ INVOLVEMENT WITH AND FINANCING OF THE SX-**
12 **PQ PROJECT**

13
14 Citizens’ involvement with the Project began in 2013 when it signed a
15 Letter of Intent with SDG&E to prepare a joint application to the CAISO for
16 consideration in the CAISO’s competitive solicitation process for the Project.³
17 Citizens and SDG&E worked together and produced an application that the
18 CAISO found superior to the three other applications submitted by other
19 parties.⁴ Specifically, the CAISO performed a comparative analysis of the

³ Sycamore-Penasquitos Project-Project Sponsor Selection Report (Mar. 4, 2014) at 1, (“Selection Report”) Available at: <https://www.caiso.com/Documents/Sycamore-PenasquitosProjectSponsorSelectionReport.pdf>

⁴ *Id.* at 4.

1 proposals submitted by the four parties, and found SDG&E’s and Citizens’ bid to
2 be superior in “most of the tariff criteria.”⁵ As a result, the CAISO selected
3 SDG&E in conjunction with Citizens to develop the Project.

4 On November 9, 2017 Citizens and SDG&E entered into the Development,
5 Coordination, and Option Agreement (“DCOA”), which identifies the terms for
6 Citizens’ engagement in the development of the Project, consistent with the
7 Letter of Intent from 2013. Citizens’ involvement in the Project is structured
8 very similarly to Citizens’ participation in both the Sunrise Powerlink Project
9 and the Central Valley Power Connect Project. A copy of the DCOA is included
10 as Attachment 1 to the Application accompanying this testimony, and its
11 features are discussed in more detail in the direct testimony of SDG&E
12 witnesses John Jenkins and Amanda White. Citizens has created a separate for-
13 profit subsidiary called Citizens Sycamore-Penasquitos Transmission LLC
14 (“CSPT”) for purposes of Citizens’ participation in this Project. CSPT is a
15 Delaware for-profit corporation formed to develop, finance, own, and sell the
16 output of transmission facilities in interstate commerce. CSPT is a wholly-
17 owned subsidiary of Citizens Enterprises Corporation, which itself if owned by
18 Citizens Energy Corporation.

19 Citizens currently estimates that its financing and development costs will
20 be approximately \$2 million. Citizens will finance its leasehold interest in the

⁵ *Id.* at 63.

1 transfer capability of the Project with the issuance of debt with a term of 30
2 years. Annual debt service payments on the debt will be on a levelized basis
3 over this period. The capital component of Citizens' rates will be capped and
4 locked-in for the full 30 year term of the lease, providing rate stability as
5 discussed in more detail in the Direct Testimony of Citizens witness John
6 Wilson. Citizens will recover its own operating costs through FERC approved
7 rates.⁶ Citizens currently estimates these annual operating costs to be
8 approximately \$150,000. As with its participation in the Sunrise Project,
9 Citizens has contractually committed to spend 50% of its net after tax profits
10 from its participation in the SX-PQ Project to assist low income ratepayers and
11 disadvantaged communities in San Diego County.

12 Citizens estimates that this commitment will translate to approximately
13 \$400,000 in support each year for the full 30 year term of the Lease. Citizens'
14 involvement will therefore produce a steady, 30-year source of funding to
15 support transportation electrification for low income ratepayers and
16 disadvantaged communities in San Diego County. All told, the transaction
17 before the Commission will produce approximately \$12 million of investment in
18 transportation electrification. This benefit would not be realized without
19 Citizens' involvement in this Project. Citizens' involvement therefore also

⁶ A copy of Citizens' FERC Petition for Declaratory Order is attached as Attachment PFS-1 to this testimony.

1 supports the Legislature’s recognition in SB 350 that “widespread transportation
2 electrification” is required in order to meet California’s clean energy and
3 efficiency goals.⁷ As SB 350 recognizes, achieving “widespread transportation
4 electrification requires increased access for disadvantaged communities, low-
5 and moderate income communities.”⁸ Citizens’ unique commitment to dedicate
6 50 percent of its after tax profits to this purpose will help carry out this mandate
7 for low-income ratepayers and disadvantaged communities in San Diego County.

8 This concludes my direct testimony.

⁷ The Clean Energy and Pollution Reduction Act of 2015, (“SB 350”) at Section 32 at (a)(1)(B).

⁸ Cal. Pub. Util. Code § 740.12(a)(1)(B).

Attachment PFS-1

**Citizens Energy Corporation's Petition for Declaratory Order
Before the Federal Energy Regulatory Commission**

November 9, 2017

VIA ELECTRONIC FILING

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

Re: Petition for Declaratory Order of Citizens Energy Corporation to Authorize Rate Treatments for the Sycamore-Penasquitos 230 kV Transmission Line Project, Docket No. EL18-____-000

Dear Secretary Bose:

Pursuant to Rule 207(a)(2) of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (18 C.F.R. § 385.207(a)(2)), Citizens Energy Corporation (“Citizens”) submits this Petition for a Declaratory Order seeking Commission approval of certain rate treatments in connection with Citizens’ participation in the Sycamore-Penasquitos 230 kV Transmission Line Project. This Petition is supported by the affidavits of Peter F. Smith and David T. Helsby.

In accordance with the Item No. 31 of the Commission’s Frequently Asked Questions (FAQs) (<http://ferc.gov/resources/faqs/efiling.asp>), Citizens is filing this Petition electronically, and hand delivering a check for the required \$25,640.00 filing fee. Please do not hesitate to contact the undersigned with any questions or concerns regarding this filing.

Respectfully Submitted,

/s/Ashley M. Bond
Ashley M. Bond

- 2 -

Counsel for Citizens Energy
Corporation

Attachments

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

)	
)	
Citizens Energy Corporation)	
)	
Petitioner)	Docket No. EL18-_____
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PETITION FOR DECLARATORY ORDER OF CITIZENS ENERGY CORPORATION TO AUTHORIZE RATE TREATMENTS FOR THE SYCAMORE-PENASQUITOS 230 KV TRANSMISSION LINE PROJECT

Donald R. Allen
Ashley M. Bond
Duncan & Allen
1730 Rhode Island Avenue, N.W.
Suite 700
Washington, D.C. 20036
(202) 289-8400
(202) 289-8450 (facsimile)

Counsel for Citizens Energy Corporation

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2) **Exhibit CEC-2:** Affidavit and Exhibits of David T. Helsby

- **Attachment A to Exhibit CEC-2:** Representative Rate Model
- **Attachment B to Exhibit CEC-2:** Preliminary Citizens Rate Model

3) **Exhibit CEC-3:** Development, Coordination, and Option Agreement By and Between San Diego Gas & Electric Company, and Citizens Energy Corporation

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Citizens Energy Corporation)
Petitioner) Docket No. EL18-____
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PETITION FOR DECLARATORY ORDER OF CITIZENS ENERGY CORPORATION TO AUTHORIZE RATE TREATMENTS FOR THE SYCAMORE-PEÑASQUITOS 230 KV TRANSMISSION LINE PROJECT

Citizens Energy Corporation (“Citizens” or “Citizens Energy”), on behalf of itself and its wholly owned subsidiary Citizens Sycamore-Penasquitos Transmission (“CSPT”) hereby requests that the Federal Energy Regulatory Commission (“Commission”) issue a declaratory order approving two rate treatments, in connection with a new high voltage transmission project that Citizens is partnering with San Diego Gas & Electric Company (“SDG&E”) to develop and finance, pursuant to Rule 207 of the Commission’s Rules of Practice and Procedure,^{1/} Section 219 of the Federal Power Act (“FPA”),^{2/} and Order No. 679^{3/}. The California

^{1/} 18 C.F.R. § 385.207.
^{2/} 16 U.S.C. §§ 791a - 828c, § 824s.
^{3/} *Promoting Transmission Investment Through Pricing Reform*, Order No. 679, 116 FERC ¶ 61,057, *order on reh’g*, 117 FERC ¶ 61,345 (2006), *order on reh’g*, 119 FERC ¶ 61,062 (2007) (“Order No. 679”).

Independent System Operator (“CAISO”) selected SDG&E, in conjunction with Citizens, to finance, construct, own, operate, and maintain the Sycamore-Penasquitos transmission line project (“the Project”).^{4/} Citizens entered into an agreement with SDG&E in which it will finance \$27 million of the Project in exchange for an entitlement in the transfer capability associated with the facilities it finances. Citizens will use CSPT to effectuate the ultimate transaction with SDG&E, which will be structured, for tax purposes, as a lease transaction under Section 467 of the Internal Revenue Code. Citizens’ involvement in the Project stems from its continuing pursuit of a strategy to partner with utilities to develop transmission projects, to alleviate transmission constraints, and increase access to renewable energy, while supporting low income energy consumers in California.

In this filing, Citizens asks the Commission to authorize the same two rate treatments that the Commission has approved for Citizens’ involvement in the Sunrise Powerlink Project^{5/} and the Central Valley Power Connect Project.^{6/} First, Citizens requests that the Commission approve its requested rate methodology, which includes Citizens’ use of: (1) a hypothetical capital structure of 50% debt and 50% equity, (2) the use of a proxy return on equity, subject to Citizens making the appropriate future filings pursuant to Section 205 of the Federal Power Act, (3) a

^{4/} Sycamore-Penasquitos Project-Project Sponsor Selection Report (Mar. 4, 2014) at 1, (“Selection Report”) Available at: <https://www.aiso.com/Documents/Sycamore-PenasquitosProjectSponsorSelectionReport.pdf>

^{5/} *Citizens Energy Corp.*, 129 FERC ¶ 61,242 (2009).

^{6/} *Citizens Energy Corp.*, 157 FERC ¶ 61,150 (2016).

30 year levelized fixed rate for recovery of capital requirements, and (4) a formula rate to recover actual operating costs.^{7/} Second, under Order No. 679,^{8/} Citizens requests that the Commission allow Citizens to seek recovery of 100% of all prudently incurred development and construction costs in the event the project is abandoned as a result of factors beyond Citizens' control. The rate treatments will ultimately be implemented through a subsequent Section 205 filing to put in place a just and reasonable formulaic rate mechanism. That subsequent filing pursuant to the approved formula will result in just and reasonable rates.

Commission approval of these rate treatments is required by Citizens' lenders and the capital markets. Without pre-approval of both of the requested rate treatments – recovery of capital requirements through the indicated formula rate and qualification to seek recovery of abandonment costs under Order 679 – Citizens does not believe that it will be able to obtain the necessary financing to participate

^{7/} Citizens' formula rate methodology will recover operating expenses on an actual incurred basis, and capital requirements on a fixed, levelized basis for 30 years. Citizens' capital requirements will be determined using a return on rate base approach incorporating a hypothetical capital structure and proxy return on equity similar to what the Commission has approved for public power participants who are Participating Transmission Owners in the California Independent System Operator and for another Citizens Energy subsidiary in connection with the Sunrise Powerlink Project. *Citizens Energy Corp.*, 129 FERC ¶ 61,242 (2009). *See also Citizens Energy Corp.*, 157 FERC ¶ 61,150 (2016); *Morongo Transmission LLC*, 148 FERC ¶ 61,139 (2014).

^{8/} Through this Petition, Citizens requests the Commission to grant this incentive, subject to Citizens making the appropriate "just and reasonable" demonstration in a future Federal Power Act, Section 205 filing. Order No. 679 specifically reserves such prudence determination for a subsequent Section 205 filing which every utility is required to make if it seeks abandonment cost recovery. Order No. 679, 116 FERC ¶ 61,057 at PP 165-66. *See also Citizens Energy Corp.*, 157 FERC ¶ 61,150 (2016); *Citizens Energy Corp.*, 129 FERC ¶ 61,242 (2009).

in development of the Project. Similarly, Citizens requires the assurance that it may seek recovery of prudently incurred costs in the event the project is abandoned, subject to a later Section 205 filing, before it can commit to an outlay of such significant sums for construction. Citizens' participation in the development of the Project is non-routine, and through this filing, Citizens demonstrates that there is the required nexus between each of the above-referenced rate treatments sought and the investment Citizens will make.

Citizens' involvement in the Project stems from its desire to develop transmission projects that help resolve transmission bottlenecks, increase access to renewable energy, and reduce energy costs to low income consumers in California. Citizens has a successful track record of addressing these concerns through its other partnerships, including its participation in the Sunrise Powerlink Project with SDG&E and the Central Valley Power Connect Project with Pacific Gas & Electric Co. and Berkshire Hathaway Transmission. For the reasons discussed below, Citizens requests that the Commission authorize the requested rate treatments for Citizens' involvement in the Project.

I. BACKGROUND

The Commission has recognized both the need for additional transmission capacity and the obstacles facing the development of transmission projects on numerous occasions. The increased demand for renewable resources has made the need for additional transmission all the more critical.^{9/} Congress and the

^{9/} North American Electric Reliability Corporation, "Electric Industry Concerns on the Reliability Impacts of Climate Change Initiatives" (November 2008),

Commission have worked diligently to develop and implement policies to encourage investment in new transmission and to mitigate many of the risks associated with transmission projects.^{10/}

Concerns over the availability of transmission capacity continues to drive Commission policy and Congressional lawmaking. It has also caused the State of California to introduce a specific agenda for expanding transmission and encouraging the development of renewable generation. Current California law and policies presently require that California have 50 percent of its electric power generated by renewable resources, and to double its energy efficiency by 2030.^{11/}

II. IDENTIFICATION OF THE PARTIES

A. Citizens Energy Corporation

<http://www.nerc.com/files/2008-Climate-Initiatives-Report.pdf>. (“...we believe that the grid will be threatened unless we build the transmission infrastructure that is necessary to support renewable resources...”).

^{10/} See Energy Policy Act of 2005, Pub. L. No. 10-58, § 1241, 119 Stat. 594, 961 (2005); *Order Removing Obstacles to Increased Electric Generation and Natural Gas Supply in the Western United States*, 94 FERC ¶ 61,272, 61,967 (2001); Order No. 679, 116 FERC ¶ 61,057; *Further Order on Removing Obstacles to Increased Electric Generation and Natural Gas Supply in the Western United States*, 95 FERC ¶ 61,225 (2001).

^{11/} Under Governor Davis, California adopted a renewable portfolio standard, in which the state committed to having 20% of its electric power generated by renewable sources by 2017. Governor Schwarzenegger accelerated that target to 2010, with 33% to be renewable by 2020. See Executive Order S-14-08 (available at <http://gov.ca.gov/executive-order/11072/>). In 2015 Governor Brown further accelerated this goal through SB 350, which requires that California have 50% of its electric power generated by renewable resources, and double its energy efficiency by 2030. See Senate Bill 350 (available at https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160SB350)

Citizens Energy Corporation is a non-profit Massachusetts corporation exempt from federal taxes under Section 501(c)(4) of the Internal Revenue Code, with its principal headquarters located in Boston, Massachusetts. Citizens became a FERC-jurisdictional public utility in 1986.^{12/} Its successful commercial subsidiaries have supported a wide array of social and charitable programs in the United States and abroad. Founded in Boston by Joseph P. Kennedy II in 1979, Citizens became a leading innovator in the energy and health care fields and used its entrepreneurial ventures to help people in need in the U.S., Africa, Central and South America, and the Caribbean. In its first decade, Citizens' commercial activities included crude oil trading, oil exploration and production, electric power and natural gas marketing, energy conservation and efficiency, mail-order service pharmaceuticals, and environmental business consulting.^{13/} Citizens was granted the first authorization to market electricity ever issued to a non-utility company in the mid-1980s and brokered the first independently marketed kilowatt hour of electricity in the United States on June 27, 1986.^{14/} Citizens devoted its profits from

^{12/} *Citizens Energy Corp.*, 35 FERC ¶ 61,198 (1986).

^{13/} Exhibit CEC-1 at P 11.

^{14/} *Id.* at P 10.

independent electricity marketing to assisting low-income electricity consumers of the participating utilities pay their energy bills.

Citizens Energy is structured as a non-profit company that owns 100% of a for-profit holding company, Citizens Enterprises.^{15/} Citizens Enterprises in turn owns several for-profit subsidiaries, including Citizens Sunrise Transmission, LLC (for its interest in the Sunrise Powerlink), Citizens Power Connect, LLC (for its interest in the Central Valley Power Connect), and CSPT which is the limited liability company Citizens will utilize to effectuate the ultimate lease transaction with SDG&E for the Sycamore-Penasquitos Project.^{16/} Citizens relies on profits from the businesses it owns and operates to generate revenues for charitable and social programs.

Over its 38-year history, Citizens has launched a number of innovative businesses initiatives, including:

- Citizens Resources. One of the largest independent lifters of crude oil from Angola, Nigeria, and Venezuela, with over \$6 billion in sales and daily trading volumes of over 250,000 barrels a day.
- Citizens Gas Supply. A leading marketer of natural gas to Local Distribution Companies after successfully challenging monopoly control of the nation's natural gas pipelines, the company generated \$1.1 billion in sales.
- Citizens Conservation. A leading innovator in the energy conservation field, achieving average energy savings of up to 40% through retrofits in thousands of housing units across the U.S.

^{15/} Exhibit CEC-1 at P 30.

^{16/} *Id.*

- Citizens Medical. The nation's largest marketer of mail-order prescription drugs, facilitating annual sales of over \$3 billion and 40% savings over conventional delivery for consumers.
- Citizens Power & Light Corporation. After securing a landmark decision from FERC^{17/}, authorizing non-traditional utilities to engage in power marketing, Citizens commenced its brokering of electric energy at wholesale. Later it formed Citizens Power & Light to continue that work and closed more than 30 major power sale contracts within a few years, achieving over \$10.5 million in sales and becoming a nationally recognized leader in the field of electric power marketing.^{18/}
- Citizens Wind. Citizens Wind is Citizens Energy's wind development division. It has developed 235 megawatts of operational wind projects in the U.S. and Canada, and has an active development portfolio of over 200 megawatts. Additionally, Citizens Wind is currently negotiating partnerships with offshore wind developers in the U.S. to participate in the growing offshore wind industry. Citizens Wind's profits are used to fund Citizens Energy's assistance programs and it operates with the social mission of Citizens Energy in mind.
- Citizens Solar. Citizens has developed, constructed, owns, and operates a \$190 million portfolio of solar generating assets with a capacity of 86 megawatts. The projects are ground-mounted, utility-scale, distributed solar arrays in Massachusetts and Georgia. Additionally, Citizens has an active development portfolio of more than 300 megawatts of solar projects. Like its other ventures, Citizens Solar generates profits to help fund the parent company's charitable mission.
- Citizens Energy Oil Heat Program. Created in response to the oil crisis of the late 1970s, the Oil Heat Program has delivered millions of gallons of discounted home heating oil to poor and elderly households in the Northeast. Since 2006, in partnership with CITGO Petroleum, the Oil Heat Program has distributed over \$500 million of assistance to more than 1 million households.

^{17/} *Citizens Energy Corp.*, 35 FERC ¶ 61,198 (1986).

^{18/} In 1995 Citizens Power & Light formed a partnership with Lehman Brothers Holdings, Inc. and was renamed Citizens Lehman Power L.P. Citizens eventually sold its interest in the partnership.

Hundreds of millions of dollars in dividends from these and other ventures have gone to support charitable programs as innovative as the businesses that financed them, including social programs in the countries where Citizens Energy runs business operations.

Citizens began its operations in the electricity industry in 1985 with its program to buy power from utilities with surplus generating capacity, resell the excess power to other utilities, and then use the profits to help low-income families pay their electricity bills. Citizens has since become involved in a variety of electric transmission and energy projects. In the 21st century, Citizens is confronting two relatively new industry problems: (1) resolution of transmission congestion and (2) facilitating the delivery of renewables, including mitigation of the cost of relatively expensive renewable energy to economically vulnerable customers such as the poor and the elderly. Citizens is seeking to find innovative, market opportunities to address these issues and resolve them.

1. Transmission Activities and Involvement in the Sunrise Powerlink Project

In the early 2000's, Citizens began examining several constrained transmission areas and concluded that, through partnership arrangements with incumbent utilities, it could deploy the emerging concepts of an independent transmission company to spur construction of new transmission lines and alleviate transmission bottlenecks. In 2004 Citizens began a cooperative relationship to further the development of San Diego Gas & Electric's ("SDG&E") Sunrise Powerlink Project. Citizens and SDG&E formalized the relationship on May 11,

2009 through a Development and Coordination Agreement (the “DCA”), which provided for Citizens’ engagement in the development of the Border-East Line, a 500 kV transmission line that is part of SDG&E’s Sunrise Powerlink Project.

Through its wholly owned subsidiary, Citizens Sunrise Transmission (“CST”), Citizens has financed fifty percent the Border-East Line, an approximately \$100 million investment, and has become a Participating Transmission Owner (“PTO”) within the California Independent System Operator, Corp. (“CAISO”). Citizens does not own any of the actual facilities themselves, but has long-term lease rights to the transfer capability of the Border-East Line. Citizens has turned its rights over to the CAISO and has a FERC approved transmission service tariff pursuant to which it recovers its costs from the CAISO.^{19/}

Citizens securitized the financing of its participation cost with a pledge of the revenues it will receive from the CAISO. With Commission approval, Citizens used an all debt financing, and recovers its costs in a way that is substantively the same as how Citizens proposes to recover the cost associated with the Project.

Two important components of Citizens’ involvement in the Sunrise Powerlink Project are: (i) Citizens agrees to limit recovery of its costs from the CAISO to an amount no higher than what SDG&E would charge if SDG&E held Citizens’ interest in the project, and (ii) Citizens commits 50% of its annual after-tax profits from the project to energy assistance programs for low-income ratepayers in the project’s footprint.

^{19/} *Citizens Sunrise Transmission LLC*, 138 FERC ¶61,129 (2012).

2. Participation in the Central Valley Power Connect Project

Citizens is also contractually committed to assisting in the development and financing of the Central Valley Power Connect Project (CVPC Project), an approximately 68 mile long 230 kV overhead transmission line that will run from just northwest of Bakersfield, California to just north of Fresno, California.

Citizens' participation in CVPC Project is in conjunction with Pacific Gas & Electric Co. ("PG&E") and MidAmerican Central California Transco, LLC ("MCCT").

Citizens worked in conjunction with PG&E and MCCT to formulate a competitive bid to the CAISO, which the CAISO Board selected in 2013.

The specifics of Citizens' involvement with the CVPC Project are substantively similar to those of its involvement with the Sunrise Project. Under the terms of the Transmission Capacity Lease Agreement with PG&E and MCCT, Citizens agrees to finance 25 percent of the CVPC Project in exchange for a 30-year leasehold interest on 25 percent of the Project's capacity. Similar to its involvement in the Sunrise Powerlink, Citizens has additionally committed to spend 50 percent of its after-tax profits to assist low-income consumers in the affected service areas. Citizens' wholly owned subsidiary Citizens Power Connect, LLC ("CPC") will effectuate the ultimate transaction with PG&E and MCCT.

On November 28, 2016 the Commission granted Citizens' request for rate treatments virtually identical to those Citizens seeks in this filing, and to those the

Commission approved in conjunction with Citizens' participation in the Sunrise Project.^{20/}

B. San Diego Gas & Electric Company

SDG&E is a regulated public subsidiary of Sempra Energy that provides service to 3.6 million people in San Diego and southern Orange County, California.^{21/}

III. DESCRIPTION OF THE SYCAMORE-PENASQUITOS 230 kV TRANSMISSION LINE PROJECT

The Sycamore-Penasquitos 230kV Transmission Line Project (the "Project") is comprised of a new 230 kV electric transmission line between the Sycamore Canyon and Pensaquitos Substations. It will traverse approximately 14miles in San Diego County, in southern California.^{22/} The Project has three segments: Segment A which consists of an overhead alignment running between Sycamore Canyon Substation and Stonecroft Trail within an existing SDG&E right of way; Segment B which consists of a transmission line transitioning from an overhead positions to an underground duct bank that will travel westerly along Pomerado Road, cross Interstate 15 then continue along secondary roads through the commercial area of Mira Mesa before transitioning back to an overhead line within an existing SDG&E right of way along the east side of Interstate Highway 805 at

^{20/} *Citizens Energy Corp.*, 157 FERC ¶ 61,150 (2016).

^{21/} www.sdge.com/aboutus

^{22/} See <http://www.sdge.com/key-initiatives/sycamore-penasquitos-230kv-transmission-line-project>. A map of the Project is included as Exhibit CEC-4.

Carroll Road/Carroll Canyon Road; and Segment C, which consists of an overhead alignment on the existing 230 kV steel poles within an existing SDG&E right-of-way heading northward into the Penasquitos Substation.^{23/}

The CAISO identified the Project as a “reliability-driven project”^{24/} in its 2012-2013 transmission plan that is necessary to “avoid projected system overloads to ensure the delivery of renewable generation.”^{25/} The need for the Project became “even more critical” with the announcement of the retirement of the San Onofre Nuclear Generating Station (“SONGS”).^{26/} The CAISO determined the SONGS retirement put “increased importance on the placement of the Sycamore-Penasquitos line in service at the earliest opportunity” making the ability to achieve an expedient in service date “critical” for this Project.^{27/}

On October 13, 2016 the California Public Utilities Commission (“CPUC”) granted SDG&E a Certificate of Public Convenience and Necessity (“CPCN”) for the Project.^{28/} The CPUC granted the Project a CPCN configured with Alternative 5

^{23/} Exhibit CEC-3, Section 1.1, Definition of “Project.”

^{24/} Selection Report at 2.

^{25/} *Id.* at 3.

^{26/} *Id.*

^{27/} *Id.*

^{28/} *In the Matter of the Application of San Diego Gas & Electric Company (U902E) for a Certificate of Public Convenience and Necessity for the Sycamore-Penasquitos 230 Kilovolt Transmission Line Project*, Decision Granting Certificate of Public Convenience and Necessity for the Sycamore-Penasquitos 230 kV Transmission Line Project, Application 14-04-011 (“CPCN Order”), available at:

which increased the portion of the Project that would be underground to approximately 11 miles.^{29/}

As discussed in more detail below, Citizens has agreed to finance \$27 million of the Project in exchange for a 30 year leasehold interest in a portion of the Project's transfer capacity that is proportional to Citizens' financing.^{30/} This Petition pertains only to the proposed cost recovery by Citizens of its proportional share of the cost of development and construction of the Project. Citizens' proposed cost recovery reflects transmission operating costs, applicable overhead costs, and fixed capital requirements costs.^{31/}

The structure of Citizens' involvement with the Project is substantively the same as its involvement in both the Sunrise Powerlink Project and Central Valley Power Connect Project discussed above. In all three projects, Citizens has assisted in the development and financing of a portion of the project in exchange for a long-term lease of a portion of the transfer capability of the project. In all three projects Citizens has committed to turn over operational control of its leasehold interest to the CAISO and to become a CAISO Participating Transmission Owner. Similarly, Citizens commits to spend 50% of its annual after-tax profits to assist low-income consumers in the affected service areas. In the context of the Sunrise Powerlink

http://www.cpuc.ca.gov/Environment/info/panoramaenv/Sycamore_Penasquitos/PDF/Decision.PDF

^{29/} *Id.* at 12-14.

^{30/} Exhibit CEC-1.

^{31/} Exhibit CEC-2 at P 16-18.

Project, this commitment has translated approximately \$1.5 million of support per year.^{32/}

A. Project Ownership

On November 9, 2017 Citizens and SDG&E entered into the Development, Coordination, and Option Agreement (“DCOA”), establishing the terms for Citizens’ engagement in the development of the Project.^{33/} SDG&E will own the Project, and Citizens’ participation will be a leasehold interest in a percentage of the Project proportional to Citizens’ financing. Title to the facilities will remain with SDG&E and the transfer capability will revert to SDG&E upon expiration of the lease term.

For tax purposes, the transaction will take place in the context of a Section 467 lease under the Internal Revenue Code, between SDG&E and CSPT, a wholly-owned subsidiary of Citizens Energy Corporation. The rent will be paid in a lump sum at the closing of the transaction, which will occur when the parties finalize and execute the Transfer Capacity Lease. It will be reported as accruing for tax purposes quarterly in arrears. The prepayment, to the extent it exceeds the rent that has accrued, will be treated as a loan by Citizens to SDG&E that bears interest as required by Section 467 of the US tax code.^{34/}

^{32/} Exhibit CEC-1 at P 19.

^{33/} A copy of the DCOA is attached to this Petition as Exhibit CEC-3.

^{34/} Exhibit CEC-2 at P 23.

B. Project Management, Construction and Operation/Maintenance of the Project

SDG&E is responsible for the development, design, permitting, engineering, procurement and construction of the Project.^{35/} SDG&E will bear the costs for development and construction of the Project, until such time as Citizens has exercised and closed its Option.^{36/} SDG&E will also bear the responsibility and expense of acquiring the permits and land rights necessary to construct the Project.

C. Citizens' Involvement

While SDG&E bears the responsibility for developing the Project, Citizens has a long standing relationship with SDG&E and has been involved in the negotiations, meetings and deliberations necessary to develop this Project. Citizens has already incurred development costs associated with its participation in the Project. In addition to the involvement of Citizens' officers, Citizens has relied heavily on the assistance of outside consultants for these development activities. These costs are ongoing, and include the costs associated with Citizens' regulatory approvals, coordination and financing. The rate treatments Citizens requests in this Petition will allow it to recover these Project related costs.

D. Schedule of Development and Construction of the Project

The CPUC granted SDG&E a Certificate of Public Convenience and

^{35/} Exhibit CEC-3 at Section 3.1.

^{36/} *Id.*

Necessity for the Project on October 13, 2016.^{37/} Construction of the Project is expected to commence in early 2017, and the Project is scheduled to enter commercial operation in 2018.^{38/}

E. Overview of Project Benefits

SDG&E has stated, and the CPUC has agreed, that the Project is necessary to allow SDG&E to meet the reliability requirements of the Western Electric Coordination Counsel, the CAISO, and the North American Electric Reliability Criteria (“NERC”).^{39/} Specifically:

During periods of high customer demand and high energy imports, as well as during periods of high renewable energy generation in the Imperial Valley, most of the energy imported in San Diego flows across the 500 kV Southwest Powerlink and Sunrise Powerlink transmission lines. This imported energy then flows into the Miguel and Sycamore Canyon Substations, respectively. Heavy energy flows into these gateway substations can result in congestion and NERC reliability criteria violations...requiring dispatch of less efficient generation, increasing energy costs for ratepayers and eventually requiring upgrades to these downstream facilities. The [Project] will allow energy to flow directly from the Sycamore Canyon Substation almost directly to the approximate San Diego load center...thus mitigating thermal overloads and avoiding NERC reliability violations, and facilitating the delivery of renewable energy to San Diego.^{40/}

^{37/} CPCN Order.

^{38/} <http://www.sdge.com/key-initiatives/sycamore-penasquitos-230kv-transmission-line-project>.

^{39/} CPCN Order at 6.

^{40/} *Id.* at 6-7.

IV. PURPOSE FOR THIS PETITION

The purpose of this Petition is to obtain Commission approval of Citizens' eligibility for two rate treatments:

- (1) Authorization for Citizens rate methodology, including Citizens' use of:
 - (1) a hypothetical capital structure of 50% debt and 50% equity, (2) the use of a proxy return on equity, subject to Citizens making the appropriate future filings pursuant to Section 205 of the Federal Power Act, (3) a 30 year levelized fixed rate for recovery of capital requirements, and (4) a formula rate to recover actual operating costs.^{41/} and
- (2) Authorization for Citizens to seek recovery of its prudently incurred, transmission-related development and construction costs pertaining to its entitlement interest in the Project in the event the Project is canceled or abandoned as a result of factors beyond Citizens' control, subject to a future FPA Section 205 filing and consistent with

^{41/} Citizens' formula rate methodology recovers operating expenses on an actual incurred basis, and capital requirements on a fixed basis levelized for 30 years. Capital requirements are determined using a return on rate base approach incorporating a hypothetical capital structure and proxy return on equity in determining an appropriate rate of return.

Congress' directive to the Commission to enhance transmission investment and the Commission's Order No. 679;^{42/}

The requested rate treatments are the same as the rate treatments the Commission approved for Citizens' involvement in the Sunrise Powerlink Project,^{43/} and the Central Valley Power Connect Project.^{44/}

Citizens' non-routine involvement in development of the Project represents precisely the kind of transmission expansion project that the Commission intends to promote. Entities like Citizens propose to take on significant risk and burdens, and incur significant costs in order to get major new transmission facilities approved and constructed. The Commission has affirmed that these entities are permitted to file for advance approval of conceptual rate treatments at the outset of the project development process, so they can have reasonable certainty of cost recovery. Citizens believes that the Commission's willingness to provide regulatory certainty early in the project development process – when decisions to invest substantial

^{42/} Citizens is not asking the Commission to determine the justness and reasonableness of Citizens' abandonment cost recovery, if any, until Citizens seeks such recovery in a section 205 filing. Order No. 679 specifically reserves the prudence determination for the later section 205 filing which every utility is required to make if it seeks abandonment recovery. (Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 165-66). At this stage of the proceeding, Citizens requests the Commission to granting this incentive, subject to Citizens making the appropriate demonstration in a future section 205 filing.

^{43/} *Citizens Energy Corporation*, 129 FERC ¶ 61,242 (2009).

^{44/} *Citizens Energy Corp.*, 157 FERC ¶ 61,150 (2016).

amounts of capital and effort are made – is critical to incenting the level of transmission investment that the Commission seeks to stimulate.

The Commission has consistently recognized the need to provide early approval of rate treatments for new transmission projects,^{45/} and has granted Citizens such approvals for its involvement in the Sunrise Powerlink Project and the Central Valley Power Connect Project.^{46/} Further, pre-approval of Citizens’ proposed capital cost recovery methodology is essential for Citizens’ financing. As explained by Mr. Helsby, approval of adequate capital cost recovery is necessary to obtain financing for Citizens’ share of the Project’s capital requirements. This recovery is also consistent with the Commission’s goal of encouraging new transmission market entrants and increasing transmission import capability. As a

^{45/} See, e.g., *TransBay Cable*, 112 FERC ¶ 61,095 (2005) (approval of incentive rates before the project was approved for inclusion in the CIASO’s regional transmission plan); *Green Power Express LP*, 127 FERC ¶ 61,031 (2009) (approval of rate incentives for 3,000-mile regional “green power superhighway” proposed to deliver wind-powered renewable energy from the upper Midwest to Chicago/Minneapolis area; Approved CWIP; abandoned plant; hypothetical capital structure 60 percent equity and 40 percent debt until any portion of the project is placed in service; ROE of 12.38%, which includes 100 points for independence, 10 points for scope of project, and 50 points for RTO participation which is effective when entity becomes an RTO member and places project under RTO operational control); *Pioneer Transmission, LLC*, 126 FERC ¶ 61,281 (2009) (approval of transmission rate incentives for a proposed 240 mile 765 kV transmission line in Indiana that will connect PJM and MISO; Approval of base ROE of 10.54 percent; approval of a ROE adder of 50 basis points for membership in a RTO; approval of a ROE adder of 150 basis points for new transmission; approval 100 percent CWIP; and approval of abandonment and regulatory asset incentives).

^{46/} *Citizens Energy Corporation*, 129 FERC ¶ 61,242 (2009); *Citizens Energy Corp.*, 157 FERC ¶ 61,150 (2016).

result, Citizens' request in this Petition is consistent with Commission policy and precedent.

V. CITIZENS' INVESTMENT IN THE PROJECT QUALIFIES FOR INCENTIVE RATE TREATMENT

Congress has long recognized the need to encourage transmission investment and development. Under Section 219 of the Federal Power Act^{47/} the Commission adopted regulations to provide “incentive-based . . . rate treatments for the transmission of electric energy in interstate commerce . . . for the purpose of benefiting consumers by ensuring reliability and reducing the cost of delivered power by reducing transmission congestion”, to “promot[e] capital investment in the enlargement, improvement, maintenance, and operation of facilities for the transmission of electric energy in interstate commerce”, and to “provide a return on equity that attracts new investment in transmission facilities . . .” As the Commission has found, this provision “is a directive to the Commission to use its existing authority to allow incentive-based rates . . .”^{48/}

In enacting this new statute, “Congress determined that there is a need for rate incentives to encourage investment in transmission infrastructure and directed the Commission to establish incentive-based rate treatments for transmission projects that will help ensure the reliability of the bulk power transmission system in the United States or reduce the cost of delivered power to customers by reducing

^{47/} EPAAct 2005 § 124, 16 U.S.C. § 219.

^{48/} *American Electric Power Service Corp.*, 116 FERC ¶ 61,059, at P 2 (2006).

transmission congestion.”^{49/} Order No. 679 implements this Congressional directive by providing a range of incentives to help utilities to overcome the financial challenges they face in siting and constructing new transmission facilities.

**A. The Project Satisfies Order No. 679’s
Rebuttable Presumption**

Order No. 679 provides that a public utility may file a petition for declaratory order or make a Section 205 filing to obtain incentive rate treatment for transmission infrastructure investment that satisfies the requirements of FPA section 219, *i.e.*, the applicant must demonstrate that the facilities for which it seeks incentives either (1) ensure reliability or (2) reduce the cost of delivered power by reducing transmission congestion.^{50/} Order No. 679 also establishes a rebuttable presumption (as modified by Order No. 679-A) for: “(i) a transmission project that results from a fair and open regional planning process that considers and evaluates projects for reliability and/or congestion and is found to be acceptable to the Commission; or (ii) a project that has received construction approval from an appropriate state commission or state siting authority.”^{51/} Moreover, Order No. 679-A clarifies the operation of this rebuttable presumption by noting that the authorities and/or processes on which it is based (*i.e.*, a regional planning process, a

^{49/} *Id.*

^{50/} *See* 18 C.F.R. § 35.35(i).

^{51/} *See Id.*; Order No. 679-A, 117 FERC ¶ 61,345 at P 47.

state commission, or siting authority) must, in fact, consider whether the project ensures reliability or reduces the cost of delivered power by reducing congestion.^{52/}

The Project satisfies Order No. 679's rebuttable presumption for two reasons. First, the need for this Project was identified by the CAISO in its 2012-2013 transmission planning process and SDG&E's selection, in conjunction with Citizens, as the project sponsor is the result of a competitive solicitation.^{53/} Second, the Project has received approval from the CPUC, which expressly considered and determined that the Project is necessary to ensure reliability, address existing congestion, and allow for efficient generation dispatch.^{54/} The Commission relied on these factors in deciding that this Project "meets the rebuttable presumption and satisfies" the requirements of FPA Section 219 as part of SDG&E's filing in Docket No. EL15-11.^{55/} For these reasons, Citizens respectfully requests that the Commission again find the Project has satisfied Order No. 679's rebuttal presumption for purposes of this filing.

B. The Commission's Nexus Test is Satisfied

In addition to satisfying this Section 219 requirement, applicants must demonstrate a nexus between the incentive sought and the investment being made. The nexus test is "met when an applicant demonstrates that the total package of

^{52/} Order No. 679-A, 117 FERC ¶ 61,345 at P 49.

^{53/} Selection Report at 1.

^{54/} CPCN Order at 5-6.

^{55/} *San Diego Gas & Electric Co.*, 151 FERC ¶ 61,011 at P 30 (2015).

incentives requested it tailored to address the demonstrable risks or challenges faced by the applicant.”^{56/} The Commission has the discretion to grant incentives that promote particular policy objectives, unrelated to whether or not a project presents specific economic risks or challenges.^{57/}

An applicant for a transmission rate incentive must “demonstrate a nexus between the incentives being sought and the investment being made.”⁵⁸ This is a fact specific case-by-case determination, and requires showing that the “total package of incentives requested is narrowly tailored to address the demonstrable risks or challenges” the applicant faces.^{59/} The “question of whether a project is ‘routine’ is particularly probative” to the Commission’s nexus analysis because the Commission has determined that non-routine projects face “risks and challenges

^{56/} *Pacific Gas & Electric Co.*, 148 FERC ¶ 61,195 at P 9. *See also* citing Order No. 679-A, FERC Stats & Regs ¶ 31,236 at P 49. *See also* 18 C.F.R. § 35.35(d); Order No. 679, 116 FERC ¶ 61,057 at P 26; 18 C.F.R. § 35.35(d). *See also* Order No. 679-A, 117 FERC ¶ 61,345 at P 21 (“By this we mean that the incentive(s) sought must be tailored to address the demonstrable risks and challenges faced by the applicant in undertaking the project.”)

^{57/} *Id.* at n 38.

⁵⁸ *Pacific Gas & Electric Co.*, 148 FERC ¶ 61,195 at P 9.

^{59/} *See Pacific Gas & Electric Co.*, 148 FERC ¶61,195, at P 9 (holding the “total package of incentives requested” must be “tailored to address the demonstrable risks or challenges faced by the applicants”); *Bangor Hydro-Electric Company*, 117 FERC ¶ 61,129 (2006) (*Bangor Hydro*) (applicants for transmission rate incentives need not show that “but for” the incentives, a project will not be built, and rate incentives applicable to *all* regionally approved transmission projects, not only those which can be installed quickly utilizing innovative, lower cost technologies); *see also Duquesne Light Company*, 118 FERC ¶ 61,087 (the Commission spelled out in greater detail than in previous rulings the application of its criteria for transmission incentive rates).

that merit an incentive.”⁶⁰ Determining whether or not a project is routine requires examining:

(1) the scope of the project (e.g. dollar investment, increase in transfer capability, involvement of multiple entities or jurisdictions, size, effect on region); (2) the effect of the project (e.g., improving reliability or reducing congestion costs); and (3) the challenges or risks faced by the project (e.g., siting, internal competition for financing with other projects, long lead times, regulatory and political risks, specific financing challenges, other impediments).^{61/}

The rate treatments Citizens requests here are narrowly tailored and necessary to balance the risks Citizens will take on to participate in the development and financing of the Project. Additionally, as shown below, the Project is non-routine. As a result, Citizens’ participation in the Project, and its requested rate treatments satisfy the Commission’s nexus requirement.

Citizens’ involvement in the development of the Project represents a significant capital commitment for a company the size of Citizens. Citizens’

⁶⁰ *Citizens Energy Corp.*, 129 FERC ¶ 61,242 at P 17. *See also Baltimore Gas & Elec. Co.*, 120 FERC ¶ 61,084, at P 54 (2007)(“By definition, projects that are not routine under our analysis articulated above face inherent risks and challenges and/or provide benefits that are worthy of incentives. If the Commission makes a determination that a project or projects are not routine and merit incentives, the Commission will evaluate the specific, proposed incentives and decide what incentives are appropriate for a particular project. As we stated in Order No. 679, ‘not every incentive will be available for every new investment.’ We will consider the total package of incentives requested and the inter-relationship between them.”)

^{61/} *Citizens Energy Corp.*, 129 FERC ¶ 61,242 at P 17.

involvement in this Project and its dedication to participating in the industry in innovative and cost effective ways facilitates cooperation, augments essential project funding with traditional utilities, and brings something new to the table.

Citizens' share of the Project's financing will be approximately \$27 million, plus development and financing costs of approximately \$2 million.^{62/} This is a significant investment for a company like Citizens that has a net asset value of \$67 million. Moreover, Citizens is under no regulatory obligation to construct its projects, *i.e.*, instead of investing its capital in nonutility ventures. Citizens has voluntarily chosen to invest its capital in this Project which will increase the reliability of transmission facilities in California. Citizens will be competing for the capital required to invest in the Project against other new electric energy industry investments in generation, distribution, and, more broadly against entities seeking capital for investment in unrelated, non-regulated ventures in other industries. The Commission has recognized each of these factors as illustrating that a project is not routine.^{63/}

Citizens' continued participation in the independent transmission business and its dedication to intervening in the industry in innovative and cost effective ways to facilitate unprecedented cooperation among traditional utilities can hardly

^{62/} Exhibit CEC-2 at P 23.

^{63/} *Duquesne Light Company*, 188 FERC ¶ 61,087 at P 53 (the fact that "instead of investing its capital in another venture" a utility chooses to "invest its capital in a project that will increase the reliability of its facilities and/or reduce the cost of delivered power to customers by reducing transmission congestion" as supporting a finding that the investment is not routine)

be called routine. Citizens' business structure, and its commitment to dedicate 50% of its net after tax profits from this Project to low-income consumers is also clearly not routine.

Furthermore, the Project itself is not routine. The CAISO and CPUC both recognize the critical nature of this Project to alleviate congestion, increase reliability, and more efficiently incorporate renewable resources. The Project is a "key transmission system upgrade" necessary to mitigate the SONGS retirement and to "address local transmission overloads in the northern region of San Diego."^{64/} Additionally, a majority of the Project as approved by the CPUC will be underground, which includes its own set of challenges that support a non-routine project designation.

The rate treatments sought herein are appropriately tailored to the unique challenges facing the Project. Citizens' rate methodology and request for recovery of abandoned facilities, including development cost, are both necessary in order for Citizens to secure the financing required for its participation in the Project. Additionally, should the Project be abandoned, Citizens would still be required to make a Section 205 filing prior to being granted permission to include abandonment costs in an actual rate. Any protesters that may be concerned about their potential exposure to abandoned project costs will have an opportunity to comment on any proposal to recover such costs if and when Citizens makes the required Section 205 filing. Citizens requests that the Commission find a nexus

^{64/} Selection Report at 3.

between Citizens' participation in a non-routine project and the narrowly tailored rate treatments it seeks.

VI. CITIZENS COST RECOVERY METHODOLOGY

A. Allowing Citizens Capital Cost Recovery Methodology is Necessary to Effectuate a Secured Financing of the Project

Citizens intends to finance its participation in the development of the Project using 100% debt. This is the same financing structure the Commission accepted as part of Citizens' successful participation in the Sunrise Powerlink Project and the Central Valley Power Connect Project. Without pre-approval of Citizens' rate methodology, Citizens will be unable to obtain the necessary financing to participate in development of the Project.

The financing Citizens will obtain for this project will be similar to that commonly used by public power and cooperative utilities.^{65/} Citizens is seeking capital cost recovery based upon a hypothetical capital structure and a proxy rate of return method similar to that utilized by municipal electric utility participants in the CAISO which has been approved by the Commission.^{66/} Citizens, however, is an entity without any end-use utility customers or a service territory in California, and therefore must recover its revenue requirement through the CAISO's TAC mechanism. Citizens will not be charging its costs directly to end-use "customers"

^{65/} Exhibit CEC-2 at P 14.

^{66/} See *City of Vernon, California*, Opinion No. 479, 111 FERC ¶ 61,092 (2005); Opinion No. 479-A, 112 FERC ¶ 61,207 (2005); Opinion No. 479-B, 115 FERC ¶ 61,297 (2006).

per se, but the liability which it will be incurring in the expenditure of borrowed funds is virtually identical to charging its costs through to a customer on a current basis. Citizens proposes to finance its participation in the development of the Project as a stand-alone transmission project. Thus, Citizens must demonstrate that mechanisms are in place for Citizens to achieve and maintain a strong cash flow.^{67/}

B. Citizens Revenue Requirement Is Intended To Be No Higher Than An SDG&E Representative Rate

The ultimate rate for capital cost recovery under Citizens' proposed cost recovery mechanism is intended to be no higher than the capital cost revenue requirement SDG&E could recover if SDG&E held Citizens' transfer capability in the Project.^{68/} With respect to operating costs, Citizens will seek recovery of all reasonably and prudently incurred actual operating costs and overhead costs.^{69/}

With respect to capital requirements, Citizens proposes to use a fixed rate for the 30 year term of the Citizens lease arrangement. The Capital Requirements fixed rate will include the elements of return on rate base, amortization of the

^{67/} After payment of debt service, operating expenses, and other obligations, Citizens expects to earn a margin, and Citizens will have an income tax liability on this margin. Citizens will invest 50% of its after tax margin on this project in assistance to low income electricity consumers in the project area. Exhibit CEC-1 at P 21; Exhibit CEC-2 at P 15. The remaining margin will be transferred through a wholly-owned holding company, Citizens Enterprises, to the not-for-profit parent, Citizens Energy Corporation, which will use the remaining 50% margin earned by Citizens in this Project to further the charitable corporate purposes of Citizens.

^{68/} Exhibit CEC-2 at P 12.

^{69/} *Id.* at P 25.

capitalized lease and development costs, and income taxes. These elements will be summed for each of the thirty years, and a net present value determined for each year. A levelized amount will be determined for the thirty year period, and this levelized amount will be Citizens' Capital Requirements fixed rate for the thirty year period.^{70/}

Under the Lease, the ultimate rate for recovery of its capital cost that Citizens is authorized to charge can be no higher than the rate SDG&E could recover at the time of commercial operation of the project if SDG&E held Citizens' entitlement interest to the transfer capability in the Project. For purposes of determining the rate SDG&E could use to recover its capital costs at the time of commercial operation of the Project if SDG&E held Citizens' entitlement interest, Citizens and SDG&E have agreed to use a specific rate model (the "SDG&E Representative Rate").^{71/}

C. Citizens' Proposed Cost Recovery Methodology Will Result in Just and Reasonable Rates

As described by Mr. Helsby, Citizens proposes to charge a rate that: (1) recovers actual transmission operating costs and applicable overhead costs, and (2) recovers capital requirements on a levelized fixed basis for 30 years; wherein the

^{70/} Exhibit CEC-2 at P 17.

^{71/} As described by Mr. Helsby, the SDG&E Representative Rate calculates a theoretical annual revenue requirement (for a fifty-eight-year depreciable life) that SDG&E could recover at the time of commercial operation if SDG&E held Citizens' transfer capability and then amortize that rate over a thirty year period on a level basis each year based on fixed and variable parameters set forth in the model to produce a theoretical levelized annual amount. Exhibit CEC-2 at P 12-13, 19.

capital requirements recovery will be no higher than the rate that SDG&E would charge for Citizens' interest in the Project, absent Citizens' participation. Citizens proposes to use an after the fact true-up mechanism for operating and overhead costs such that the revenue requirements will reflect actual operating costs.^{72/} Citizens capital requirements cost recovery is proposed to be at a fixed levelized rate for the thirty year term of the lease arrangement with SDG&E. Citizens' revenue requirements will generally contain the following elements: (1) transmission operating costs; (2) applicable overhead costs; and (3) capital requirements.

Citizens' rate base will be the capitalized lease cost of \$ 27 million, plus development and financing costs (now estimated to be about \$2 million), less accumulated capitalized lease and development cost amortization costs, plus accumulated deferred income taxes and working capital. Citizens will use a levelized fixed capital requirements rate. The levelized capital requirements fixed rate would be determined by levelizing the net present values of each of the thirty annual capital revenue requirement amounts. The levelized approach is necessary and consistent with Citizens' financing (which will utilize level debt service over 30 years), and it will spread the recovery of project costs evenly over the 30 year term, consistent with benefits derived, rather than front-end-loading cost recovery under a non-levelized depreciated rate base approach.

The operating cost component of Citizens' proposed revenue requirement

^{72/} Exhibit CEC-2 at P 17-18.

consists of transmission operating costs and applicable overhead costs. Citizens' formula rate will provide for adjustments to reflect actual operating and overhead costs. Thus, the operating cost elements of Citizens' revenue requirement meet the just and reasonable standard. The fixed capital requirements component of Citizens' revenue requirement follows a cost based approach. A reasonable hypothetical ratio of 50% debt and 50% equity, as previously described. SDG&E's currently authorized capital structure is Long Term Debt of 44.7% and Common Equity of 55.23%. Thus, a hypothetical capital structure of 50% debt and 50% equity incorporates an equity ratio that approximates SDG&E's currently authorized equity ratio.

Citizens' actual cost of debt will be used, along with an authorized cost of equity capital as a proxy. The Commission has approved the use of a hypothetical capital structure and a proxy return on equity for certain Participating Transmission Owners in the CAISO, including Citizens' for its Sunrise Powerlink project and Central Valley Power Connect project.^{73/} Citizens' rate methodology, including the fixed rate Capital Requirements recovery approach, is cost-based and just and reasonable.^{74/}

^{73/} *City of Vernon, California*, Opinion No. 479, 111 FERC ¶61,092 (2005); see Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at n.37 (finding that use of hypothetical capital structures can be an appropriate ratemaking tool for fostering new transmission in certain circumstances); see also *Morongo Transmission LLC*, 148 FERC ¶ 61,139 (2014); *Citizens Energy Corp.*, 129 FERC ¶ 61,242 (2009); *New England Power Pool*, 92 FERC ¶ 61,020 at 61,041 (2000) (accepting use of proxy by non-utility generator); *Citizens Energy Corporation*, 129 FERC ¶ 61,242 (2009); *Citizens Energy Corp.*, 157 FERC ¶ 61,150 (2016).

^{74/} Exhibit CEC-2 at P 28.

D. Citizens' Levelized Rate Methodology Will Benefit Consumers

Citizens' proposed levelized rate approach based on a hypothetical capital structure will benefit consumers in two important ways. First, the requested hypothetical capital structure will provide rate stability and protection against potential capital cost increases over time.^{75/} As of the operational date of the Project, Citizens' requested approach will lock-in fixed return levels for both the debt and equity components of the hypothetical capital structure. These locked-in rates will remain in place for the full 30-year term of Citizens' participation in the Project. Generally speaking, there is long term inflationary potential associated with current and anticipated deficit funding levels for economic recovery. Thus, the consumer benefits of Citizens' assured rate stability, with locked-in capital cost rates over 30 years, will likely be substantial.^{76/}

The second consumer benefit arises from the levelization process itself. Without levelization, consumers would be charged substantially more in the early years of the Project's operation and less in later years as the Project is gradually depreciated and its rate base declines.^{77/} Because the transmission benefits of the Project will be constant over time, and the associated monetary benefits of the constant transmission availability will very likely increase as utility

^{75/} Exhibit CEC-2 at P 27.

^{76/} *Id.*

^{77/} *Id.*

costs rise, the “front end loading” of cost recovery, as would occur without Citizens’ requested levelized rate approach, would mismatch project benefits and costs over time. For these reasons, Citizens’ proposed levelized rate approach based on a hypothetical capital structure should be recognized as a consumer benefit.^{78/}

VII. ABANDONED PROJECT COST RECOVERY

Citizens requests Commission approval of a second rate treatment - a determination that it is qualified to seek recovery of 100% of its prudently incurred development and construction costs in the event the Project is abandoned as a result of factors beyond Citizens’ control. This requested rate treatment is consistent with Congress’ directive to the Commission to enhance transmission investment and the Commission’s Order No. 679 and is vital to Citizens’ ability to access the necessary financing to participate in this Project. The requested rate treatment is the same as the one the Commission approved for Citizens’ participation in the Sunrise Powerlink Project,^{79/} and the Central Valley Power Connect Project.^{80/} Finally, the Commission has already granted SDG&E’s request for the abandonment incentive for this Project,^{81/} and a similar finding is warranted for Citizens.

^{78/} *Id.*

^{79/} *Citizens Energy Corporation*, 129 FERC ¶ 61,242 (2009).

^{80/} *Citizens Energy Corp.*, 157 FERC ¶ 61,150 (2016).

^{81/} *San Diego Gas & Electric Co.*, 151 FERC ¶ 61,011 at P 31 (2015).

Citizens seeks authorization to recover 100% of prudently-incurred costs associated with any possible abandonment of the development of the Project, if the abandonment is outside of Citizens control.^{82/} Authorization to recover such abandonment costs is necessary to mitigate the risk to Citizens that the Project is cancelled, or that portions of it may be supplanted for reasons beyond its control. This incentive will be a vital element in allowing Citizens to finance its interest in the Project.

Unlike a traditional utility, Citizens does not have the ongoing public utility operations which would allow it to absorb the costs it has already incurred should the Project be terminated for reasons beyond Citizens' control. These risks make it appropriate to provide Citizens with assurance of recovery of its abandonment costs through the CAISO's Transmission Access Charge (TAC) mechanism, the recovery of which will be under continuing Commission supervision.

Developing and constructing new high voltage transmission lines in California is a substantial financial undertaking, and is necessary to ensure reliable electric service. Citizens' faces the very real risk that the Project could fail solely

^{82/} Order No. 679, at PP 163-167; *see also Southern California Edison Company*, 112 FERC ¶ 61,014, at PP 58-61 (allowing recovery of all prudently-incurred costs if the project is later cancelled due to circumstances beyond the control of its management), *reh 'g denied*, 113 FERC ¶ 61,143 (2005). In Order No. 679, the Commission rejected the argument that pre-authorization to recover abandoned project costs should cause a reduction to the authorized ROE for a project. *Id.* at P 167. The Commission, for example, approved Allegheny's request for rate incentives at the upper end of the zone of reasonableness while at the same time pre-authorizing the recovery of abandoned project costs. *Allegheny*, 116 FERC ¶ 61,058, at P 122. *Allegheny*, 116 FERC ¶ 61,058, at P 127.

because of actions beyond its control. Citizens' proposed cost recovery and rate proposal will allow Citizens to balance the risks attributable to its involvement in the Project and aid in its financing of its entitlement in the Project's transfer capability.

VIII. TECHNOLOGY STATEMENT

The Commission's Incentives Pricing Rule requires applicants for incentive rate treatment to include a technology statement that describes the advanced technologies that have been considered and, if not employed, an explanation of the reasons why they were not.^{83/} SDG&E will use advanced technologies on this Project, including: LIDAR, helicopters, optical ground wire and fiber optic cable.

IX. CORRESPONDENCE AND COMMUNICATIONS

Correspondence and other communications concerning this Petition should be sent to the undersigned counsel for Citizens, and to the following individuals, each

^{83/} Order No. 679 at P 302.

of whom should be placed on the Commission's official service list in this proceeding:

Donald R. Allen
Ashley M. Bond
Duncan & Allen
1730 Rhode Island Ave, NW.
Suite 700
Washington, D.C. 20005
(202) 289-8400
dra@duncanallen.com
amb@duncanallen.com

Peter F. Smith
Chief Executive Officer
Citizens Energy Corporation
88 Black Falcon Ave. Suite 342
Boston, MA 02210
617-338-6300, X581
psmith@citizensenergy.com

A copy of this Petition has been served on the California Public Utilities Commission and on CAISO.

X. MATERIALS SUBMITTED HEREWITH

Together with this Petition for Declaratory Order, Citizens hereby submits each of the following:

- 1) **Exhibit CEC-1:** Affidavit of Peter F. Smith
- 2) **Exhibit CEC-2:** Affidavit and Exhibits of David T. Helsby
 - **Attachment A to Exhibit CEC-2:** Representative Rate Model
 - **Attachment B to Exhibit CEC-2:** Preliminary Citizens Rate Model
- 3) **Exhibit CEC-3:** Development, Coordination, and Option Agreement By and Between San Diego Gas & Electric Company, and Citizens Energy Corporation
- 4) **Exhibit CEC-4:** Map of the Sycamore-Penasquitos 230 kV Transmission Line Project

XI. CONCLUSION

WHEREFORE, for the foregoing reasons, Citizens, on behalf of its wholly owned subsidiary CSPT, respectfully requests that the Commission declare that Citizens participation in the Project, described more fully above, is eligible for the rate incentives and rate treatment requested herein, as follows:

1. Approval of Citizens requested cost recovery methodology, which includes Citizens' use of: (1) a hypothetical capital structure of 50% debt and 50% equity, (2) the use of a proxy return on equity, subject to Citizens making the appropriate future filings pursuant to Section 205 of the Federal Power Act, (3) a 30 year levelized fixed rate for recovery of capital requirements, and (4) a formula rate to recover actual operating costs.;
2. Qualification of Citizens to seek recovery of its prudently incurred, transmission-related development and construction costs pertaining to its entitlement interest in the Project in the event the Project is canceled or abandoned as a result of factors beyond Citizens' control, subject to a future FPA Section 205 filing; and

3. Such other relief as the Commission may deem appropriate.

Respectfully submitted,

/s/ Donald R. Allen
Donald R. Allen
Ashley M. Bond
Duncan & Allen
1730 Rhode Island Avenue, N.W.
Suite 700
Washington, D.C. 20036
(202) 289-8400
(202) 289-8450 (facsimile)

Counsel for Citizens Energy Corporation,
and Citizens Sycamore-Penasquitos
Transmission, LLC

November 9, 2017

Exhibit No. CEC-1
Affidavit of Peter F. Smith

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Citizens Energy Corporation)
)
 Petitioner)
) Docket No. EL18-_____

AFFIDAVIT OF PETER F. SMITH

Commonwealth of Massachusetts
 :
County of Suffolk ss

Peter F. Smith, being subject to the penalties of perjury, hereby deposes and says:

I. INTRODUCTION AND QUALIFICATIONS

1. I am Chief Executive Officer of Citizens Energy Corporation. My office address is 88 Black Falcon Avenue Center Lobby, Suite #342, Boston, Massachusetts, 02210.

2. I joined Citizens Energy in November 2000 as Chief Operating Officer, and became Chief Executive Officer in December 2014. In this role, I report directly to the Chairman, President, and Founder, Joseph P. Kennedy II, and am responsible for all aspects of Citizens' business and charitable activities. I am currently leading Citizens' efforts to develop high-voltage electricity transmission lines in California to facilitate the delivery of energy, including renewable energy sources. Additionally, I directly oversee Citizens' renewable

energy development division, which works to develop, construct, own, and operate renewable energy generation projects in the U.S. and Canada.

3. Prior to joining Citizens Energy, I was a Manager at the Boston Consulting Group (BCG), an international strategy and general management consulting firm focused on helping leading corporations create and sustain competitive advantage. I also spent five years on active duty with the United States Coast Guard.

4. I hold a B.S. in economics from the U.S. Coast Guard Academy and an M.B.A. from Harvard Business School.

5. This Affidavit was prepared in support of the Petition for a Declaratory Order of Citizens Energy Corporation to authorize rate treatments for Citizens' involvement in the Sycamore-Penasquitos 230 kV Transmission Line Project ("the Project").

6. The purpose of this Affidavit is to provide a description of Citizens Energy Corporation and its subsidiary entities. Further, I will provide information on Citizens Energy Corporation's participation with San Diego Gas & Electric Company ("SDG&E") in the development and financing of the Project.

II. BACKGROUND ON CITIZENS ENERGY

7. Citizens Energy Corporation was formed during the oil-price shocks of the late 1970s to provide low-cost home heating oil to the poor and the elderly. Joseph P. Kennedy II founded the company with the belief that profits from successful oil industry ventures could be used to write down the cost of fuel to

vulnerable families having to choose between heating and eating and other basic needs.

8. Following its success in the oil trading, exploration, and production fields, Citizens Energy went on to become a leading innovator in the electricity, natural gas, and pharmaceutical drug industries, all the while using profits from its business activities to support a wide array of charitable programs in the U.S. and abroad.

9. Citizens Energy Corporation is structured as a non-profit company that owns 100% of a for-profit holding company, which in turn wholly owns several for-profit subsidiaries. Citizens Energy relies on profits from the businesses it owns and operates to generate revenues for charitable and social programs.

10. Citizens' commercial activities in its first decade included crude oil trading, oil exploration and production, electric power and natural gas marketing, mail-order pharmaceuticals, and environmental business consulting. Citizens was granted the first authorization to market electricity ever issued to a non-utility company in the mid-1980s and brokered the first independently marketed kilowatt hour of electricity in the United States on June 27, 1986.

11. Citizens Energy Corporation has launched a number of innovative businesses and programs, including:¹

- Citizens Resources. One of the largest independent lifters of crude oil from Angola, Nigeria, and Venezuela, with over \$6 billion in sales and daily trading volumes of over 250,000 barrels a day.
- Citizens Gas Supply. A leading marketer of natural gas to Local Distribution Companies after successfully challenging monopoly control of the nation's natural gas pipelines, the company generated \$1.1 billion in sales.
- Citizens Conservation. A leading innovator in the energy conservation field, achieving average energy savings of up to 40% through retrofits in thousands of housing units across the U.S.
- Citizens Medical. The nation's largest marketer of mail-order prescription drugs, facilitating annual sales of over \$3 billion and 40% savings over conventional delivery for consumers.
- Citizens Power & Light Corporation. After securing a landmark decision from FERC², authorizing non-traditional utilities to engage in power marketing, Citizens commenced its brokering of electric energy at wholesale. It formed Citizens Power & Light to continue that work and closed more than 30 major power sale contracts within a few years achieving over \$10.5 million in sales and becoming a nationally recognized leader in the field of electric power marketing.
- Citizens Wind. Citizens Wind is Citizens Energy's wind development division. It has developed 235 megawatts of operational wind projects in the U.S. and Canada, and has an active development portfolio of over 200 megawatts. Additionally, Citizens Wind is currently negotiating partnerships with offshore wind developers in the U.S. to participate in the growing offshore wind industry. Citizens Wind's profits are used to fund Citizens Energy's assistance programs and it operates with the social mission of Citizens Energy in mind.

¹ The specific details on these activities may be found on Citizens' website at www.citizensenergy.com

² *Citizens Energy Corp.*, 35 FERC ¶ 61,198 (1986).

- Citizens Solar. Citizens has developed, constructed, owns, and operates a \$190 million portfolio of solar generating assets with a capacity of 86 megawatts. The projects are ground-mounted, utility-scale, distributed solar arrays in Massachusetts and Georgia. Additionally, Citizens has an active development portfolio of more than 300 megawatts of solar projects. Like its other ventures, Citizens Solar generates profits to help fund the parent company's charitable mission.
- Citizens Energy Oil Heat Program. Created in response to the oil crisis of the late 1970s, the Oil Heat Program has delivered millions of gallons of discounted home heating oil to poor and elderly households in the Northeast. Since 2006, in partnership with CITGO Petroleum, the Oil Heat Program has distributed over \$500 million of assistance to more than one million households.

12. Hundreds of millions of dollars in dividends from these and other ventures have gone to support charitable programs as innovative as the businesses that financed them, including social programs in the countries where Citizens Energy runs business operations.

III. CITIZENS ENERGY - OPERATIONS IN ELECTRICITY INDUSTRY

13. Citizens Energy Corporation began its operations in the electricity industry with a program launched in 1985 to buy power from utilities with surplus generating capacity, resell the excess power to other utilities, and then use the profits to help low-income families pay their electricity bills. Since then, Citizens has become involved in electric transmission and energy generation projects.

14. Citizens is confronting two relatively new industry problems: (1) Resolution of transmission congestion and (2) Facilitating the delivery of renewables, including mitigation of the cost of relatively expensive renewable energy to economically vulnerable customers such as the poor and the elderly. Citizens is seeking to find innovative, market opportunities to address these issues and resolve them.

IV. CITIZENS' ROLE IN INDEPENDENT TRANSMISSION

15. Citizens Energy Corporation, led by Joseph P. Kennedy II, continues to use its ingenuity to find and resolve, on a commercial basis, impediments and bottlenecks in the still evolving electric power industry and use the profits it earns to further extend its assistance to disadvantaged energy consumers in the United States. In late 2004, Citizens Energy Corporation began to turn its attention to the problem of transmission constraints in the new, disaggregated electric industry which impede the free flow of renewable and lower cost electricity to consumers, much the way it did when it first investigated the once closed, vertically integrated electric utility power marketing structure. In so doing, Citizens Energy Corporation found that there are significant opportunities for independent developers in transmission projects to resolve transmission bottlenecks, promote the development of renewable electric resources and improve the performance of newly emerging electricity markets.

16. Citizens seeks to tackle transmission congestion through innovative business and market relationships, while facilitating the delivery of renewable energy (including mitigation of the cost of relatively expensive renewable generation to economically vulnerable customers such as the poor and the elderly). Citizens is accomplishing that objective through its involvement in transmission projects. One such project is the Sunrise Powerlink Project.

17. Citizens' involvement in the Sunrise Powerlink Project began in 2005, and culminated in Citizens financing of its \$100 million investment in the Sunrise Powerlink Project. The Sunrise Powerlink Project consists of a new 500 kV transmission line in California running approximately 150 miles from the El Centro area of Imperial County to northwestern San Diego County. The Sunrise Powerlink provides up to 1,000 MW of new transfer capacity into the San Diego area. In its December 18, 2008 Order approving the project, the California Public Utilities Commission determined that the Sunrise Powerlink, primarily intended to facilitate delivery of renewable generation in the Imperial Valley to San Diego, will generate net benefits of over \$117 million per year for California utilities confronting the then recently approved 33% Renewable Portfolio Standard ("RPS") requirement by 2020. Citizens' involvement contributes to the export capacity for otherwise trapped renewable resources (solar, geothermal, and wind) in the Imperial Valley in California and significantly enhances the reliability of Southern California's transmission system.

18. Through its wholly owned subsidiary, Citizens Sunrise Transmission (“CST”), Citizens has financed 50% of the cost of the 500 kV transmission line in Imperial County (the “Border-East Line”) (an approximately \$100 million investment), and has become a Participating Transmission Owner (“PTO”) within the California Independent System Operator, Corp. (“CAISO”). Citizens does not own any of the actual facilities themselves, but has long-term lease rights to the transfer capability of the Border-East Line. Citizens has turned its rights over to the CAISO and has a FERC approved transmission service tariff pursuant to which it recovers its costs from the CAISO.³

19. Thanks to Citizens’ participation, the Sunrise Powerlink Project has achieved significantly greater public benefits. Citizens has contractually committed to spend 50% of its after-tax profit from the Sunrise project on programs assisting low income families of Imperial County. Since becoming operational in June of 2012, CST’s ownership in the Sunrise Powerlink Project annually generates approximately \$1.5 million of low-income assistance that directly benefits the ratepayers in Imperial County. To date, Citizens has installed 421 solar rooftop systems on low-income houses – at no cost to the homeowner – resulting in more than \$400,000 in ratepayer savings to-date, and an installed capacity of more than 1.6 megawatts. The program continues to be highly respected and appreciated by the community, local elected officials, and

³ *Citizens Sunrise Transmission LLC*, 138 FERC ¶61,129 (2012).

the local municipally-owned utility, Imperial Irrigation District, which had previously been unable to experience any material level of residential rooftop solar in Imperial County. In addition to the direct low-income rate payer benefits, Citizens' solar homes program in the Imperial Valley has created local jobs, further assisting the local economy.

20. Citizens is additionally contractually partnered in the development and financing of the Central Valley Power Connect Project ("CVPC Project"), through its wholly owned subsidiary Citizens Power Connect, LLC ("CPC"). The CVPC Project is an approximately \$150 million, 68 mile long 230 kV overhead transmission line that will run from just northwest of Bakersfield, California to just north of Fresno, California. Citizens' participation in the CVPC Project is in partnership with Pacific Gas & Electric Co. ("PG&E") and MidAmerican Central California Transco, LLC ("MCCT").

21. Citizens' involvement in the CVPC Project is substantively similar to that of its involvement in the Sunrise Project. Citizens has agreed to finance 25 percent of the CVPC Project in exchange for a 30-year leasehold interest on 25 percent of the CVPC Project's capacity. Citizens has additionally committed to spend 50 percent of its after-tax profits to assist low-income consumers in the affected service areas.

V. **DEVELOPMENT OF THE SYCAMORE-
PENASQUITOS 230 KV TRANSMISSION LINE
PROJECT**

22. The Sycamore-Penasquitos 230 kV Transmission Line Project (“Project”) is an approximately 14 mile new 230 kV transmission line that will replace the existing transmission line between SDG&E’s Sycamore Canyon and Penasquitos Substations.⁴ The CAISO identified the Project as a “reliability driven project” in its 2012-2013 transmission plan where it found the Project was necessary to “avoid projected system overloads to ensure the delivery of renewable generation.”⁵ The CAISO determined that the retirement of the San Onofre Nuclear Generating Station (“SONGS”) has increased the importance of putting the Project into service as soon as possible, making the ability to achieve an expedient in service date “critical” for the Project.⁶

23. Citizens’ involvement with the Project began in 2013 when it signed a Letter of Intent with SDG&E to prepare a joint application to the CAISO for

⁴ See <http://www.sdge.com/key-initiatives/sycamore-penasquitos-230kv-transmission-line-project>

⁵ Sycamore-Penasquitos Project-Project Sponsor Selection Report (Mar. 4, 2014) at 2, (“Selection Report”) Available at: <https://www.caiso.com/Documents/Sycamore-PenasquitosProjectSponsorSelectionReport.pdf>

⁶ *Id.*

consideration in the CAISO's competitive solicitation process for the Project.^{7/} Citizens and SDG&E worked together and produced an application that the CAISO found superior to the three other applications submitted by other parties.^{8/} Specifically, the CAISO performed a comparative analysis of the proposals submitted by the four parties, and found SDG&E's and Citizens' bid to be superior in "most of the tariff criteria."^{9/} As a result, the CAISO selected SDG&E in conjunction with Citizens to develop the Project.

24. On October 13, 2016 the California Public Utilities Commission ("CPUC") granted SDG&E a Certificate of Public Convenience and Necessity ("CPCN") for the Project.^{10/} The CPUC granted the Project a CPCN configured

^{7/} Sycamore-Penasquitos Project-Project Sponsor Selection Report (Mar. 4, 2014) at 1, ("Selection Report") Available at: <https://www.caiso.com/Documents/Sycamore-PenasquitosProjectSponsorSelectionReport.pdf>

^{8/} Sycamore-Penasquitos Project-Project Sponsor Selection Report (Mar. 4, 2014) at 4, ("Selection Report") Available at: <https://www.caiso.com/Documents/Sycamore-PenasquitosProjectSponsorSelectionReport.pdf>

^{9/} Sycamore-Penasquitos Project-Project Sponsor Selection Report (Mar. 4, 2014) at 63, ("Selection Report") Available at: <https://www.caiso.com/Documents/Sycamore-PenasquitosProjectSponsorSelectionReport.pdf>

^{10/} *In the Matter of the Application of San Diego Gas & Electric Company (U902E) for a Certificate of Public Convenience and Necessity for the Sycamore-Penasquitos 230 Kilovolt Transmission Line Project*, Decision Granting Certificate of Public Convenience and Necessity for the Sycamore-Penasquitos 230 kV Transmission Line Project, Application 14-04-011 ("CPCN Order"), available at: http://www.cpuc.ca.gov/Environment/info/panoramaenv/Sycamore_Penasquitos/PDF/Decision.PDF

with Alternative 5, which altered the originally-proposed project route and increased the portion of the Project that will be underground.¹¹

25. On November 9, 2017 Citizens and SDG&E entered into the Development, Coordination, and Option Agreement (“DCOA”), which identifies the terms for Citizens’ engagement in the development of the Project, consistent with the Letter of Intent from 2013. Citizens’ involvement in the Project is structured very similarly to Citizens’ participation in both the Sunrise Powerlink Project and the Central Valley Power Connect Project. A copy of the DCOA is included as Exhibit CEC-3 to this filing.

26. Under the DCOA, Citizens has the option to finance \$27 million of the Project in exchange for a 30 year lease in the transfer capability associated with the facilities it finances. Upon exercising its option, Citizens will prepay the \$27 million in rent associated with its leasehold interest in the Project.¹² SDG&E will maintain ownership over the Project, and Citizens’ transfer capability will revert back to SDG&E upon the termination of the 30 year lease term.¹³

¹¹ *Id.* at 12-14.

¹² Exhibit CEC-3 at Section 4.2.4.

¹³ Exhibit CEC-3 at Section 4.1.

27. Pursuant to the Lease and the CAISO Tariff, SDG&E will be the interconnection agent on behalf of Citizens with respect to Citizens' entitlement for all requests for generator interconnections to the Project.

28. SDG&E is responsible for the development, design, permitting, engineering, procurement and construction of the entire Project.¹⁴ SDG&E shall bear the costs of developing and constructing the Project until such time as Citizens exercises its option under the DCOA.¹⁵

29. Citizens has contractually committed to spend 50% of its net after tax profits from its participation in the Project on programs assisting low income ratepayers located in SDG&E's service territory, as mutually agreed upon by Citizens and SDG&E.

VI. CITIZENS' INVOLVEMENT WITH AND FINANCING OF THE PROJECT

30. Citizens has created a separate for-profit subsidiary called Citizens Sycamore-Penasquitos Transmission LLC ("CSPT") for purposes of Citizens' participation in this Project. CSPT is a Delaware for-profit corporation formed to develop, finance, own, and sell the output of transmission facilities in interstate commerce. CSPT is a wholly-owned subsidiary of Citizens Enterprises Corporation, which itself is owned by Citizens Energy Corporation.

¹⁴ Exhibit CEC-3 at Section 3.1.

¹⁵ Exhibit CEC-3 at Section 3.1.

31. The estimated cost of the Project is approximately \$260 million.¹⁶ Citizens' one time lease payment will be \$27 million. Citizens currently estimates that its financing and development costs will be approximately \$2 million.

32. Citizens will finance its leasehold interest in the transfer capability of the Project with the issuance of debt with a term of 30 years. Annual debt service payments on the debt will be on a levelized basis over this period. In addition to paying its share of the cost of development and construction, the proceeds of the debt will also reimburse Citizens for its development costs incurred throughout the period to effectuate arrangements with SDG&E, and for the costs of its regulatory activities with the Federal Energy Regulatory Commission ("FERC") and the CAISO.

33. Since May 31, 2013 Citizens has accounted for all expenditures incurred for its development activities pertaining to its involvement in the development of the Project which were beyond Citizens' normal business affairs. In addition to the involvement of its officers, Citizens has relied heavily on the

¹⁶ *In the Matter of the Application of San Diego Gas & Electric Company (U902E) for a Certificate of Public Convenience and Necessity for the Sycamore-Penasquitos 230 Kilovolt Transmission Line Project, Decision Granting Certificate of Public Convenience and Necessity for the Sycamore-Penasquitos 230 kV Transmission Line Project, Application 14-04-011, at 18 ("CPCN Order"), available at: http://www.cpuc.ca.gov/Environment/info/panoramaenv/Sycamore_Penasquitos/PDF/Decision.PDF*

assistance of outside consultants for development activities associated with the Project. These outside consultants, including legal counsel, charge Citizens for their services at normal hourly rates.

34. Citizens has already invested significant resources negotiating with SDG&E to finalize the DCOA which was executed on November 9, 2017. As required by the DCOA, Citizens will continue to engage with SDG&E in technical discussions regarding the development and financing of the Project. Citizens' involvement includes activities such as participation in the CAISO regional and statewide planning activities, and preparing and submitting a response to the CAISO's competitively awarded transmission process. Consequently, Citizens will incur ongoing development costs, even though SDG&E bears the responsibility for development activities for the Project.

VII. TIMELINE FOR APPROVAL AND CONSTRUCTION OF THE CENTRAL VALLEY POWER CONNECT PROJECT

35. The California Public Utility Commission ("CPUC") granted SDG&E a Certificate of Public Convenience and Necessity for the Project on October 13, 2016.¹⁷ Construction of the Project commenced in early 2017, and the Project is scheduled to enter commercial operation in June 2018.¹⁸

¹⁷ CPCN Order.

¹⁸ <http://www.sdge.com/key-initiatives/sycamore-penasquitos-230kv-transmission-line-project>.

36. While SDG&E is responsible for developing and constructing the Project, the DCOA obligates Citizens to support SDG&E in its efforts, as well as satisfy its own regulatory process.¹⁹ Citizens will be involved with the initiation, managing and oversight of major regulatory processes, including: (1) the application to CAISO for acceptance as a Participating Transmission Owner (“PTO”) for purposes of (a) effecting the transfer to the CAISO of Citizens’ entitlements to a portion of the transfer capability of the Project, and (b) recovery of costs associated with Citizens’ entitlement in a portion of the transfer capabilities of the Project, including the negotiation of the amendments to the Transmission Control Agreements (“TCA”) with other CAISO PTOs, and (2) all necessary FERC proceedings, including this Petition for Declaratory Order.

37. Moreover, to the extent required, Citizens will be involved in cooperating with SDG&E in its application to the CPUC for approval of the transaction under Section 851 of the California Public Utilities Code, and SDG&E’s application to FERC under Section 205 of the Federal Power Act.

38. Citizens’ proposed cost recovery methodology is set forth in the Affidavit of David T. Helsby.

[SIGNATURE ON NEXT PAGE]

¹⁹ Exhibit CEC-3 at Sections 3.1, 5.1

Exhibit No. CEC-2

Affidavit of David T. Helsby

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Citizens Energy Corporation)
)
) Docket No. EL18-_____

AFFIDAVIT OF DAVID T. HELSBY

State of Washington
): ss
County of King

David T. Helsby, being subject to the penalties of perjury, hereby deposes and says:

I. INTRODUCTION AND QUALIFICATIONS

1. My name is David T. Helsby. My business address is 7660 North Mercer Way, #103, Mercer Island, Washington 98040. I am an independent consultant.
2. I have over 40 years of experience in utility engineering, planning, operations, rate and financial analysis, and regulation. Since 1970, I have been involved in work relating to various public utility matters, including the preparation and presentation of planning studies, economic analyses, and rate studies. I have worked extensively in matters involving utility rates and tariffs and have testified as an expert witness on electric and gas rates and other utility matters before federal and state regulatory agencies, city councils, and courts of law. Since 1999 I have been an independent consultant. From 1974 through 1999 I was with the consulting firm of R. W. Beck, Inc., a nationally recognized firm

serving clients throughout the United States and abroad as engineers and consultants, principally in energy and utility matters. From 1970 to 1974, I worked for the Pacific Gas & Electric Company as a planning engineer involved in planning and design of transmission and distribution facilities. Prior to that, I was an officer in the U.S. Navy Civil Engineer Corps, specializing in utility matters.

3. I have worked extensively analyzing rates and tariffs for utility services, including rates and tariffs for transmission services. I have prepared and analyzed utility contracts and the terms and conditions of service contained in those contracts. I have prepared cost-of-service studies and analyzed and designed utility rates for clients. I have also analyzed the components of cost-of-service including operating expenses and capital cost recovery, and studied and developed cost allocation procedures and rate design techniques in proceedings before regulatory agencies and courts involving electric and gas utilities.

4. I have testified as an expert witness over one hundred times before federal and state regulatory agencies, city councils, and courts of law.

5. I earned a Bachelor of Science degree in Electrical Engineering from Washington State University in 1967. I am registered to practice as a Professional Engineer in the States of Washington and California.

6. This Affidavit was prepared on behalf of Citizens Energy Corporation (“Citizens”) and its wholly-owned subsidiary, Citizens Sycamore-Penasquitos Transmission LLC (“CSPT”), in support of the Petition for Declaratory Order of Citizens Energy Corporation to authorize rate treatments for Citizens’ involvement

with San Diego Gas and Electric Company (“SDG&E”) in the Sycamore-Penasquitos Transmission Project (“Project”) in Southern California. As explained in the Affidavit of Peter F. Smith, Citizens is a non-profit company whose successful commercial energy and other subsidiaries support a wide array of social and charitable programs in the United States and abroad. Citizens created CSPT for the purposes of participating in the development of the Project.

7. As is described in more detail in the supporting Affidavit of Peter F. Smith, the proposed Project is a new 230kV transmission line between SDG&E’s Sycamore Canyon and Penasquitos Substations.

8. The purpose of Citizens’ Petition for a Declaratory Order is to request Commission approval of two rate treatments by Citizens in connection with its participation in the Project. First, Citizens requests that the Commission approve its proposed cost recovery methodology, which includes Citizens’ use of: (1) a hypothetical capital structure of 50% debt and 50% equity, (2) the use of a proxy return on equity, subject to Citizens making the appropriate future filings pursuant to Section 205 of the Federal Power Act, (3) a 30 year levelized fixed rate for recovery of capital requirements, and (4) a formula rate to recover actual operating costs. Second, Citizens requests that the Commission allow Citizens to seek recovery of 100% of all prudently incurred development and construction costs in the event the project is abandoned as a result of factors beyond Citizens’ control.

9. The rate treatments and incentives that Citizens seeks in this petition are substantively the same as those the Commission previously approved in

conjunction with Citizens' participation in the Sunrise Powerlink Project^{1/} and the Central Valley Power Connect transmission project.^{2/}

II. THE DEVELOPMENT, COORDINATION, AND OPTION AGREEMENT, AND TRANSFER CAPABILITY LEASE

10. Citizens and SDG&E entered into a Development, Coordination and Option Agreement (the "DCOA") on November 9, 2017 which provides for Citizens' engagement in the development of the Project. The DCOA includes as Exhibit A the Form of Transfer Capability Lease (the "Lease"). The DCOA and Lease is included as Exhibit CEC-3 to this filing. Citizens will participate in the financing of the Project through a long term lease of a portion of the transfer capability of the Project. SDG&E will retain 100% percent ownership of the Project.

11. The Lease provides that Citizens shall seek from FERC approval of a cost recovery methodology that provides cost recovery to Citizens limited to the recovery of transmission operating costs and capital requirements, all as set forth in Article IV of the Lease. With regards to operating costs, Section 4.3.1 of the Lease provides that Citizens shall seek recovery of the Citizens share of O&M costs and all other reasonably and prudently incurred costs for operation and maintenance on an annual formulaic basis, including administrative and general activities and the applicable portion of property taxes, directly attributable to Citizens Transfer Capability on the Project.

^{1/} *Citizens Energy Corp.*, 129 FERC ¶ 61,242 (2009).

^{2/} *Citizens Energy Corp.*, 157 FERC ¶ 61,150 (2016).

12. With respect to Capital Costs, Section 4.3.2 of the Lease provides that Citizens shall seek recovery for all costs other than operating costs associated with the Citizens Transfer Capability at a fixed rate that is no higher than the rate SDG&E could recover if SDG&E held the Citizens Transfer Capability. This fixed rate is intended to cover all costs associated with the Citizens Transfer Capability, other than the operating costs described above. Citizens seeks authorization to recover these Capital Costs on a levelized basis such that its capital cost revenue requirement is no higher than the capital cost revenue requirement SDG&E could recover at the time of commercial operation of the Project if SD&E held Citizens' Transfer Capability. For purposes of determining the capital cost revenue requirement SDG&E could recover at the time of commercial operation of the project if SDG&E held Citizens' Transfer Capability, Citizens and SDG&E have agreed to use a model specified in the Lease ("Representative Rate model").

13. The Representative Rate Model calculates a theoretical annual capital cost revenue requirement (for a fifty-eight-year depreciable life) that SDG&E could theoretically recover at the time of commercial operation if SDG&E held Citizens' Transfer Capability and then amortized that rate over a thirty year period on a level basis each year based on fixed and variable parameters set forth in the model to produce a theoretical levelized annual amount (the "Representative Rate"). The Representative Rate Model is described in Section 4.3.2 of the Lease. Attached to this Affidavit as Attachment A is the summary page of a model run of the Representative Rate Model, using, for demonstrative purposes, a Citizens Capital

Cost of \$29.0 million. At that level of Citizens Capital Cost, the Representative Rate is approximately \$3.0 million, as shown on Attachment A.

III. CITIZENS' FINANCING FOR ITS PARTICIPATION IN THE PROJECT

14. Citizens intends to finance its participation in the development of the Project using 100% debt. The financing Citizens will obtain for this project will be a debt issue similar to that commonly used by public power and cooperative utilities. The term of the debt is expected to be 30 years, and the payment of principal and interest by Citizens will be on a level basis throughout the term of the debt. That is, Citizens will make regular, periodic payments of principal and interest, and such payments will continue throughout the 30 year term of the debt. While the principal and interest components of these payments will vary over time, their sum will remain constant throughout the 30-year term ("Level Debt Service").

15. After payment of debt service, operating expenses, and other obligations, Citizens expects to earn a margin that will be subject to U.S. Federal and State income tax. As explained in more detail in the Affidavit of Peter F. Smith, Citizens is obligated to spend 50% of its net after tax profits (related to its participation in the Project as a standalone activity) in activities beneficial to low income energy consumers located in SDG&E's service territory. The remaining margin will ultimately be transferred to the not-for-profit Citizens for non-profit corporate purposes.

IV. CITIZENS' REVENUE REQUIREMENT METHODOLOGY

16. Citizens intends to recover its revenue requirements from the California Independent System Operator ("CAISO") as a Participating Transmission Owner

(“PTO”). Citizens’ cost recovery from the CAISO will be based on a cost recovery methodology reflecting transmission operating costs, administrative and general costs, and fixed capital requirements costs. As previously noted, the capital requirements portion of this cost recovery rate is intended to be no higher what SDG&E would charge for Citizens’ interest in the Project, absent Citizens’ participation in the Project.

17. The Citizens’ rate is intended to cover all costs associated with Citizens’ transfer capability. Citizens proposes to use an after the fact true-up mechanism for operating costs such that the operating cost revenue requirements will reflect actual costs. Citizens’ capital requirements cost recovery is proposed to be a fixed rate, as set forth in Section 4.3.3 of the Lease, for the thirty year term of the lease arrangement with SDG&E for Citizens’ participation in the Project. Citizens’ proposed tariff and the specific rate will be presented in a future Section 205 filing.

18. Transmission operation and maintenance of the project will be performed by SDG&E and SDG&E will bill Citizens for the operating costs of Citizens’ portion of the project, along with applicable SDG&E overhead costs associated with Citizens’ portion of the project. Citizens will also incur its own overhead costs associated with administering the leased capability and functioning as a CAISO PTO. Citizens’ proposed operating cost formula rate approach would initially include the transmission operating and the overhead costs on an estimated basis, and then true them up to actual expenses with an after the fact true-up

adjustment. Thus, Citizens' operating cost revenue requirements would ultimately reflect a flow-through of actual transmission operating and overhead costs.

19. Turning now to the Capital Requirements portion of Citizens' revenue requirements, Citizens proposes to use a fixed rate for the 30-year term of the Citizens lease arrangement. The Capital Requirements fixed rate will include the elements of return on rate base, amortization of the capitalized lease and development costs, and income taxes. These elements will be summed for each of the thirty years, and a net present value determined for each year. A levelized amount will be determined for the thirty year period, and this levelized amount will be Citizens' Capital Requirements fixed rate for the thirty year period. Citizens has committed in the Lease that its fixed rate for Capital Requirements costs will be no greater than the SDG&E Representative Rate for Capital Requirements as previously explained in this Affidavit. Thus, if Citizens' Capital Requirements fixed rate determined as described above is greater than the SDG&E Representative Rate, then Citizens' Capital Requirements fixed rate will be adjusted downward so that it is no higher than the SDG&E Representative Rate.

20. To establish Citizens' cost of capital to be applied to Citizens' rate base, Citizens proposes to use a hypothetical capital structure of 50% debt and 50% equity. This hypothetical capital structure is based on a conservative assumption of equal amounts of debt and equity capital. The cost of debt would be Citizens' cost of debt in obtaining the permanent financing for the project. For its cost of equity, Citizens proposes to use a proxy.

21. It is reasonable for Citizens to use a hypothetical capital structure of 50% debt and 50% equity. As explained previously, Citizens is a not-for-profit entity, and will use 100% debt financing for this project. Under these circumstances, there is not a meaningful actual capital structure for Citizens that would be appropriate for rate making purposes. SDG&E's capital structure, as reflected in its most recent TO4 Cycle 4 informational filing for its Transmission Owner Tariff rates is approximately Long Term Debt of 44.77%, and Common Equity of 55.23%. Thus, a hypothetical capital structure of 50% debt and 50% incorporates a conservatively lower equity ratio than SDG&E's equity ratio.

22. As stated above, Citizens proposes to use a proxy return on equity. In this filing for a Declaratory Order, Citizens is not asking for approval of a specific proxy return on equity. However, Citizens expects that it will propose to use SDG&E's most recent FERC authorized return on equity as a proxy when it makes its Section 205 filing to gain Commission approval of its rates for this project. In the Sunrise project, Citizens Commission authorized rates included the use of SDG&E's FERC authorized return on equity as a proxy. For demonstrative purposes, assuming a 50/50 capital structure, a 10.05% cost of equity, and a 5.00% cost of debt, Citizens' overall rate of return on rate base would be as follows:

	Ratio	Cost	Weighted Cost
Debt	50.00%	5.00%	2.50%
Equity	50.00%	10.05%	5.03%
Total	100.00%		7.53%

23. Citizens' rate base will be the capitalized lease cost (\$27 million) plus development and financing costs (now estimated to be about \$2 million), less accumulated capitalized lease and development cost amortization costs, plus accumulated deferred income taxes and working capital. The accumulated deferred income taxes for Citizens are created by the difference in timing between the straight line amortization of the capitalized lease for book purposes and the amortization of the capitalized lease for income tax purposes under Section 467 of the U.S. Internal Revenue Code.

24. Citizens proposes to use a levelized fixed Capital Requirements rate. The Capital Requirements fixed rate would be determined by levelizing the net present values of each of the thirty annual capital revenue requirement amounts. The levelized approach is consistent with Citizens' financing using level debt service over 30 years.

25. To summarize, Citizens' revenue requirement consists of Operating Costs and Capital Requirements. The Operating Cost component includes transmission operating expenses and applicable overhead costs. Citizens' formula operating cost rate will provide for adjustments to reflect actual operating and overhead costs. Thus, the Operating Cost component of Citizens' revenue requirement will meet the just and reasonable standard.

26. The fixed Capital Requirements component of Citizens' revenue requirement follows a cost based approach. A reasonable hypothetical ratio of 50% debt and 50% equity is used. Citizens' actual cost of debt will be used, along with

an authorized proxy cost of equity capital. Attachment B to this Affidavit is a preliminary representation of the Citizens' rate model for capital cost recovery. This model uses, for demonstrative purposes, \$29.0 million for Citizens Capital Cost. As the summary page of this model shows, the annual revenue requirement at this level of Citizens Capital Cost is approximately \$3.3 million. In accordance with the terms of the Lease, Citizens revenue requirement would be limited to the amount indicated by the SDG&E Representative Rate of approximately \$3.0 million, in this example.

27. Citizens' proposed levelized rate approach based on a hypothetical capital structure will benefit consumers in two important ways. First, the requested hypothetical capital structure will provide rate stability and protection against potential capital cost increases over time. As of the operational date of the Project, Citizens' requested approach will lock-in fixed return levels for both the debt and equity components of the hypothetical capital structure. These locked-in rates will remain in place for the full 30-year term of Citizens' participation in the Project. Generally speaking, there is long term inflationary potential associated with current and anticipated deficit funding levels for economic recovery. Thus, the consumer benefits of Citizens' assured rate stability, with locked-in capital cost rates over 30 years, will likely be substantial. The second consumer benefit is the levelization process itself. Without levelization, consumers would be charged substantially more in the early years of the Project's operation and less in later years as the Project is gradually depreciated and its rate base declines. Because

the transmission benefits of the Project will be constant over time, and the associated monetary benefits of the constant transmission availability will very likely increase as utility costs rise, the "front end loading" of cost recovery, as would occur without Citizens' requested levelized rate approach, would mismatch project benefits and costs over time. For these reasons, Citizens' proposed levelized rate approach based on a hypothetical capital structure should be recognized as a consumer benefit.

28. I believe that Citizens' rate methodology, including the fixed rate Capital Requirements recovery approach, is just and reasonable, and Citizens future Section 205 tariff filing will provide full justification for its proposed rate. As I have explained, Citizens proposes to charge a rate that: (1) recovers actual transmission operating expenses and actual applicable overhead costs, and (2) recovers Capital Requirements on a levelized fixed basis for 30 years, where the capital requirements recovery will be no higher than the rate that SDG&E would charge for Citizens' interest in the Project, absent Citizens' participation, as represented by the SDG&E Representative Rate Model.

29. Citizens requests that the Commission issue a Declaratory Order approving Citizens use of: (1) a hypothetical capital structure of 50% debt and 50% equity, (2) the use of proxy return on equity, subject to Citizens making the appropriate future filings pursuant to Section 205 of the Federal Power Act, (3) a 30 year levelized fixed rate for recovery of capital requirements, and (4) a formula rate to recover actual operating and overhead costs.

**V. CITIZENS' QUALIFICATION FOR ABANDONED
PROJECT COST RECOVERY**

30. Citizens also seeks a qualification determination from the Commission under Order 679 to seek recovery of 100% of all prudently incurred development and construction costs in the event that the Project is abandoned as a result of factors beyond Citizens' control. Actual recovery of such costs would, however, be subject to a Section 205 filing under the Federal Power Act and establishment at that time that the costs sought to be recovered were just and reasonable, and incurred beyond the control of Citizens.

31. Order 679 incentives such as the recovery of the costs associated with project abandonment, are available for facilities that "either ensure reliability or reduce the cost of delivered power by reducing transmission congestion."^{3/} The CAISO identified the Project as a reliability driven project in its 2012-2013 transmission plan that is necessary to avoid projected system overloads and to insure the delivery of renewable generation.

32. Furthermore, the Project is critical. The CAISO and CPUC both recognize the critical nature of this Project to alleviate congestion, increase reliability, and more efficiently incorporate renewable resources. The Project is a key transmission system upgrade necessary to mitigate the SONGS retirement and to address local transmission overloads in the northern region of San Diego. The Project also crosses a diverse landscape and a large portion of the Project as

^{3/} Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 76.

approved by the CPUC will be underground, which includes its own set of challenges.

33. Citizens has committed to supporting SDG&E through these challenges, and therefore faces many of the same risks as SDG&E. Citizens seeks authorization to recover 100% of its prudently-incurred costs in the event of abandonment of the Project, if the abandonment is outside of Citizens' control. Authorization to seek recovery of such abandonment costs is necessary to mitigate the risk to Citizens that the Project may need to be cancelled, or that portions of it may be supplanted for reasons beyond Citizens' control. Given the size of this project, without this mitigation of risk it would not be prudent for a company the size of Citizens to further participate in development of the Project. In fact, without this mitigation of risk, Citizens would not be able to secure the proposed debt financing to complete the project. Indeed, this incentive will be an effective means to encourage the completion of the Project.

VI. THE COMMISSION'S NEXUS REQUIREMENT FOR INCENTIVES

34. Applicants must illustrate a nexus between the incentives sought and the investment being made. The Commission stated that in evaluating whether an applicant has satisfied the required nexus test, the Commission will examine the total package of incentives being sought, the inter-relationship between any incentives, and how any requested incentives address the risks and challenges faced by the project. Applicants must provide sufficient explanation and support to allow the Commission to evaluate the incentives.

35. There is a close nexus between the incentives that Citizens is requesting herein and Citizens' investment to obtain the leased transmission capability. Citizens' investment in the Project represents a substantial financial undertaking to facilitate a new high voltage transmission line in Southern California to ensure reliable electric service by expanding capacity and providing access to new generation supply alternatives. Here, Citizens' requested incentives are reasonable and modest and will help it balance risks attributable to its project financing. In Order No. 679 the Commission stated that "...we do require applicants to show some nexus between the incentives being requested and the investment being made, *i.e.*, to demonstrate that the incentives are rationally related to the investments being proposed." Also, in Order No. 679-A, the Commission clarified that "the applicant will be required to demonstrate that the total package of incentives is tailored to address the demonstrable risks or challenges faced by the applicant."

36. Citizens' proposed incentives are tailored to make the financing of this project by Citizens possible, and the risks associated with developing this project manageable. Citizens' \$27 million funding of the Project represents a major capital commitment for a company the size of Citizens. Yet, Citizens' involvement in this Project and its dedication to participating in the industry in innovative and cost effective ways to facilitate cooperation and augment essential project funding with traditional utilities brings something new to the table. Unlike typical transmission projects developed by existing utilities, Citizens is under no regulatory obligation to invest in such projects. Instead of using its capabilities and resources in another

venture, Citizens has voluntarily chosen to participate in the development of a project that will increase transmission reliability and make available renewable energy resources.

37. As explained in the foregoing paragraphs, there is a clear, close and direct nexus between Citizens' proposed incentives and the investment Citizens proposes to make for the Project. Citizens' proposal meets the requirements of Order 679 as clarified and modified by Order 679-A.

[SIGNATURE ON FOLLOWING PAGE]

Citizens SX-PQ Transmission
Electric Utility Cost of Service
Capital Cost Revenue Requirement

Year	<u>Return on Rate</u>	<u>Amortization</u>	<u>Income Taxes</u>	<u>Capital Cost Revenue</u>	<u>Capital Cost Revenue</u>
	<u>Base</u>			<u>Requirement</u>	<u>Requirement Net</u>
					<u>Present Value</u>
1	\$2,150,895	\$966,667	\$950,952	\$4,068,514	\$3,923,567
2	\$2,087,928	\$966,667	\$923,114	\$3,977,709	\$3,567,540
3	\$2,024,442	\$966,667	\$895,045	\$3,886,153	\$3,241,502
4	\$1,960,419	\$966,667	\$866,739	\$3,793,825	\$2,943,027
5	\$1,895,845	\$966,667	\$838,190	\$3,700,701	\$2,669,878
6	\$1,830,701	\$966,667	\$809,389	\$3,606,757	\$2,419,997
7	\$1,764,972	\$966,667	\$780,328	\$3,511,967	\$2,191,488
8	\$1,698,639	\$966,667	\$751,001	\$3,416,307	\$1,982,604
9	\$1,631,684	\$966,667	\$721,399	\$3,319,750	\$1,791,740
10	\$1,564,088	\$966,667	\$691,514	\$3,222,269	\$1,617,417
11	\$1,495,832	\$966,667	\$661,337	\$3,123,836	\$1,458,273
12	\$1,426,896	\$966,667	\$630,859	\$3,024,422	\$1,313,057
13	\$1,357,260	\$966,667	\$600,071	\$2,923,997	\$1,180,616
14	\$1,286,901	\$966,667	\$568,964	\$2,822,532	\$1,059,891
15	\$1,215,799	\$966,667	\$537,528	\$2,719,994	\$949,907
16	\$1,143,931	\$966,667	\$505,754	\$2,616,352	\$849,767
17	\$1,071,273	\$966,667	\$473,631	\$2,511,571	\$758,647
18	\$997,803	\$966,667	\$441,148	\$2,405,617	\$675,789
19	\$923,494	\$966,667	\$408,295	\$2,298,455	\$600,498
20	\$848,322	\$966,667	\$375,060	\$2,190,049	\$532,132
21	\$772,261	\$966,667	\$341,432	\$2,080,360	\$470,105
22	\$695,284	\$966,667	\$307,399	\$1,969,350	\$413,875
23	\$617,364	\$966,667	\$272,949	\$1,856,979	\$362,948
24	\$538,471	\$966,667	\$238,068	\$1,743,206	\$316,867
25	\$458,576	\$966,667	\$202,745	\$1,627,988	\$275,213
26	\$377,649	\$966,667	\$166,966	\$1,511,282	\$237,604
27	\$295,659	\$966,667	\$130,717	\$1,393,042	\$203,687
28	\$212,574	\$966,667	\$93,983	\$1,273,223	\$173,139
29	\$128,360	\$966,667	\$56,750	\$1,151,777	\$145,663
30	\$42,983	\$966,667	\$19,004	\$1,028,654	\$120,987
				Total NPV	\$38,447,426
				Levelized Amount	\$3,263,317

Rate of Return			
	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	50.00%	5.00%	2.50%
Common Equity	50.00%	10.05%	5.03%
Overall Rate of Return			7.53%

Citizens SX-PQ Transmission

Electric Utility Cost of Service
Rate Base

<u>Year</u>	<u>Total Plant in Service</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Plant in Service</u>	<u>Accumulated Deferred Income Taxes</u>	<u>Working Capital</u>	<u>Transmission Rate Base</u>
1	\$29,000,000	(\$483,333)	\$28,516,667	\$66,654	\$0	\$28,583,321
2	\$29,000,000	(\$1,450,000)	\$27,550,000	\$196,557	\$0	\$27,746,557
3	\$29,000,000	(\$2,416,667)	\$26,583,333	\$319,548	\$0	\$26,902,881
4	\$29,000,000	(\$3,383,333)	\$25,616,667	\$435,417	\$0	\$26,052,084
5	\$29,000,000	(\$4,350,000)	\$24,650,000	\$543,950	\$0	\$25,193,950
6	\$29,000,000	(\$5,316,667)	\$23,683,333	\$644,924	\$0	\$24,328,257
7	\$29,000,000	(\$6,283,333)	\$22,716,667	\$738,111	\$0	\$23,454,777
8	\$29,000,000	(\$7,250,000)	\$21,750,000	\$823,275	\$0	\$22,573,275
9	\$29,000,000	(\$8,216,667)	\$20,783,333	\$900,175	\$0	\$21,683,508
10	\$29,000,000	(\$9,183,333)	\$19,816,667	\$968,559	\$0	\$20,785,226
11	\$29,000,000	(\$10,150,000)	\$18,850,000	\$1,028,171	\$0	\$19,878,171
12	\$29,000,000	(\$11,116,667)	\$17,883,333	\$1,078,745	\$0	\$18,962,078
13	\$29,000,000	(\$12,083,333)	\$16,916,667	\$1,120,008	\$0	\$18,036,675
14	\$29,000,000	(\$13,050,000)	\$15,950,000	\$1,151,679	\$0	\$17,101,679
15	\$29,000,000	(\$14,016,667)	\$14,983,333	\$1,173,466	\$0	\$16,156,800
16	\$29,000,000	(\$14,983,333)	\$14,016,667	\$1,185,073	\$0	\$15,201,740
17	\$29,000,000	(\$15,950,000)	\$13,050,000	\$1,186,190	\$0	\$14,236,190
18	\$29,000,000	(\$16,916,667)	\$12,083,333	\$1,176,501	\$0	\$13,259,834
19	\$29,000,000	(\$17,883,333)	\$11,116,667	\$1,155,678	\$0	\$12,272,345
20	\$29,000,000	(\$18,850,000)	\$10,150,000	\$1,123,386	\$0	\$11,273,386
21	\$29,000,000	(\$19,816,667)	\$9,183,333	\$1,079,277	\$0	\$10,262,611
22	\$29,000,000	(\$20,783,333)	\$8,216,667	\$1,022,994	\$0	\$9,239,661
23	\$29,000,000	(\$21,750,000)	\$7,250,000	\$954,169	\$0	\$8,204,169
24	\$29,000,000	(\$22,716,667)	\$6,283,333	\$872,423	\$0	\$7,155,757
25	\$29,000,000	(\$23,683,333)	\$5,316,667	\$777,365	\$0	\$6,094,032
26	\$29,000,000	(\$24,650,000)	\$4,350,000	\$668,592	\$0	\$5,018,592
27	\$29,000,000	(\$25,616,667)	\$3,383,333	\$545,690	\$0	\$3,929,024
28	\$29,000,000	(\$26,583,333)	\$2,416,667	\$408,232	\$0	\$2,824,899
29	\$29,000,000	(\$27,550,000)	\$1,450,000	\$255,777	\$0	\$1,705,777
30	\$29,000,000	(\$28,516,667)	\$483,333	\$87,872	\$0	\$571,206

Citizens SX-PQ Transmission

**Electric Utility Cost of Service
Plant in Service**

<u>Year</u>	<u>Capitalized Lease</u>	<u>Capitalized Development Costs</u>	<u>Total Plant in Service</u>
1	\$27,000,000	\$2,000,000	\$29,000,000
2	\$27,000,000	\$2,000,000	\$29,000,000
3	\$27,000,000	\$2,000,000	\$29,000,000
4	\$27,000,000	\$2,000,000	\$29,000,000
5	\$27,000,000	\$2,000,000	\$29,000,000
6	\$27,000,000	\$2,000,000	\$29,000,000
7	\$27,000,000	\$2,000,000	\$29,000,000
8	\$27,000,000	\$2,000,000	\$29,000,000
9	\$27,000,000	\$2,000,000	\$29,000,000
10	\$27,000,000	\$2,000,000	\$29,000,000
11	\$27,000,000	\$2,000,000	\$29,000,000
12	\$27,000,000	\$2,000,000	\$29,000,000
13	\$27,000,000	\$2,000,000	\$29,000,000
14	\$27,000,000	\$2,000,000	\$29,000,000
15	\$27,000,000	\$2,000,000	\$29,000,000
16	\$27,000,000	\$2,000,000	\$29,000,000
17	\$27,000,000	\$2,000,000	\$29,000,000
18	\$27,000,000	\$2,000,000	\$29,000,000
19	\$27,000,000	\$2,000,000	\$29,000,000
20	\$27,000,000	\$2,000,000	\$29,000,000
21	\$27,000,000	\$2,000,000	\$29,000,000
22	\$27,000,000	\$2,000,000	\$29,000,000
23	\$27,000,000	\$2,000,000	\$29,000,000
24	\$27,000,000	\$2,000,000	\$29,000,000
25	\$27,000,000	\$2,000,000	\$29,000,000
26	\$27,000,000	\$2,000,000	\$29,000,000
27	\$27,000,000	\$2,000,000	\$29,000,000
28	\$27,000,000	\$2,000,000	\$29,000,000
29	\$27,000,000	\$2,000,000	\$29,000,000
30	\$27,000,000	\$2,000,000	\$29,000,000

Citizens SX-PQ Transmission

**Electric Utility Cost of Service
Depreciation and Amortization**

Year	Total Plant in Service	<u>Accumulated Depreciation and Amortization</u>			
		<u>Annual Depreciation and Amortization</u>	<u>Beginning of Year</u>	<u>End of Year</u>	<u>Average</u>
1	\$29,000,000	\$966,667	\$0	\$966,667	\$483,333
2	\$29,000,000	\$966,667	\$966,667	\$1,933,333	\$1,450,000
3	\$29,000,000	\$966,667	\$1,933,333	\$2,900,000	\$2,416,667
4	\$29,000,000	\$966,667	\$2,900,000	\$3,866,667	\$3,383,333
5	\$29,000,000	\$966,667	\$3,866,667	\$4,833,333	\$4,350,000
6	\$29,000,000	\$966,667	\$4,833,333	\$5,800,000	\$5,316,667
7	\$29,000,000	\$966,667	\$5,800,000	\$6,766,667	\$6,283,333
8	\$29,000,000	\$966,667	\$6,766,667	\$7,733,333	\$7,250,000
9	\$29,000,000	\$966,667	\$7,733,333	\$8,700,000	\$8,216,667
10	\$29,000,000	\$966,667	\$8,700,000	\$9,666,667	\$9,183,333
11	\$29,000,000	\$966,667	\$9,666,667	\$10,633,333	\$10,150,000
12	\$29,000,000	\$966,667	\$10,633,333	\$11,600,000	\$11,116,667
13	\$29,000,000	\$966,667	\$11,600,000	\$12,566,667	\$12,083,333
14	\$29,000,000	\$966,667	\$12,566,667	\$13,533,333	\$13,050,000
15	\$29,000,000	\$966,667	\$13,533,333	\$14,500,000	\$14,016,667
16	\$29,000,000	\$966,667	\$14,500,000	\$15,466,667	\$14,983,333
17	\$29,000,000	\$966,667	\$15,466,667	\$16,433,333	\$15,950,000
18	\$29,000,000	\$966,667	\$16,433,333	\$17,400,000	\$16,916,667
19	\$29,000,000	\$966,667	\$17,400,000	\$18,366,667	\$17,883,333
20	\$29,000,000	\$966,667	\$18,366,667	\$19,333,333	\$18,850,000
21	\$29,000,000	\$966,667	\$19,333,333	\$20,300,000	\$19,816,667
22	\$29,000,000	\$966,667	\$20,300,000	\$21,266,667	\$20,783,333
23	\$29,000,000	\$966,667	\$21,266,667	\$22,233,333	\$21,750,000
24	\$29,000,000	\$966,667	\$22,233,333	\$23,200,000	\$22,716,667
25	\$29,000,000	\$966,667	\$23,200,000	\$24,166,667	\$23,683,333
26	\$29,000,000	\$966,667	\$24,166,667	\$25,133,333	\$24,650,000
27	\$29,000,000	\$966,667	\$25,133,333	\$26,100,000	\$25,616,667
28	\$29,000,000	\$966,667	\$26,100,000	\$27,066,667	\$26,583,333
29	\$29,000,000	\$966,667	\$27,066,667	\$28,033,333	\$27,550,000
30	\$29,000,000	\$966,667	\$28,033,333	\$29,000,000	\$28,516,667

Citizens SX-PQ Transmission
Electric Utility Cost of Service
Accumulated Deferred Income Taxes

<u>Year</u>	<u>Straight Line</u> <u>Amortization on</u> <u>Capitalized Lease</u>	<u>Tax Amortization on</u> <u>Capitalized Lease</u>	<u>Straight Line</u> <u>Amortization less</u> <u>Tax Ammortization</u>	<u>Accumulated</u> <u>Deferred Income</u> <u>Taxes (B.O.Y)</u>	<u>Accumulated</u> <u>Deferred Income</u> <u>Taxes (E.O.Y.)</u>	<u>Accumulated</u> <u>Deferred Income</u> <u>Taxes (Ave.)</u>
1	\$900,000	\$565,345	\$334,655	\$0	\$133,308	\$66,654
2	\$900,000	\$582,439	\$317,561	\$133,308	\$259,806	\$196,557
3	\$900,000	\$600,051	\$299,949	\$259,806	\$379,289	\$319,548
4	\$900,000	\$618,194	\$281,806	\$379,289	\$491,545	\$435,417
5	\$900,000	\$636,887	\$263,113	\$491,545	\$596,354	\$543,950
6	\$900,000	\$656,144	\$243,856	\$596,354	\$693,493	\$644,924
7	\$900,000	\$675,984	\$224,016	\$693,493	\$782,729	\$738,111
8	\$900,000	\$696,423	\$203,577	\$782,729	\$863,822	\$823,275
9	\$900,000	\$717,481	\$182,519	\$863,822	\$936,527	\$900,175
10	\$900,000	\$739,176	\$160,824	\$936,527	\$1,000,591	\$968,559
11	\$900,000	\$761,526	\$138,474	\$1,000,591	\$1,055,751	\$1,028,171
12	\$900,000	\$784,552	\$115,448	\$1,055,751	\$1,101,739	\$1,078,745
13	\$900,000	\$808,275	\$91,725	\$1,101,739	\$1,138,277	\$1,120,008
14	\$900,000	\$832,714	\$67,286	\$1,138,277	\$1,165,080	\$1,151,679
15	\$900,000	\$857,893	\$42,107	\$1,165,080	\$1,181,853	\$1,173,466
16	\$900,000	\$883,833	\$16,167	\$1,181,853	\$1,188,293	\$1,185,073
17	\$900,000	\$910,558	(\$10,558)	\$1,188,293	\$1,184,087	\$1,186,190
18	\$900,000	\$938,090	(\$38,090)	\$1,184,087	\$1,168,914	\$1,176,501
19	\$900,000	\$966,455	(\$66,455)	\$1,168,914	\$1,142,442	\$1,155,678
20	\$900,000	\$995,678	(\$95,678)	\$1,142,442	\$1,104,330	\$1,123,386
21	\$900,000	\$1,025,784	(\$125,784)	\$1,104,330	\$1,054,225	\$1,079,277
22	\$900,000	\$1,056,800	(\$156,800)	\$1,054,225	\$991,764	\$1,022,994
23	\$900,000	\$1,088,755	(\$188,755)	\$991,764	\$916,575	\$954,169
24	\$900,000	\$1,121,675	(\$221,675)	\$916,575	\$828,272	\$872,423
25	\$900,000	\$1,155,591	(\$255,591)	\$828,272	\$726,458	\$777,365
26	\$900,000	\$1,190,533	(\$290,533)	\$726,458	\$610,726	\$668,592
27	\$900,000	\$1,226,531	(\$326,531)	\$610,726	\$480,655	\$545,690
28	\$900,000	\$1,263,618	(\$363,618)	\$480,655	\$335,810	\$408,232
29	\$900,000	\$1,301,826	(\$401,826)	\$335,810	\$175,745	\$255,777
30	\$900,000	\$1,341,189	(\$441,189)	\$175,745	(\$0)	\$87,872

Citizens SX-PQ Transmission

**Electric Utility Cost of Service
Inputs to Capital Cost Revenue Requirement Model**

		<u>Year</u>	<u>Sect. 467 Lease Amortization Rate</u>
Capitalized Lease Cost	\$27,000,000	1	2.093871%
Term of Lease (Years)	30	2	2.157183%
Development and Fin Cost	\$2,000,000	3	2.222409%
Working Capital	\$0	4	2.289608%
Federal Income Tax Rate	34.00%	5	2.358839%
State Income Tax Rate	8.84%	6	2.430163%
Debt Ratio	50.00%	7	2.503644%
Equity Ratio	50.00%	8	2.579346%
Cost of Debt	5.00%	9	2.657338%
Cost of Equity	10.05%	10	2.737687%
		11	2.820467%
		12	2.905749%
		13	2.993610%
		14	3.084127%
		15	3.177382%
		16	3.273456%
		17	3.372436%
		18	3.474408%
		19	3.579463%
		20	3.687695%
		21	3.799200%
		22	3.914076%
		23	4.032425%
		24	4.154353%
		25	4.279968%
		26	4.409381%
		27	4.542708%
		28	4.680065%
		29	4.821576%
		30	4.967366%

Exhibit No. CEC-3

**Development, Coordination, and Option Agreement
By and Between
San Diego Gas & Electric Company,
and
Citizens Energy Corporation**

Dated November 9, 2017

DEVELOPMENT, COORDINATION, AND OPTION AGREEMENT

BY AND BETWEEN

SAN DIEGO GAS & ELECTRIC COMPANY,

AND

CITIZENS ENERGY CORPORATION

DATED AS OF NOVEMBER 9, 2017

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EXHIBIT A FORM OF TRANSFER CAPABILITY LEASE

DEVELOPMENT, COORDINATION, AND OPTION AGREEMENT

This DEVELOPMENT, COORDINATION, AND OPTION AGREEMENT (“DCOA”) is made and entered into as of November 9, 2017 (the “Effective Date”), by and between San Diego Gas & Electric Company, a California corporation (“SDG&E”), and Citizens Energy Corporation, a Massachusetts non-profit corporation (“Citizens”). Each of SDG&E and Citizens shall be referred to herein individually as a “Party” and collectively as the “Parties.”

RECITALS

WHEREAS, SDG&E has been developing a transmission project known as the Sycamore-Penasquitos 230 Kilovolt Transmission Line Project to connect the Sycamore Canyon Substation to the Penasquitos Substation in its service territory (as more fully defined herein, the “Project”);

WHEREAS, SDG&E and Citizens executed a Letter of Intent on May 31, 2013 (as amended, supplemented, or restated from time to time, the “LOI”), to provide nonbinding terms and conditions of an arrangement between SDG&E and Citizens regarding portions of the Project;

WHEREAS, subject to certain conditions specified herein, the Parties desire to enter into this definitive agreement as generally contemplated under the LOI whereby SDG&E will develop, design, permit, engineer, procure, construct and own the Project, and Citizens (or its subsidiary) will have an option to lease certain interests or entitlements in the Project.

NOW THEREFORE, and in consideration of the foregoing, and of the mutual promises, covenants and conditions set forth herein, and other good and valuable consideration, the Parties hereto, intending to be legally bound by the terms and conditions set forth in this DCOA, hereby agree, subject to the terms and conditions of this DCOA, as follows:

ARTICLE I. DEFINITIONS; RULES OF INTERPRETATION

1.1 Definitions. As used in this DCOA, the following terms shall have the following meanings unless otherwise stated or the context otherwise requires:

“AFUDC” refers to an Allowance for Funds Used During Construction, recognizing the cost to SDG&E of financing the development, design, permitting, engineering, procurement, and construction of the Project.

“Applicable Reliability Standard” means reliability standards established by the Western Electricity Coordinating Council and reliability standards approved by FERC under Section 215 of the Federal Power Act to provide for reliable operation of the bulk power system.

“Balancing Authority” means the responsible entity that integrates resource plans ahead of time, maintains load-interchange-generation balance within a Balancing Authority Area, and supports interconnection frequency in real time.

“Balancing Authority Area” means an electric power system or combination of electric power systems to which a common automatic generation control scheme is applied in order to: (i) match, at all times, the power output of the generators within the electric power system(s) and capacity and energy purchased from entities outside the electric power system(s), with the load within the electric power system(s); (ii) maintain scheduled interchange with other Balancing Authority Areas, within the limits of Good Utility Practice; (iii) maintain the frequency of the electric power system(s) within reasonable limits in accordance with Good Utility Practice; and (iv) provide sufficient generating capacity to maintain operating reserves in accordance with Good Utility Practice.

“Business Day” means any day except Saturday, Sunday or a weekday on which commercial banks in New York City, New York or San Diego, California are required or authorized to be closed.

“CAISO” means the California Independent System Operator Corporation if SDG&E is a member of the California Independent System Operator Corporation, or the successor regional transmission entity, if any, that has Operational Control over SDG&E’s transmission system and provides transmission service under rates, terms and conditions regulated by FERC pursuant to Section 205 of the Federal Power Act if SDG&E is no longer a member of the California Independent System Operator Corporation, or SDG&E if SDG&E is no longer a member of the California Independent System Operator Corporation or any such successor regional transmission entity.

“CAISO Agreements” means the electric tariff at any time filed with FERC by the CAISO and any other applicable CAISO agreements, tariffs, manuals, protocols or rules setting forth the rights and obligations of Persons with respect to the CAISO controlled grid, or any successor electric tariff at any time filed with FERC setting forth the rights and obligations of Persons with respect to SDG&E’s transmission system.

“CAISO Eligible Customer” means an “Eligible Customer” as defined in the CAISO Agreements or any other successor customer who is eligible to obtain transmission service pursuant to the CAISO Agreements.

“CEQA” means the California Environmental Quality Act.

“Citizens” has the meaning set forth in the introductory paragraph hereto.

“Citizens Percentage Interest” means the percentage equal to the ratio of the amount of the prepaid rent amount set forth in Section 4.2.4 divided by the aggregate of all costs incurred by SDG&E to develop, design, permit, engineer and construct the Underground Segment B, including AFUDC and payments made under construction contracts for work to be completed after the Effective Date of the Transfer Capability Lease, which is subject to adjustment pursuant to Section 3.5 of the Transfer Capability Lease, and which is expected as of the Effective Date hereunder to be approximately 12.92%.

“Commercial Operation Date” and “COD” means the date on which the Project begins commercial operation and Operational Control of the Project has been transferred to and accepted by the CAISO in accordance with the terms of the CAISO Agreements.

“CPCN Application” means the April 7, 2014 application to the CPUC for the certificate of public convenience and necessity for the Project (including the “Proponent’s Environmental Assessment”) and all schedules, exhibits, attachments and appendices thereto filed on April 7, 2014.

“CPCN Decision” means the “Decision Granting a Certificate of Public Convenience and Necessity for the Sycamore-Penasquitos 230 KV Transmission Line Project” and all attachments thereto, issued by the CPUC on October 19, 2016.

“CPUC” means the California Public Utilities Commission.

“DCOA” has the meaning set forth in the introductory paragraph hereto.

“Effective Date” has the meaning set forth in the introductory paragraph hereto.

“Event of Default” has the meaning set forth in Section 9.1 (Events of Default) hereof.

“FERC” means the Federal Energy Regulatory Commission.

“Final EIR” means the Final Environmental Impact Report, and all addendums, schedules, exhibits, attachments and appendices thereto, prepared by the CPUC, as certified by the CPUC and defined in the CPCN Decision.

“Force Majeure” means an event or circumstance that prevents one Party from performing its obligations hereunder, which event or circumstance was not foreseen as of the date the DCOA was entered into, which is not within the control of or the result of the negligence of the affected Party, and which, by the exercise of due diligence, the Party is unable to mitigate or avoid or cause to be avoided, including but not limited to (but only to the extent that the following examples satisfy such definition) (a) acts of God, such as droughts, floods, earthquakes, and pestilence, (b) fires, explosions, and accidents, (c) war (declared or undeclared), riots, insurrection, rebellion, acts of the public enemy, acts of terrorism and sabotage, blockades, and embargoes, (d) storms and other climatic and weather conditions that are abnormally severe for the period of time when, and the area where, such storms or conditions occur, including typhoons, hurricanes, tornadoes and lightning, (e) strikes or other labor disturbances, (f) changes in permits from Governmental Authorities or the conditions imposed thereunder or the failure to renew such permits not due to the failure of the affected Party to timely submit applications, and (g) the enactment, adoption, promulgation, modification, or repeal after the date hereof of any applicable law. Notwithstanding the foregoing, under no circumstance shall an event of Force Majeure be based on: (i) changes in market conditions or the economic health of a Party, (ii) the affected Party’s failure to timely seek to obtain, modify, amend or extend permits, approvals, or other required action from any Governmental Authority, (iii) any action or inaction by the board of directors of a Party to the extent that such Party is seeking to excuse its failure to perform as an event of Force Majeure; and/or (iv) any failure to make payments.

“Good Utility Practice” means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish

the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not limited to the optimum practice, method, or act to the exclusion of all others, but rather to the acceptable practices, methods, or acts generally accepted in the region, including those practices required by Section 215(a)(3) of the Federal Power Act.

“Governmental Authority” means any federal, state, local, territorial or municipal government and any department, commission, board, bureau, agency, instrumentality, judicial or administrative body thereof.

“LOI” has the meaning set forth in the recitals hereto.

“NEPA” means the National Environmental Policy Act.

“Operational Control” means the rights of the Balancing Authority to direct the operation of transmission facilities and other electric plant in the Balancing Authority Area affecting the reliability of those facilities for the purpose of affording comparable, non-discriminatory transmission access and meeting Applicable Reliability Standards.

“Option” has the meaning set forth in Section 4.2 (Option) hereof.

“Parties” and “Party” have the meanings set forth in the introductory paragraph hereto.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or Governmental Authority.

“Project” means the Sycamore-Penasquitos 230 Kilovolt Transmission Line Project and more specifically “Alternative 5 (Pomerado Road to Miramar Area North Combination Underground/Overhead)” identified in the Final EIR, and reasonable alterations thereto, as generally depicted in Schedule 1.1 of the Transfer Capability Lease. For purposes hereof, the Project is divided into the following components: Segment A consisting of an overhead alignment running between Sycamore Canyon Substation and Stonecroft Trail within an existing SDG&E right-of-way (ROW); Segment B consisting of the transmission line transitioning from an overhead position into an underground duct bank that will travel westerly along Pomerado Road, cross Interstate 15 then continue along various secondary roads through the commercial area of Mira Mesa before transitioning back to an overhead position within an existing SDG&E ROW along the east side of Interstate Highway 805 at Carroll Road/Carroll Canyon Road; and Segment C consisting of an overhead alignment on existing 230-kV steel poles within the existing ROW heading northward into the Peñasquitos Substation, as generally depicted in Schedule 1.1 of the Transfer Capability Lease.

“Project Schedule” means the schedule for development and construction of the Project as developed by SDG&E, subject to modification by SDG&E as provided in Section 6.3 (Project Schedule Revisions).

“PTO” means a Participating Transmission Owner as defined in the CAISO Agreements.

“Required Citizens Regulatory Approvals” means approvals from each Governmental Authority with authority over Citizens’ leasehold interests or entitlements in the Project, including FERC, necessary for Citizens to exercise its Option, or to lease and finance its leasehold interest in the Project, other than those approvals that would not have a material adverse effect on the exercise of the Option, leasing or financing of Citizens’ leasehold interest in the Project if not obtained.

“Required Regulatory Approvals” means the Required Citizens Regulatory Approvals, and the Required SDG&E Regulatory Approvals.

“Required SDG&E Regulatory Approvals” means approvals from each Governmental Authority with authority over the Project, including the CPUC, the Department of Defense, FERC, the City of San Diego, and the California Coastal Commission, necessary for SDG&E to consummate the transactions contemplated hereunder, or to develop, design, engineer, procure, construct, commission, own, operate, maintain and finance the Project, other than (i) those approvals that are not required prior to the start of construction of the Project, are not subject to the discretionary action of the applicable agency, and otherwise can be obtained in the ordinary course of business, and (ii) those approvals that would not have a material adverse effect on the development, design, engineering, procurement, construction, commissioning, ownership, operation, maintenance or financing of the Project if not obtained.

“SDG&E” has the meaning set forth in the introductory paragraph hereto.

“Target Closing Date” means the date that is 31 days after the Commercial Operation Date, and as of the Effective Date, expected to be July 31, 2018, subject to modification by SDG&E as provided in Section 6.3 (Project Schedule Revisions) of this DCOA; provided, however, if the conditions precedent described in Section 4.3 have not been achieved by the Commercial Operation Date, then the Target Closing Date shall be extended until the date that is 31 days after such conditions precedent have been achieved but in no event beyond the date that is 210 days after the Commercial Operation Date; provided further that the Target Closing Date shall be extended beyond such 210 days if Section 4.3.1(a) has not been satisfied by such date and the Parties in their reasonable discretion agree that such Section 4.3.1(a) is ultimately likely to be satisfied.

“Target COD” means the target Commercial Operation Date, which as of the Effective Date is June 30, 2018, subject to modification by SDG&E as provided in Section 6.3 (Project Schedule Revisions) of this DCOA.

“Term” has the meaning set forth in Section 2.1 (Term) hereof.

“Transfer Capability” means the maximum amount of power (in mega-watts) that can be transferred over part, or all, of the Underground Segment B at any time in a reliable manner under a specific set of defined pre-contingency and post-contingency system configurations and conditions in accordance with Western Electricity Coordinating Council standards and Good Utility Practices. The holder of Transfer Capability that is under the Operational Control of the CAISO, for the benefit of and made available to CAISO Eligible Customers, is entitled to all associated rights and revenues from use of the Transfer Capability as defined (or subsequently

defined) by the CAISO Agreements, or, in the absence of any such CAISO Agreements, rights and revenues similar to such associated rights and revenues.

“Transfer Capability Lease” means an agreement substantially in the form of Exhibit A attached hereto.

“Underground Segment B” means the underground 230 kV transmission line segment of the Project along Stonebridge Parkway, Pomerado Road, Miramar Road, Black Mountain Road, Activity Road, Camino Ruiz, Miralani Drive, Arjons Drive, Trade Place, Trade Street, Camino Santa Fe, Carroll Road, and Carroll Canyon Road that extends from the east cable riser pole located near Stonebridge Parkway and Stonecroft Terrace to the west cable riser pole located near Carroll Canyon Road and Interstate 805, in each case, up to the termination on the cable riser poles but excluding the cable riser poles on each end, as generally depicted in Schedule 1.1, together with such modifications of the line as may be implemented from time to time. For the avoidance of doubt, the Underground Segment B shall include only the 230 kV transmission line and shall not include any transmission facilities that may operate at a different voltage, or any substation facilities.

“Useful Life of the Project” means the period during which the Project can provide or is capable of providing transmission service.

1.2 Rules of Interpretation. Unless otherwise provided herein or the context otherwise requires: (a) words denoting the singular include the plural and vice versa; (b) words denoting a gender include both genders; (c) references to a particular part, clause, section, paragraph, article, party, exhibit, schedule or other attachment shall be a reference to a part, clause, section, paragraph, or article of, or a party, exhibit, schedule or other attachment to the document in which the reference is contained; (d) a reference to any statute or regulation includes all statutes or regulations varying, consolidating or replacing the same from time to time, and a reference to a statute includes all regulations issued or otherwise applicable under that statute to the extent consistent with the Parties’ original intent hereunder; (e) a reference to a particular section, paragraph or other part of a particular statute shall be deemed to be a reference to any other section, paragraph or other part substituted therefor from time to time; (f) a definition of or reference to any document, instrument or agreement includes any amendment or supplement to, or restatement, replacement, modification or novation of, any such document, instrument or agreement; (g) a reference to any person includes such person’s successors and permitted assigns in that designated capacity; (h) any reference to “days” shall mean calendar days unless Business Days are expressly specified; and (i) examples shall not be construed to limit, expressly or by implication, the matter they illustrate.

ARTICLE II. TERM; OTHER AGREEMENTS

2.1 Term. The “Term” of this DCOA shall commence on the Effective Date and shall end (i) upon the expiration of the Option if such Option has not been exercised, (ii) upon the date that the Parties enter into the Transfer Capability Lease, (iii) in the event of mutual written agreement by all Parties that explicitly supersedes in its entirety or otherwise terminates this DCOA, or (iv) as otherwise provided for herein. The Transfer Capability Lease shall supersede this DCOA in all respects, and, upon the execution of the Transfer Capability Lease by the

SDG&E and Citizens (or Citizens permitted designee as provided under Section 12.2.1), this DCOA shall be of no further force and effect.

2.2 Subsequent Agreements. If Citizens exercises its Option, then upon the closing of the Option the Parties shall enter into the form of Transfer Capability Lease, and one or more consents to collateral assignment, estoppels and other acknowledgements of the foregoing in a customary form that is reasonably acceptable to the Parties and a Party's lenders. The Parties further expect that since they have addressed so many details regarding the Project, notwithstanding their still being in the development phases of the Project, a Party's lenders may seek clarifications, amendments or modifications of this DCOA. In such event, the Parties will exercise good faith efforts to accommodate such requests provided that no Party is hereby committing itself to any such clarification, amendment or modification of this DCOA which, in such Party's sole discretion, would impair or interfere with the benefits that a Party expects to derive from its participation in the Project.

ARTICLE III. DEVELOPMENT, CONSTRUCTION AND OPERATION OF PROJECT

3.1 General Responsibility for Development and Construction of the Project.

SDG&E shall be responsible for the development, design, permitting, engineering, procurement and construction of the Project. SDG&E shall bear all costs for development and construction of the Project, until such time as Citizens has exercised and closed its Option. SDG&E's activities and responsibilities for the Project shall include the acquisition of permits and land rights necessary to construct the Project, which shall be done in SDG&E's name and at SDG&E's expense, provided that if Citizens exercises its Option, an interest in such permits and land rights shall be transferred to Citizens to the extent necessary to lease to Citizens its Transfer Capability in the Project. SDG&E and Citizens shall cooperate in good faith in all activities reasonably necessary for SDG&E to complete construction and to achieve commercial operation of the Project by the Target COD.

3.2 Performance Standards. Each Party shall use commercially reasonable efforts to promote the following objectives:

- (a) to minimize capital costs of the Project;
- (b) to minimize operational expenses of the Project;
- (c) to maximize the Useful Life of the Project;
- (d) to minimize the downtime of the Project;
- (e) to meet the Project Schedule for the Project;
- (f) not to exceed the budgets for the Project;
- (g) to complete construction of the Project on or before the Target
COD;

(h) to incur only those costs which are prudent in accomplishing their respective purposes.

3.3 Project Documents. SDG&E shall use reasonable efforts (including its power of condemnation, if necessary) to ensure that any easements, rights-of-way, and other land rights, procurement contracts, engineering contracts, construction contracts, and other project documents associated with the Project will not restrict assignment to Citizens to the extent of its leasehold interest in the Project so that Citizens' leasehold interest in the Project shall be transferred promptly to Citizens upon the close of its Option.

ARTICLE IV. OWNERSHIP AND OPTION

4.1 SDG&E's Ownership. Except to the extent that Citizens has exercised and closed the Option, SDG&E shall own 100% of the ownership interests (along with 100% of the Transfer Capability) in the Project. To the extent that Citizens has exercised and closed the Option, SDG&E shall continue to own 100% of the ownership interests in the Project subject to a thirty-year lease to Citizens of the Citizens Percentage Interest of the Transfer Capability on the Underground Segment B.

4.2 Option. Subject to Citizens agreeing to a mutually acceptable Transfer Capability Lease with SDG&E, Citizens shall have the option to lease Transfer Capability in the Project as follows (the "Option"):

4.2.1 Option to Lease Transfer Capability for a Term. Citizens shall have the option to lease from SDG&E and, upon Citizens' exercise of such option, SDG&E shall have the obligation to lease to Citizens, the Citizens Percentage Interest of the Transfer Capability on the Underground Segment B for a thirty year term, provided that such Transfer Capability shall revert to SDG&E at no cost to SDG&E, free and clear of any liens or encumbrances, upon expiration of such thirty year term or upon earlier termination of Citizens' lease by reason of an Event of Default under this DCOA or a material breach of its obligations under any subsequent agreements between Citizens and SDG&E as contemplated in this DCOA that is not cured in accordance with the applicable subsequent agreement.

4.2.2 Exercise of Option. Citizens may exercise the Option by delivering written notice to SDG&E no later than the Target Closing Date. If Citizens fails to exercise its Option by the earlier of (i) no later than the Target Closing Date and (ii) the 10th anniversary of the Effective Date, such unexercised Option shall expire.

4.2.3 Closing of Option. The lease of Transfer Capability pursuant to the exercised Option shall occur as soon as reasonably practical after exercise of the Option but no later than 30 days after delivery of the written notice under Section 4.2.2 above. SDG&E and Citizens shall execute, acknowledge and deliver the Transfer Capability Lease and any and all documents reasonably necessary to otherwise carry out the terms and conditions of this DCOA. Upon closing of the lease of the Transfer Capability pursuant to the exercised Option, Citizens shall pay to SDG&E the prepaid rent amount set forth in Section 4.2.4 (Prepaid Rent for Close of Option). Closing of the Option may be accomplished through use of an escrow arrangement as mutually agreed by the Parties.

4.2.4 Prepaid Rent for Close of Option. The prepaid rent to be paid by Citizens for Transfer Capability leased pursuant to exercise of the Option shall be \$27 million. Upon closing of the Option, Citizens shall pay such final prepaid rent. Citizens shall be responsible for obtaining its own financing for the prepaid rent, and SDG&E has no obligation to provide or guarantee financing to Citizens if Citizens is unable to secure any part of its financing.

4.3 Regulatory Approval for Exercise of Option. The Parties acknowledge and agree that the lease of Transfer Capability in the Project and as described in Section 4.2 (Option) is expressly contingent upon and subject to:

4.3.1 SDG&E's receipt of (a) a final, nonappealable order by the CPUC approving this lease under Section 851 of the California Public Utilities Code or otherwise, and (b) a final, nonappealable order by FERC approving this transaction under the Federal Power Act and SDG&E's rate methodologies to account for Citizens' lease of Transfer Capability in the Project, in each case, in form and substance acceptable to the Parties, in each Party's sole discretion. With respect to clause (a) above, SDG&E will seek any necessary approvals from the CPUC no later than 30 days after the Effective Date. In order to augment the information available to the CPUC for the foregoing application, Citizens agrees that no later than 30 days after the Effective Date, Citizens shall file a petition with FERC seeking a declaratory order approving its rate methodologies for the recovery of costs associated with its lease of Transfer Capability in the Project including any incentive rate treatment Citizens may seek. With respect to clause (b) above, SDG&E will seek any necessary approvals from FERC no later than 60 days after the date on which the CAISO conditionally approves Citizens' request to become a Participating Transmission Owner.

4.3.2 Citizens receipt of a final, nonappealable order by FERC approving Citizens' transmission service tariff for recovery of its costs associated with its Transfer Capability in the Project consistent with the rate methodology described in Sections 4.2 and 4.3 of the Transfer Capability Lease, in form and substance acceptable to the Parties, in each Party's sole discretion. Citizens agrees that it will seek such approval from FERC no later than 60 days after the date on which the CAISO conditionally approves Citizens' request to become a Participating Transmission Owner and reasonably concurrently with SDG&E seeking the approval described in Section 4.3.1(b) above.

ARTICLE V. REGULATORY APPROVALS

5.1 Mutual Cooperation.

5.1.1 SDG&E Regulatory Approvals. SDG&E shall be responsible for obtaining the Required SDG&E Regulatory Approvals. Citizens agrees to cooperate in good faith with and assist SDG&E in obtaining the Required SDG&E Regulatory Approvals.

5.1.2 Citizens Regulatory Approvals. Citizens shall be responsible for obtaining the Required Citizens Regulatory Approvals. SDG&E agrees to cooperate in good faith with and assist Citizens in obtaining the Required Citizens Regulatory Approvals.

ARTICLE VI. MANAGEMENT OVERSIGHT AND COMMITTEE STRUCTURE

6.1 Meetings of the Parties. The Parties shall hold regularly scheduled meetings (no less frequently than monthly during the period when the Project is under construction and no less frequently than quarterly at all other times prior to COD) for the purpose of reviewing each Party's progress in its development, design, permitting, engineering, procurement, construction, commissioning, financing, operating, and maintenance activities for the Project. The Parties shall hold regularly scheduled meetings no less frequently than annually after COD. Either Party may call a special meeting at any time. Reasonable and sufficient notice of each meeting shall be given to each Party in order to allow full participation.

6.2 Sharing Information.

6.2.1 SDG&E Information. Upon reasonable notice and during regular business hours, SDG&E shall allow Citizens access to the Project site and provide other information related to the Project as may be reasonably requested by Citizens, including but not limited to:

- (a) Costing information to ensure that costs for the Project are allocated to appropriate portions of the Project and that SDG&E keeps its accounts and provides sufficient information to Citizens to allow Citizens to review those allocations and accounts on an on-going basis;
- (b) Permitting information;
- (c) Plans, specifications, design, or maps of the Project; and
- (d) Material contracts that affect the development, design, permitting, engineering, procurement and construction of the Project.

6.2.2 Citizens Information. Upon reasonable notice, Citizens shall provide information related to the Project as may be reasonably requested by SDG&E.

6.3 Project Schedule Revisions. From time to time, SDG&E shall provide Citizens with revisions in the Project Schedule as soon as practicable after determining the need for any such revision.

6.4 Final Decisions. Notwithstanding anything to the contrary in this Article VI (Management Oversight and Committee Structure), SDG&E shall be solely responsible for and shall make all final decisions with respect to the development, design, permitting, engineering, procurement, construction, and commissioning of the Project. Any disputes regarding whether or not SDG&E has complied with its obligations under this DCOA (including its obligations under Section 3.2 (Performance Standards)) shall be resolved by the dispute resolution procedures under Article X (Dispute Resolution).

ARTICLE VII. FORCE MAJEURE

7.1 Force Majeure. Notwithstanding anything in this DCOA to the contrary, if a Party's performance is impacted by Force Majeure, the affected Party shall be excused from

performing its affected obligations under this DCOA (other than the obligation to make payments with respect to obligations arising prior to the event of Force Majeure) and shall not be liable for damages or other liabilities due to its failure to perform, during any period that such Party is unable to perform due to an event of Force Majeure; provided, however, that the Party declaring an event of Force Majeure shall: (i) act expeditiously to resume performance; (ii) exercise all commercially reasonable efforts to mitigate or limit damages to the other Parties; and (iii) fulfill the requirements set forth in Section 7.2 (Notification).

7.2 Notification. A Party unable to perform under this DCOA due to an event of Force Majeure shall: (i) provide prompt written notice of such event of Force Majeure to the other Party, which shall include an estimate of the expected duration of the Party's inability to perform due to the event of Force Majeure; and (ii) provide prompt notice to the other Party when performance resumes.

ARTICLE VIII. WITHDRAWAL

8.1 Withdrawal. SDG&E shall have the right to withdraw from and terminate this DCOA immediately and be under no obligation to pursue additional development activities if: (a) any of the applications for the Required Regulatory Approvals is denied, or is approved with conditions that are unacceptable to SDG&E or otherwise materially inconsistent with the Project as described herein; (b) the receipt of any Required Regulatory Approval is delayed such that SDG&E will not be able to reasonably complete construction activities until twelve months after the Target COD; (c) FERC issues a final and binding order that would preclude SDG&E from recovering, in SDG&E's reasonable estimation, a return of and on any portion of its investment in the Project; or (d) it is no longer reasonably feasible for SDG&E to continue development, design, permitting, engineering, procurement and construction activities for the Project.

8.2 Notice. SDG&E must provide notice to Citizens within thirty days of its determination that it is withdrawing pursuant to this Article VIII (Withdrawal).

8.3 Reinstatement. If at any time within five years of the Effective Date, SDG&E resumes development of the Project after it has withdrawn from the Project and terminated this DCOA under Section 8.1 (Withdrawal) ("Project Recommencement"), then such termination shall no longer be effective and this DCOA shall be automatically reinstated with reasonable extensions to the dated terms of this DCOA. The effect of such Project Recommencement and reinstatement of this DCOA is intended to provide Citizens with a renewed opportunity to hold the Option to lease Transfer Capability in the Project in the manner provided for in this DCOA.

ARTICLE IX. EVENTS OF DEFAULT; REMEDIES

9.1 Events of Default. The occurrence of any one of the following shall constitute an "Event of Default":

(a) A Party shall fail to make payments for amounts due under this DCOA within thirty days after notice that such payment is past due;

(b) A Party shall fail to comply with any other material provision of this DCOA, and any such failure shall continue uncured for thirty days after

notice thereof, provided that if such failure is not capable of being cured within such period of thirty days with the exercise of reasonable diligence, then such cure period shall be extended for an additional reasonable period of time so long as the defaulting Party is exercising commercially reasonable efforts to cure such failure;

(c) Any representation made by a Party hereunder shall fail to be true in any material respect at the time such representation is given and such failure shall not be cured within thirty days after notice thereof by a non-defaulting Party;

(d) Any of Citizens' Transfer Capability in the Project shall fail to be:

(i) provided for the benefit of and made available to CAISO Eligible Customers at rates, terms and conditions deemed just and reasonable and not unduly discriminatory by FERC pursuant to Section 205 of the Federal Power Act, or

(ii) in the Balancing Authority Area and under the Operational Control of the CAISO;

and any such failure shall continue uncured for ninety days after notice thereof from SDG&E to Citizens.

9.2 Limitation on Damages. No Party shall be liable under this DCOA for consequential, incidental, punitive, exemplary or indirect damages, lost profits or other business interruption damages, by statute, in tort or contract, under any indemnity provision or otherwise. The provisions of this Section 9.2 (Limitation on Damages) shall not be construed to relieve any insurer of its obligation to pay any insurance proceeds in accordance with the terms and conditions of valid and enforceable insurance policies.

9.3 Remedies. Subject to Article X (Dispute Resolution), if an Event of Default occurs and is continuing, the non-defaulting Parties shall have the right to pursue all remedies available at law or in equity, including without limitation, the right to institute an action, suit or proceeding in equity for specific performance of the obligations under this DCOA.

ARTICLE X. DISPUTE RESOLUTION

10.1 Intent of the Parties. The sole procedure to resolve any claim arising out of or relating to this DCOA or any related agreement is the dispute resolution procedure set forth in this Article X (Dispute Resolution); provided, however, that either Party may seek a preliminary injunction or other provisional judicial remedy if such action is necessary to prevent irreparable harm or preserve the status quo, in which case both Parties nonetheless will continue to pursue resolution of the dispute by means of this procedure and nothing in this Section 10.1 shall restrict the rights of any party to file a complaint with the FERC under relevant provisions of the Federal Power Act.

10.2 Management Negotiations. The Parties will attempt in good faith to resolve any controversy or claim arising out of or relating to this DCOA or any related agreements by prompt

negotiations between each Party's authorized representative. If the matter is not resolved thereby, either Party's authorized representative may request in writing that the matter be referred to the designated senior officers of their respective companies that have corporate authority to settle the dispute. Within five Business Days after such referral date (the "Referral Date"), each Party shall provide one another Notice confirming the referral and identifying the name and title of the senior officer who will represent such Party. Within five Business Days after such Referral Date, the senior officers shall establish a mutually acceptable location and date to meet which shall not be greater than thirty days after such Referral Date. After the initial meeting date, the senior officers shall meet, as often as they reasonably deem necessary, to exchange relevant information and to attempt to resolve the dispute. All communication and writing exchanged between the Parties in connection with these negotiations shall be confidential and shall not be used or referred to in any subsequent binding adjudicatory process between the Parties. If the matter is not resolved within forty-five days of such Referral Date, or if either Party refuses or does not meet within the thirty day period specified above, either Party may initiate arbitration of the controversy or claim by providing notice of a demand for binding arbitration at any time thereafter.

10.3 Arbitration. Any dispute that cannot be resolved by management negotiations as set forth in Section 10.2 (Management Negotiations) above shall be resolved through binding arbitration by a retired judge or justice from the American Arbitration Association panel conducted in San Diego, California, administered by and in accordance with American Arbitration Association Commercial Arbitration Rules.

(a) The Parties shall cooperate in good faith with one another in selecting the arbitrator within sixty days after Notice of the demand for arbitration. Absent mutual agreement on a different method of selecting an arbitrator within fifteen days of a demand for arbitration, the Parties shall request a list of potential arbitrators having the minimum qualifications set forth in this Section 10.3 from the Commercial Roster of the American Arbitration Association. Each Party shall then strike the potential arbitrators unacceptable to it, and the Parties shall exchange lists of strikes until either (i) they have selected a single eligible and available arbitrator by mutual agreement, or (ii) they have selected a list of not more than five arbitrators acceptable to each Party. In the latter case, the Parties (if unable to agree on a single arbitrator) shall provide the list of five arbitrators to American Arbitration Association and request the American Arbitration Association to select the arbitrator. Any arbitrator shall have no affiliation with, financial or other interest in, or prior employment with either Party and shall have a minimum of ten years experience in the field of the dispute.

(b) Each Party shall provide the documents in its possession, custody or control which it believes to support its position in arbitration to the other Party within thirty days of the demand, and shall supplement its provision of such documents in a reasonable manner as additional documents come to light. Each Party shall be entitled to make not more than two requests for production of documents prior to the commencement of the hearing. Depositions shall be limited to a maximum of three per Party and shall be held within thirty days of the

making of a request. Additional depositions may be scheduled only with the permission of the arbitrator, and for good cause shown. Each deposition shall be limited to a maximum of seven hours duration unless otherwise permitted by the arbitrator for good cause shown. All objections are reserved for the arbitration hearing except for objections based on privilege and proprietary and confidential information. The arbitrator shall also have discretion to order the Parties to exchange relevant documents. The arbitrator shall also have discretion to order the Parties to answer not more than twenty-five interrogatories (including subparts), upon good cause shown.

(c) The arbitrator's award shall be made within nine months of the filing of the notice of intention to arbitrate (demand) and the arbitrator shall agree to comply with this schedule before accepting appointment. However, this time limit may be extended for one period of up to thirty days by agreement of the Parties or by the arbitrator, if necessary.

(d) The prevailing Party in this dispute resolution process is entitled to recover its costs, including reasonable attorneys' fees, as determined by the arbitrator. Until such award is made, however, the Parties shall share equally in paying the costs of the arbitration.

(e) The arbitrator shall have the authority to grant dispositive motions prior to the commencement of or following the completion of discovery if the arbitrator concludes that there is no material issue of fact pending before the arbitrator.

(f) The existence, content, and results of any arbitration hereunder shall be confidential information subject to the provisions of Section 12.3 (Confidentiality).

10.4 Enforcement of Award. By execution and delivery of this DCOA, each Party hereby (a) accepts and consents to the use of binding arbitration pursuant to the American Arbitration Association's Commercial Arbitration Rules and other procedures described in this Article X (Dispute Resolution), and, solely for purposes of the enforcement of an arbitral award under this Section 10.4 (Enforcement of Award), to the jurisdiction of any court of competent jurisdiction, for itself and in respect of its property, and (b) waives, solely for purposes of the enforcement of an arbitral award under this Section 10.4 (Enforcement of Award), in respect of both itself and its property, all defenses it may have as to or based on jurisdiction, improper venue or forum non conveniens. Each Party hereby irrevocably consents to the service of process or other papers by the use of any of the methods and to the addresses set out for the giving of notices in Section 12.1 (Notices) hereof. Nothing herein shall affect the right of each Party to serve such process or papers in any other manner permitted by law.

10.5 Performance during Arbitration. While resolution of any dispute is pending, each Party shall continue to perform its obligations hereunder (unless such Party is otherwise entitled to suspend its performance hereunder or terminate this DCOA in accordance with the terms

hereof), and no Party shall refer or attempt to refer the matter in dispute to a court or other tribunal in any jurisdiction, except as provided in this Article X (Dispute Resolution).

ARTICLE XI. REPRESENTATIONS AND WARRANTIES

11.1 SDG&E. SDG&E represents and warrants to the other Parties as follows:

11.1.1 Organization and Existence. SDG&E is a duly organized and validly existing corporation in good standing under the laws of the State of California and is qualified to transact business in all jurisdictions where the ownership of its properties or its operations require such qualification, except where the failure to so qualify would not have a material adverse effect on its financial condition, its ability to own its properties or transact its business, or to carry out the transactions and activities contemplated hereby.

11.1.2 Execution, Delivery and Enforceability. SDG&E has full corporate power and authority to carry on its business as now conducted, enter into, and to carry out its obligations under this DCOA. The execution, delivery and performance by SDG&E of this DCOA, and the consummation of the transactions and activities contemplated under this DCOA, have been duly authorized by all necessary corporate action required on the part of SDG&E. This DCOA has been duly and validly executed and delivered by SDG&E and constitutes the valid and legally binding obligations of SDG&E, enforceable against SDG&E in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application relating to or affecting the enforcement of creditors' rights and by general equitable principles.

11.1.3 No Violation. Subject to the receipt of all Required SDG&E Regulatory Approvals and the approvals from the CPUC and FERC described in Section 4.3 (Regulatory Approval for Exercise of Option), none of the execution and delivery of this DCOA, the compliance with any provision hereof, nor the consummation of the transactions and activities contemplated hereby will: (1) violate or conflict with, or result in a breach or default under, any provisions of the Articles of Incorporation or Bylaws of SDG&E; (2) violate or conflict with, or result in a breach or default under, any applicable law or regulation of any Governmental Authority.

11.2 Citizens. Citizens represents and warrants to the other Parties as follows:

11.2.1 Organization and Existence. Citizens is a duly organized and validly existing corporation in good standing under the laws of the Commonwealth of Massachusetts and is qualified to transact business in all jurisdictions where the ownership of its properties or its operations require such qualification, except where the failure to so qualify would not have a material adverse effect on its financial condition, its ability to own its properties or transact its business, or to carry out the transactions and activities contemplated hereby.

11.2.2 Execution, Delivery and Enforceability. Citizens has full corporate power and authority to carry out its obligations under this DCOA. The execution, delivery and performance by Citizens of this DCOA, and the consummation of the transactions and activities contemplated under this DCOA, have been duly authorized by all necessary corporate action required on the part of Citizens. This DCOA has been duly and validly executed and delivered

by Citizens and constitutes the valid and legally binding obligations of Citizens, enforceable against Citizens in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application relating to or affecting the enforcement of creditors' rights and by general equitable principles.

11.2.3 No Violation. Subject to the receipt of all Required Citizens Regulatory Approvals and the approvals from the CPUC and FERC described in Section 4.3 (Regulatory Approval for Exercise of Option), none of the execution and delivery of this DCOA, the compliance with any provision hereof, nor the consummation of the transactions and activities contemplated hereby will: (1) violate or conflict with, or result in a breach or default under, any provisions of the Articles of Incorporation or Bylaws of Citizens; or (2) violate or conflict with, or result in a breach or default under, any applicable law or regulation of any Governmental Authority.

11.2.4 No Objection to Current Design. Citizens has reviewed SDG&E's CPCN Application, the Final EIR, and the CPCN Decision, and after due inquiry, it accepts the proposed schedule, plans, specifications, and design of the Project to the extent described therein.

ARTICLE XII. MISCELLANEOUS

12.1 Notices. Unless otherwise specified herein, all notices shall be in writing and delivered by hand, overnight mail or facsimile or e-mail (if facsimile numbers or e-mail addresses are identified below or by subsequent notice and provided a copy is also sent by overnight mail) to the applicable addresses below. A notice delivered in accordance herewith shall be deemed received (i) on the date of delivery, if hand delivered, (ii) two Business Days after the date of sending, if sent by a nationally recognized overnight courier, or at such earlier time as is confirmed by the receiving Party, (iii) three Business Days after the date of mailing, if mailed by registered or certified mail, return receipt requested, or at such earlier time as is confirmed by the receiving Party, and (iv) on the Business Day on which such notice was transmitted by facsimile transmission or e-mail (where permitted); provided, however, that a notice delivered in accordance with this Section but received on any day other than a Business Day or after 5:00 p.m. in the place of receipt will be deemed received on the next Business Day. A Party may change its address for notices by providing notice of the same in accordance with this Section 12.1 (Notices).

If to SDG&E:
San Diego Gas & Electric
8330 Century Park Court
San Diego, CA 92123
Attention: Vice President – Electric Engineering & Construction
Fax: 858-650-6106

With a copy to:
San Diego Gas & Electric
8330 Century Park Court
San Diego, CA 92123
Attention: Assistant General Counsel – Commercial
Fax: 619-696-4443

If to Citizens:
Citizens Energy Corporation
88 Black Falcon Ave. Suite 342
Boston, MA 02210
Attention: Chief Operating Officer
Fax: 617-542-4487

With a copy to:
Duncan & Allen
1730 Rhode Island Avenue, N.W., Suite 700
Washington, D.C., 20036
Attention: Counsel to Citizens Energy Corporation
Fax: 202-289-8450

12.2 Assignment.

12.2.1 General. Any time prior to COD, Citizens shall not assign this DCOA, or its rights or obligations hereunder, without the prior written consent of SDG&E which may be granted or withheld in its sole discretion. At any time after COD with respect to Citizens and at all times with respect to SDG&E, neither Party shall assign this DCOA, or its rights or obligations hereunder, without the prior written consent of the other Party, such consent not to be unreasonably withheld or delayed; provided that, no such consent shall be required for (i) a collateral assignment of, or creation of a security interest in, this DCOA in connection with any financing or other financial arrangements, or (ii) an assignment in connection with the merger of a Party with, or the acquisition of substantially all of the transmission assets of a Party by, an entity with an equal or greater credit rating and with the legal authority and operational ability to satisfy the obligations of the assigning Party. For purposes hereof, the transfer of more than fifty percent (50%) of the equity ownership or voting interest of a Party (or any parent entity holding directly or indirectly at least fifty percent (50%) of the equity ownership or voting interest of a Party if such interest constitutes more than thirty percent (30%) of the fair market value of the assets of such parent entity) to a person that is not an affiliate of such Party shall also constitute an assignment of this DCOA requiring the non-assigning Party's prior written consent. Any assignment in violation of this Section 12.2 (Assignment) shall be null and void. Notwithstanding anything to the contrary herein, SDG&E consents to the exercise of the Option and execution of the Transfer Capability Lease by Citizens Sycamore-Penasquitos Transmission LLC, a Delaware limited liability company, a wholly owned subsidiary of Citizens, or any other similar, wholly owned subsidiary of Citizens.

12.2.2 Right of First Refusal. Except in connection with (i) a collateral assignment under clause (i) of Section 12.2.1 above or (ii) any foreclosure sale or deed in lieu of

foreclosure in connection with the exercise of remedies under such collateral assignment, SDG&E shall have the right of first refusal with respect to any proposed assignment by Citizens of all or any portion of its interest in this DCOA or the Project. In the event Citizens receives a bona fide offer from an unaffiliated third party to purchase all or any portion of the interest of Citizens in this DCOA (or the Project) that Citizens desires to accept, Citizens shall provide SDG&E with a copy of the bona fide third party purchase offer within five (5) Business Days following such receipt. For a period of 90 days following SDG&E's receipt of the bona fide third party purchase offer, SDG&E shall have the right to purchase such interest as set forth in the offer on the same terms and conditions set forth in such offer and to conduct due diligence regarding the contemplated purchase. In the event that SDG&E elects to exercise its right, SDG&E and Citizens shall close the purchase and sale of the interest in this DCOA (and the Project) upon the terms and conditions contained in the offer. In the event that SDG&E elects not to exercise its right and subject to SDG&E's prior written consent under Section 12.2.1 above, Citizens shall be free to sell such interest to the third party that made the offer on terms and conditions no less favorable to Citizens than those contained in the offer. In the event that such sale is not consummated within twelve (12) months following SDG&E's failure to exercise this right of first refusal, then SDG&E's right of first refusal shall be revived with respect to such sale. In the event that there is a material revision in any offer in favor of any prospective purchaser, then SDG&E's right of first refusal shall be revived so that SDG&E again has the right of first refusal to purchase the interest in this DCOA (and the Project) on the revised terms.

12.3 Confidentiality. During the term of this DCOA and for a period of three years after the expiration or termination of this DCOA, the Parties shall keep confidential any confidential information relating to the Project obtained from the other Parties, and shall refrain from using, publishing or revealing such confidential information without the prior written consent of the Party whose confidential information the disclosing Party is seeking to disclose, unless (a) compelled to disclose such document or information to a securities exchange or by judicial, regulatory or administrative process or other provisions of law; (b) such document or information is generally available to the public; (c) such document or information was available to the disclosing Party on a non-confidential basis; (d) such document or information was available to the disclosing Party on a non-confidential basis from a third-party, provided that the disclosing Party does not know, and, by reasonable effort, could not know that such third-party is prohibited from transmitting the document or information to the receiving Party by a contractual, legal or fiduciary obligation; or (e) such document or information is necessary to support a rate case or other regulatory filing with a Governmental Authority, provided that, the Party disclosing such document or information must make reasonable efforts to maintain confidentiality with respect to any proprietary information.

12.4 Public Relations. The Parties will cooperate in good faith with each other and, to the extent reasonable, seek mutual approval with respect to any public announcements regarding Citizens Sycamore-Penasquitos Transmission's participation in the Project.

12.5 Governing Law. This DCOA and the obligations hereunder shall be governed by the Laws of the State of California, without regard to principles of conflicts of law.

12.6 No Amendments or Modifications. This DCOA shall not be amended, modified, terminated, discharged or supplemented, nor any provision hereof waived, unless mutually

agreed to in writing by all of the Parties. If and to the extent that the CAISO Agreements are amended or modified such that a Party or the Parties can no longer comply with the terms of this DCOA, the Parties shall negotiate in good faith to amend or modify this DCOA to effectuate the same intent and essential purpose of this DCOA as of the Effective Date in light of the CAISO Agreements amendment or modification.

12.7 Delay and Waiver. Except as otherwise provided in this DCOA, no delay or omission to exercise any right, power or remedy accruing to the respective Parties hereto upon any breach or default of any other Party under this DCOA shall impair any such right, power or remedy, nor shall it be construed to be a waiver of any such similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character of any breach or default under this DCOA, or any waiver of any provision or condition of this DCOA, must be in writing and shall be effective only to the extent specifically set forth in such writing.

12.8 Entirety. This DCOA constitutes the entire agreement between the Parties hereto. There are no prior or contemporaneous agreements or representations affecting the same subject matter other than those herein expressed. Specifically, this DCOA supersedes the LOI in its entirety.

12.9 Relationship of the Parties. Except as otherwise set forth herein, this DCOA shall not make any of the Parties partners or joint venturers one with the other, nor make any the agent of the others. Except as otherwise explicitly set forth herein, no Party shall have any right, power or authority to enter into any agreement or undertaking for, or act on behalf of, or to act as or be an agent or representative of, or to otherwise bind, the other Party. Notwithstanding anything to the contrary, no fiduciary duty or fiduciary relationship shall exist between the Parties.

12.10 Good Faith. In carrying out its obligations and duties under this DCOA, each Party shall have an implied obligation of good faith.

12.11 Successors and Assigns. This DCOA shall inure to the benefit of, and be binding upon, the Parties hereto and their respective successors and permitted assigns.

12.12 Third Parties. This DCOA is intended solely for the benefit of the Parties. Nothing in this DCOA shall be construed to create any duty or liability to, or standard of care with reference to, any Person other than the Parties.

12.13 Headings. The headings contained in this DCOA are solely for the convenience of the Parties and should not be used or relied upon in any manner in the construction or interpretation of this DCOA.

12.14 Counterparts. This DCOA may be executed in one or more counterparts, each of which shall be deemed an original.

12.15 Time is of the Essence. Each of the Parties acknowledges that timely achievement of commercial operation of the Project is essential, and therefore time is of the essence in performing all obligations set forth herein.

[Signature page follows]

Execution Version

IN WITNESS WHEREOF, the Parties have signed this Development, Coordination, and Option Agreement as of the Effective Date.

SAN DIEGO GAS & ELECTRIC COMPANY

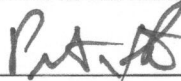
By:  

Name: JOHN D. JENKINS

Title: VP - ELEC. ENG. & CONST.

Date: NOVEMBER 1ST, 2017

CITIZENS ENERGY CORPORATION

By: 

Name: Peter F. Smith

Title: CEO

Date: November 7, 2017

Exhibit A

FORM OF TRANSFER CAPABILITY LEASE

TRANSFER CAPABILITY LEASE

BY AND BETWEEN

SAN DIEGO GAS & ELECTRIC COMPANY

AND

CITIZENS SYCAMORE-PENASQUITOS TRANSMISSION LLC

DATED AS OF [*Note to form: insert date of execution*]

SYCAMORE-PENASQUITOS 230 KILOVOLT TRANSMISSION LINE PROJECT

UNDERGROUND SEGMENT B

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TRANSFER CAPABILITY LEASE

This TRANSFER CAPABILITY LEASE (this “Lease”) is made and entered into as of [Note to form: insert date of execution] (the “Effective Date”), by and between San Diego Gas & Electric Company, a California corporation (“SDG&E”), and Citizens Sycamore-Penasquitos Transmission LLC, a Delaware limited liability company (“Citizens Sycamore-Penasquitos Transmission”) and a wholly owned subsidiary of Citizens Energy Corporation, a Massachusetts non-profit corporation (“Citizens Energy”). Each of SDG&E and Citizens Sycamore-Penasquitos Transmission shall be referred to herein individually as a “Party” and collectively as the “Parties.”

RECITALS

- A. SDG&E has been developing a transmission project known as the Sycamore-Penasquitos 230 Kilovolt Transmission Line Project to connect the Sycamore Canyon Substation to the Penasquitos Substation in its service territory (as more fully defined herein, the “Project”).
- B. On November 9, 2017, SDG&E and Citizens Energy entered into a Development, Coordination, and Option Agreement (the “DCOA”) pursuant to which SDG&E would develop, design, permit, engineer, procure, construct and own the Project, and Citizens Energy had an option (the “Option”) to lease certain interests or entitlements in the Project pursuant to a form of lease substantially similar to this Lease, and SDG&E and Citizens Energy agreed, among other things set forth in this Lease, to provide that Citizens Energy or Citizens Sycamore-Penasquitos Transmission could lease certain interests or entitlements in the Project if the Option was exercised and to provide that Citizens Sycamore-Penasquitos Transmission is authorized to exercise the Option and execute this Lease.
- C. Pursuant to the CAISO Agreements (as defined below), CAISO assumed operational control of the Project upon its completion.
- D. On [Note to form: insert date of exercise], Citizens Sycamore-Penasquitos Transmission notified SDG&E that Citizens Sycamore-Penasquitos Transmission had exercised the Option.
- E. The Parties desire to enter into this Lease to, among other things, set forth the terms pursuant to which Citizens Sycamore-Penasquitos Transmission will lease from SDG&E a portion of the transfer capability of a portion of the Project, all as more particularly set forth herein.

NOW THEREFORE, the Parties agree as follows:

ARTICLE I. DEFINITIONS; RULES OF INTERPRETATION

1.1 Definitions. As used in this Lease, the following terms shall have the following meanings unless otherwise stated or the context otherwise requires:

“Additional Rent” shall have the meaning set forth in Section 4.1.1.

“AFUDC” refers to an Allowance for Funds Used During Construction, recognizing the cost to SDG&E of financing the development, design, permitting, engineering, procurement, and construction of the Project.

“Appendix [Z]” means Appendix [Z] of SDG&E’s currently effective Transmission Owner Tariff (FERC Docket No [Note to form: insert applicable number on execution date]), which was accepted for filing by FERC on [Note to form: insert applicable date on execution date], as amended, modified, or supplemented from time to time.

“Applicable Portion of Property Taxes” means, for any period, (i) if the Property Taxes on the Underground Segment B are assessed against SDG&E and no Property Taxes are assessed on the Citizens Transfer Capability against Citizens Sycamore-Penasquitos Transmission, the aggregate amount of any Property Taxes in such period multiplied by the Citizens Percentage Interest for such period, and (ii) if the Property Taxes on the Underground Segment B are assessed against both SDG&E and Citizens Sycamore-Penasquitos Transmission, the aggregate amount of such Property Taxes that are directly attributable to the Citizens Transfer Capability in such period. The Parties agree that, to the best of their knowledge, Appendix [Z] in effect as of the Effective Date defines an allocation of Property Taxes to Citizens Sycamore-Penasquitos Transmission in a manner that as of the date hereof is consistent with this definition of Applicable Portion of Property Taxes.

“Applicable Reliability Standard” means reliability standards established by the Western Electricity Coordinating Council and reliability standards approved by FERC under Section 215 of the Federal Power Act to provide for reliable operation of the bulk power system.

“Balancing Authority” means the responsible entity that integrates resource plans ahead of time, maintains load-interchange-generation balance within a Balancing Authority Area, and supports interconnection frequency in real time.

“Balancing Authority Area” means an electric power system or combination of electric power systems to which a common automatic generation control scheme is applied in order to: (i) match, at all times, the power output of the generators within the electric power system(s) and capacity and energy purchased from entities outside the electric power system(s), with the load within the electric power system(s); (ii) maintain scheduled interchange with other Balancing Authority Areas, within the limits of Good Utility Practice; (iii) maintain the frequency of the electric power system(s) within reasonable limits in accordance with Good Utility Practice; and (iv) provide sufficient generating capacity to maintain operating reserves in accordance with Good Utility Practice.

“Business Day” means any day except Saturday, Sunday or a weekday on which commercial banks in New York City, New York or San Diego, California are required or authorized to be closed.

“CAISO” means the California Independent System Operator Corporation or its successors.

“CAISO Agreements” means the electric tariff at any time filed with FERC by the CAISO (or any successor System Operator) and any other applicable CAISO (or any successor System Operator) agreements, tariffs, manuals, protocols or rules setting forth the rights and obligations of Persons with respect to the CAISO (or any successor System Operator) controlled grid, or any successor electric tariff at any time filed with FERC setting forth the rights and obligations of Persons with respect to SDG&E’s transmission system.

“CAISO Eligible Customer” means an “Eligible Customer” as defined in the CAISO Agreements or any other successor customer who is eligible to obtain transmission service pursuant to the CAISO Agreements.

“Citizens Percentage Interest” means the percentage equal to the ratio of the amount of the Prepaid Rent divided by the aggregate of all costs incurred by SDG&E to develop, design, permit, engineer and construct the Underground Segment B, including AFUDC and payments made under construction contracts for work to be completed after the Effective Date of the Transfer Capability Lease, subject to adjustment pursuant to Section 3.5.

“Citizens Share of O&M Costs” shall have the meaning set forth in Section 4.1.2.

“Citizens Sycamore-Penasquitos Transmission” has the meaning set forth in the introductory paragraph hereto.

“Citizens Transfer Capability” means the Citizens Percentage Interest of the Transfer Capability on the Underground Segment B.

“Commencement Date” shall have the meaning set forth in Section 2.2.

“Commercial Operation Date” and “COD” means the date on which the Project begins commercial operation and Operational Control of the Project has been transferred to and accepted by the System Operator in accordance with the terms of the CAISO Agreements.

“Costs of Transfer Capability” shall have the meaning set forth in Section 4.3.2(a).

“CPCN Application” means the April 7, 2014 application to the CPUC for the certificate of public convenience and necessity for the Project (including the “Proponent’s Environmental Assessment”) and all schedules, exhibits, attachments and appendices thereto filed on April 7, 2014.

“CPCN Decision” means the “Decision Granting a Certificate of Public Convenience and Necessity for the Sycamore-Penasquitos 230 KV Transmission Line Project” and all attachments thereto, issued by the CPUC on October 19, 2016.

“CPUC” means the California Public Utilities Commission.

“DCOA” has the meaning set forth in the recitals hereto.

“Defaulting Party” shall have the meaning set forth in Section 6.1.

“Effective Date” has the meaning set forth in the introductory paragraph hereto.

“Event of Default” has the meaning set forth in Section 6.1.

“Expenses” has the meaning set forth in Section 5.3.1(b).

“FERC” means the Federal Energy Regulatory Commission.

“Final EIR” means the Final Environmental Impact Report, and all addendums, schedules, exhibits, attachments and appendices thereto, prepared by the CPUC, as certified by the CPUC and defined in the CPCN Decision.

“Financing Costs” shall have the meaning set forth in Section 4.3.2(a).

“Force Majeure” means an event or circumstance that prevents one Party from performing its obligations hereunder, which event or circumstance was not foreseen as of the date the DCOA was entered into, which is not within the control of or the result of the negligence of the affected Party, and which, by the exercise of due diligence, the Party is unable to mitigate or avoid or cause to be avoided, including but not limited to (but only to the extent that the following examples satisfy such definition) (a) acts of God, such as droughts, floods, earthquakes, and pestilence, (b) fires, explosions, and accidents, (c) war (declared or undeclared), riots, insurrection, rebellion, acts of the public enemy, acts of terrorism and sabotage, blockades, and embargoes, (d) storms and other climatic and weather conditions that are abnormally severe for the period of time when, and the area where, such storms or conditions occur, including typhoons, hurricanes, tornadoes and lightning, (e) strikes or other labor disturbances, (f) changes in permits from Governmental Authorities or the conditions imposed thereunder or the failure to renew such permits not due to the failure of the affected Party to timely submit applications, and (g) the enactment, adoption, promulgation, modification, or repeal after the date hereof of any applicable law. Notwithstanding the foregoing, under no circumstance shall an event of Force Majeure be based on: (i) changes in market conditions or the economic health of a Party, (ii) the affected Party’s failure to timely seek to obtain, modify, amend or extend permits, approvals, or other required action from any Governmental Authority, (iii) any action or inaction by the board of directors of a Party to the extent that such Party is seeking to excuse its failure to perform as an event of Force Majeure; and/or (iv) any failure to make payments.

“Good Utility Practice” means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not limited to the optimum practice, method, or act to the exclusion of all others, but rather to the acceptable practices, methods, or acts generally accepted in the region, including those practices required by Section 215(a)(3) of the Federal Power Act.

“Governmental Authority” means any federal, state, local, territorial or municipal government and any department, commission, board, bureau, agency, instrumentality, judicial or administrative body thereof.

“Lease” has the meaning set forth in the introductory paragraph hereto.

“Local Furnishing Bond Encumbrances” means those legal restrictions or contractual covenants binding on SDG&E and the operation of SDG&E’s transmission lines and associated facilities arising out of or related to its Local Furnishing Bonds, as such legal restrictions or contractual covenants may be amended, modified, or supplemented from time to time pursuant to applicable law. As of the Effective Date, the Local Furnishing Bond Encumbrances are summarized in Exhibit C.

“Memorandum” has the meaning set forth in Section 13.15.

“Net After-Tax Cash Flow” has the meaning set forth in Section 5.3.1(a).

“Notice” means a written notice delivered in accordance with Section 13.1.

“Operational Control” means the rights of the Balancing Authority to direct the operation of transmission facilities and other electric plant in the Balancing Authority Area affecting the reliability of those facilities for the purpose of affording comparable, non-discriminatory transmission access and meeting Applicable Reliability Standards.

“Option” has the meaning set forth in the recitals hereto.

“Parties” and “Party” have the meanings set forth in the introductory paragraph hereto.

“Percentage Interest” means the Citizens Percentage Interest or the SDG&E Percentage Interest, as applicable.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or Governmental Authority.

“Personal Property Taxes” means all taxes, assessments, license fees and other governmental charges that are levied and assessed during the Term against personal property, fixtures and equipment and that are attributable to the Underground Segment B.

“Prepaid Rent” shall have the meaning set forth in Section 4.1.1.

“Project” means the Sycamore-Penasquitos 230 Kilovolt Transmission Line Project constructed and owned by SDG&E, and reasonable alterations thereto, as generally depicted in Schedule 1.1. For purposes hereof, the Project is divided into the following components: Segment A consisting of an overhead alignment running between Sycamore Canyon Substation and Stonecroft Trail within an existing SDG&E right-of-way (ROW); Segment B consisting of the transmission line transitioning from an overhead position into an underground duct bank that will travel westerly along Pomerado Road, cross Interstate 15 then continue along various secondary roads through the commercial area of Mira Mesa before transitioning back to an overhead position within an existing SDG&E ROW along the east side of Interstate Highway 805 at Carroll Road/Carroll Canyon Road, as more fully described in the definition of “Underground Segment B” below; and Segment C consisting of an overhead alignment on

existing 230-kV steel poles within the existing ROW heading northward into the Peñasquitos Substation, as generally depicted in Schedule 1.1.

“Property Taxes” means all Real Property Taxes and all Personal Property Taxes.

“PTO” means a Participating Transmission Owner as defined in the CAISO Agreements.

“Real Property Taxes” means all real property general and special taxes and assessments that are levied and assessed against land and improvements and that are attributable to the Underground Segment B, including without limitation real property assessments and taxes, water and sewer and other similar governmental charges levied upon or attributable to the Underground Segment B, assessments or charges levied upon or attributable to the Underground Segment B by any redevelopment agency, and any tax attributable to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy of the Underground Segment B or any portion thereof.

“Referral Date” shall have the meaning set forth in Section 12.2.

“Reimbursable Property Taxes” means any Property Tax attributable to the Underground Segment B that is paid by SDG&E and that Citizens Sycamore-Penasquitos Transmission is required by Section 8.1 to reimburse.

“Rent” has the meaning set forth in Section 4.1.2.

“Revenues” has the meaning set forth in Section 5.3.1(c).

“SDG&E” has the meaning set forth in the introductory paragraph hereto.

“SDG&E Indenture” means that certain Mortgage and Deed of Trust, as amended from time to time, dated as of July 1, 1940, from SDG&E as trustor to U.S. Bank (successor to the Bank of California, National Association) as trustee, a true and complete copy of which has been delivered to Citizens Sycamore-Penasquitos Transmission.

“SDG&E Percentage Interest” means 100% less Citizens Percentage Interest.

“SDG&E Representative Rate” has the meaning set forth in Section 4.3.2(a).

“System Operator” means the CAISO or, if SDG&E is no longer a member of the CAISO, the successor regional transmission entity, if any, that has Operational Control over SDG&E’s transmission system and provides transmission service under rates, terms and conditions regulated by FERC pursuant to Section 205 of the Federal Power Act, or, if SDG&E is no longer a member of the CAISO or any such successor regional transmission entity, SDG&E.

“Term” has the meaning set forth in Section 2.2.

“Transfer Capability” means the maximum amount of power (in mega-watts) that can be transferred over part, or all, of the Underground Segment B at any time in a reliable manner

under a specific set of defined pre-contingency and post-contingency system configurations and conditions in accordance with Western Electricity Coordinating Council standards and Good Utility Practices. The holder of Transfer Capability that is under the Operational Control of the CAISO (or any successor System Operator including SDG&E, as the case may be), for the benefit of and made available to CAISO Eligible Customers, is entitled to all associated rights and revenues from use of the Transfer Capability as defined (or subsequently defined) by the CAISO Agreements, or, in the absence of any such CAISO Agreements, rights and revenues similar to such associated rights and revenues.

“Underground Segment B” means the underground 230 kV transmission line segment of the Project along Stonebridge Parkway, Pomerado Road, Miramar Road, Black Mountain Road, Activity Road, Camino Ruiz, Miralani Drive, Arjons Drive, Trade Place, Trade Street, Camino Santa Fe, Carroll Road, and Carroll Canyon Road that extends from the east cable riser pole located near Stonebridge Parkway and Stonecroft Terrace to the west cable riser pole located near Carroll Canyon Road and Interstate 805, in each case, up to the termination on the cable riser poles but excluding the cable riser poles on each end, as generally depicted in Schedule 1.1, together with such modifications of the line as may be implemented from time to time. For the avoidance of doubt, the Underground Segment B shall include only the 230 kV transmission line and shall not include any transmission facilities that may operate at a different voltage, or any substation facilities.

1.2 Rules of Interpretation. Unless otherwise provided herein or the context otherwise requires: (a) words denoting the singular include the plural and vice versa; (b) words denoting a gender include both genders; (c) references to a particular part, clause, section, paragraph, article, party, exhibit, schedule or other attachment shall be a reference to a part, clause, section, paragraph, or article of, or a party, exhibit, schedule or other attachment to the document in which the reference is contained; (d) a reference to any statute or regulation includes all statutes or regulations varying, consolidating or replacing the same from time to time, and a reference to a statute includes all regulations issued or otherwise applicable under that statute to the extent consistent with the Parties’ original intent hereunder; (e) a reference to a particular section, paragraph or other part of a particular statute shall be deemed to be a reference to any other section, paragraph or other part substituted therefor from time to time; (f) a definition of or reference to any document, instrument or agreement includes any amendment or supplement to, or restatement, replacement, modification or novation of, any such document, instrument or agreement; (g) a reference to any person includes such person’s successors and permitted assigns in that designated capacity; (h) any reference to “days” shall mean calendar days unless Business Days are expressly specified; and (i) examples shall not be construed to limit, expressly or by implication, the matter they illustrate.

ARTICLE II. LEASE; TERM

2.1 Lease. SDG&E hereby leases to Citizens Sycamore-Penasquitos Transmission, and Citizens Sycamore-Penasquitos Transmission hereby leases from SDG&E, the Citizens Transfer Capability on the terms and conditions set forth in this Lease.

2.2 Term. The term of this Lease shall commence as of the Effective Date (the “Commencement Date”) and shall expire (unless otherwise earlier terminated pursuant to this

Lease) at 11:59 p.m. Pacific time on the day before the 30th anniversary of the Commencement Date (the “Term”). At the conclusion the Term, Citizens Sycamore-Penasquitos Transmission shall have no further interest in the Project hereunder, the Citizens Transfer Capability shall revert to SDG&E, and Citizens Sycamore-Penasquitos Transmission and SDG&E shall have no further rights or obligations vis-à-vis each other except to pay amounts and fulfill other obligations existing as of the time of conclusion of the Term. [*Note to form: Include the following if true:* For the avoidance of doubt, the Parties acknowledge that the Commercial Operation Date has occurred.]

ARTICLE III. COMPLETION OF CONSTRUCTION; UPGRADES AND REPAIRS; OPERATION AND MAINTENANCE; INTERCONNECTION

3.1 Completion of Construction. SDG&E shall use commercially reasonable efforts to [*Note to form: Delete the following if COD has already occurred:* achieve COD and thereafter] complete all punch list items and all other final construction activities on the Project in accordance with Good Utility Practice as soon as reasonably practicable. For avoidance of doubt, for purposes of this Article III and any other provisions of this Lease relating to work performed on the Project by SDG&E, SDG&E may undertake work on the Project itself or through third party contractors.

3.2 Operation and Maintenance. Except to the extent that SDG&E has transferred Operational Control of the Underground Segment B to the System Operator, SDG&E shall be responsible for overseeing and performing all operations and maintenance services for the Underground Segment B (including any aspect thereof related to or necessary for the Citizens Transfer Capability) in accordance with all regulations and Good Utility Practice, including standards and agreements of CAISO (or any successor System Operator) and the Western Electricity Coordinating Council.

3.2.1 Benefit and Burden Sharing. Except as provided in Section 9.2, SDG&E and Citizens intend to share the benefits and burdens of the Underground Segment B, including any damages for any act or failure to act, whether by negligence or otherwise, arising out of or relating to the operation or maintenance of the Underground Segment B, in accordance with their percentage share of the Transfer Capability in the Underground Segment B. Accordingly, except as provided in Section 9.2, each Party (“Indemnitor”) shall be responsible for, and shall indemnify the other Party and its officers, employees, representatives, advisors, contractors and agents (“Indemnitees”) from and against, such Indemnitor’s Percentage Interest of all liability and expense on account of any and all damages, claims or actions including injury to or death of persons or damage to property arising from any act or failure to act, by either Party, its officers, employees, representatives, advisors, contractors or agents, whether by negligence or otherwise, arising out of or pertinent to the operation or maintenance of the Underground Segment B. Except as provided in Section 9.2, the indemnification provisions set forth in this Section 3.2.1 shall apply to all types of claims or actions including, but not limited to, claims or actions based on contract, tort, patent or trademark. The provisions of this Section 3.2 shall not be construed so as to relieve any insurer of its obligation to pay any insurance proceeds in accordance with the terms and conditions of its insurance policies.

3.2.2 Insurance Proceeds. The gross amount that an Indemnitor is liable to, for, or on behalf of an Indemnitee shall be reduced by any insurance proceeds received by or on behalf of the Indemnitee in respect of the damage, claim, or action giving rise to an indemnity obligation hereunder. Further, each Party hereby waives all rights of recovery against the other Party on account of loss, damage, or injury incurred by such waiving Party to the extent that such loss, damage, or injury is insured against and covered under any insurance policies of such waiving Party provided that such waiver shall not be effective if it voids or otherwise invalidates any coverage or policy. Each Party shall cause its insurance policies to provide that the insurance company waives all right of recovery by way of subrogation against the other Party in connection with any damage covered by such policy.

3.3 Future Upgrades; Increases in Transfer Capability. Subject to the other terms and conditions of this Lease, SDG&E shall be solely entitled to decide upon, develop, design, engineer, procure, construct, commission, own, operate, maintain and finance any upgrades to all or any portion of the Project after the Commercial Operation Date for purposes of increasing the Transfer Capability of all or any portion of the Project. SDG&E shall be solely responsible to pay the costs of such upgrades. Citizens Sycamore-Penasquitos Transmission agrees that it will not oppose any upgrades sought before any Governmental Authority, System Operator, or Balancing Authority by SDG&E.

3.4 Future Replacement and Renewal; No Increases in Transfer Capability. SDG&E shall be solely entitled to determine whether any additional capital investment is needed for replacement or renewal of facilities of the Project resulting in no increases in the Transfer Capability of the Project, and if so, the timeframe for the same. SDG&E shall be solely entitled to itself undertake or undertake by way of contracts with others to develop, design, engineer, procure, construct, commission, own, operate, maintain and finance such replacement or renewals of the facilities of the Project. SDG&E shall be responsible for all costs of such replacement or renewal.

3.5 Adjustment of Citizens Percentage Interest. The Citizens Percentage Interest shall be adjusted as described below. SDG&E shall give Citizens Sycamore-Penasquitos Transmission written notice of any adjustment to the Citizens Percentage Interest pursuant to this Section 3.5 as soon as reasonably practicable following such adjustment. Such notice shall specify the effective date of such adjustment, the new Citizens Percentage Interest, and the subsection of this Section 3.5 pursuant to which such adjustment shall be made, and such notice shall be accompanied by any other information required to be delivered by this Section 3.5.

3.5.1 Construction Cost True-Up. The Parties acknowledge that the Prepaid Rent has been determined prior to the date when all costs incurred by SDG&E to develop, design, permit, engineer and construct the Underground Segment B, including AFUDC and payments still due under pending construction contracts for work to be completed after the Effective Date, are fully known. Accordingly, SDG&E shall provide to Citizens Sycamore-Penasquitos Transmission an accounting of such costs promptly after SDG&E has finally determined such costs, and the Citizens Percentage Interest shall be adjusted at such time to equal the ratio of the Prepaid Rent divided by the aggregate of all costs incurred by SDG&E to develop, design, permit, engineer and construct the Underground Segment B, including AFUDC

and payments made under construction contracts for work to be completed after the Effective Date.

3.5.2 Future Upgrades in Transfer Capability. To the extent that the Underground Segment B is upgraded pursuant to Section 3.3 resulting in increases or decreases in the Transfer Capability of the Underground Segment B, then all such increases or decreases in Transfer Capability resulting from such upgrade shall be allocated to SDG&E and the Citizens Percentage Interest and the SDG&E Percentage Interest shall be adjusted accordingly. For example, if the Underground Segment B were rated at 1000MW, a given upgrade to the Underground Segment B would cause the rating to increase by 200MW and at the time of the upgrade Citizens Sycamore-Penasquitos Transmission and SDG&E each held a 13% and 87% share of the Transfer Capability on the Underground Segment B, respectively, then the Citizens Percentage Interest on the Underground Segment B would decrease from 13% to 10.83% ($130\text{MW} / 1200\text{MW} = 10.83\%$) and the SDG&E Percentage Interest on the Underground Segment B would increase from 87% to 89.17% ($1070\text{MW} / 1200\text{MW} = 89.17\%$).

3.5.3 Future Replacement and Renewal. To the extent that SDG&E makes any additional capital investments in the Underground Segment B pursuant to Section 3.4 resulting in no increases in the Transfer Capability of the Underground Segment B, then (1) the Citizens Percentage Interest shall be adjusted so that it equals the quotient of (a) Citizens Percentage Interest of the Underground Segment B prior to such additional capital investment multiplied by the former net book value of the Underground Segment B prior to such additional capital investment divided by (b) the new net book value of the Underground Segment B (including all new funding of replacements or renewals as part of the new net book value); and (2) the SDG&E Percentage Interest shall be adjusted in accordance with its definition. For example, assume that the Underground Segment B has a net book value of \$100 million prior to replacement or renewals and requires additional capital investments of \$30 million for replacement costs pursuant to Section 3.4 (and thus would have a net book value of \$130 million subsequent to such replacement or renewal). If the Citizens Percentage Interest is 13% and SDG&E makes such \$30 million capital investment in the Underground Segment B, then the Citizens Percentage Interest would be reduced from 13% to 10% ($13\% \times \$100 / \$130 = 10.00\%$) and the SDG&E Percentage Interest would be increased from 87% to 90.00% ($100\% - 10.00\% = 90.00\%$). For purposes of this section, the “net book value” of the Underground Segment B shall be equal to SDG&E’s historical cost basis of the Underground Segment B less accumulated depreciation as determined by Generally Accepted Accounting Principles. For the avoidance of doubt, the amount of Rent that Citizens Sycamore-Penasquitos Transmission pays to SDG&E shall not reduce the cost basis.

3.5.4 Other Future Changes in Transfer Capability. For avoidance of doubt, the Citizens Percentage Interest shall not be adjusted as a result of any increases or decreases in the Transfer Capability on the Underground Segment B resulting from changes to the configuration of adjoining systems or upgrades to adjoining systems, including the systems of SDG&E beyond the Underground Segment B.

3.6 Interconnection Facilities. Subject to the CAISO Agreement and rules governing interconnection, as between SDG&E and Citizens Sycamore-Penasquitos Transmission, SDG&E will be the interconnection agent for the Project and on behalf of Citizens Sycamore-Penasquitos

Transmission with respect to the Citizens Transfer Capability. In particular, SDG&E will process all requests for interconnection to the Project, SDG&E will develop, design, engineer, procure, construct, commission, own, operate, maintain, and arrange funding for such interconnection facilities, including all substations and switchyards connected to the Project, and SDG&E will retain all ownership and Transfer Capability interests in such interconnection facilities.

ARTICLE IV. RENT; RATE RECOVERY

4.1 Rent. The rent due under this Lease shall be as follows:

4.1.1 Prepaid Rent. Pursuant to Section 4.2.3 of the DCOA, concurrently with the commencement of this Lease on the Commencement Date, Citizens Sycamore-Penasquitos Transmission shall make a payment of \$27 million to SDG&E as prepaid rent (the "Prepaid Rent").

4.1.2 Additional Rent. Citizens Sycamore-Penasquitos Transmission shall pay, subject to Sections 4.3.4 and 8.3, additional rent monthly in arrears in an amount equal to the sum of (i) the operations and maintenance costs incurred by SDG&E that are reasonably attributable to the Citizens Transfer Capability and SDG&E's performance of Section 3.2, including a reasonable allocation of administrative and general activities, general and common plant, the amortized cost of removing the Underground Segment B, sales, use and excise taxes, and other costs described in Appendix [Z] (other than Property Tax) (the "Citizens Share of O&M Costs"), plus (ii) Reimbursable Property Tax (the sum of (i) and (ii) is referred to as the "Additional Rent," and, together with the Prepaid Rent, the "Rent"). SDG&E shall provide to Citizens Sycamore-Penasquitos Transmission an invoice of the Additional Rent for each month during the Term within 30 days after (but no earlier than) the conclusion of such month, and Citizens Sycamore-Penasquitos Transmission shall be required to pay such amount to SDG&E within 30 days after receipt of such invoice.

4.2 Regulation of Citizens Sycamore-Penasquitos Transmission's Rates. Subject to Section 4.3, Citizens Sycamore-Penasquitos Transmission shall file or cause to be filed with FERC, a transmission service tariff for recovery of its costs associated with the Citizens Transfer Capability. The Citizens Transfer Capability shall be provided for the benefit of and made available to CAISO Eligible Customers (or similarly situated customers of the successor System Operator in the event the CAISO is no longer the System Operator) at rates, terms and conditions deemed just and reasonable and not unduly discriminatory by FERC pursuant to Section 205 of the Federal Power Act.

4.3 Citizens Sycamore-Penasquitos Transmission's Cost Recovery Methodology. Citizens Sycamore-Penasquitos Transmission shall seek from FERC a cost recovery methodology that provides cost recovery to Citizens Sycamore-Penasquitos Transmission limited to the recovery of the following transmission costs. For the avoidance of doubt, Citizens Sycamore-Penasquitos Transmission shall be entitled to, and SDG&E shall not oppose, rate recovery that is not affected by any reduction in its Transfer Capability associated with SDG&E's funding of renewals, replacements or upgrades to all or any portion of the Project pursuant to Section 3.3, Section 3.4 or otherwise.

4.3.1 Operating Costs. Citizens Sycamore-Penasquitos Transmission shall seek recovery of the Citizens Share of O&M Costs incurred by Citizens Sycamore-Penasquitos Transmission as provided for in Section 4.1.2 and all other reasonably and prudently incurred costs for operation and maintenance on an annual formulaic basis, including administrative and general activities (and any sales, use, and excise tax) and the Applicable Portion of Property Taxes, directly attributable to Citizens Transfer Capability on the Project as recorded in FERC accounts, including but not limited to the following accounts: 408.1, 560-573, 908, and 920-935 under the FERC Uniform System of Accounts.

4.3.2 Capital Requirements. Citizens Sycamore-Penasquitos Transmission shall seek recovery for all other costs associated with the Citizens Transfer Capability at a fixed rate that is no higher than the rate SDG&E could recover at the time of COD if SDG&E held the Citizens Transfer Capability. This fixed rate is intended to cover all costs associated with the Citizens Transfer Capability (other than the operating costs described in Section 4.3.1 above) including Prepaid Rent and other costs of Transfer Capability, debt service, capitalized interest, liquidity reserves, taxes (excluding the Applicable Portion of Property Taxes and the sales, use, or excise taxes which are included in the Citizens Share of O&M Costs and the operating costs addressed by Section 4.3.1 above), charitable contributions, and any and all other costs. For purposes of determining the rate SDG&E could recover at the time of COD if SDG&E held the Citizens Transfer Capability, the Parties agree to use the model attached hereto as Exhibit A. *[Note to form: The final model as of the Effective Date should be populated with the actual Moody's Aa 30-year Utility Bond Index, the actual Costs of Transfer Capability, and the portion of the actual Costs of Transfer Capability that is actual SDG&E AFUDC, all of which will be known at the time of execution.]*

(a) The model calculates a theoretical annual rate (for a fifty-eight-year depreciable life) that SDG&E could recover at the time of COD if SDG&E held the Citizens Transfer Capability and then amortized that rate over a thirty year period on a level basis each year based on fixed and variable parameters set forth in the model to produce a theoretical levelized annual amount (the "SDG&E Representative Rate"). The only variable parameters that shall be entered into the model to determine the SDG&E Representative Rate are: (1) five-day average Moody's Aa 30-year Utility Bond Index as set forth in the Bloomberg LLC system, mnemonic MOODUAA, (2) the actual Costs of Transfer Capability (defined below), and (3) the portion of the actual Costs of Transfer Capability that is SDG&E's actual AFUDC. The phrase "Costs of Transfer Capability" shall mean 101% of the sum of the Prepaid Rent plus all reasonably incurred project costs, development costs, regulatory costs, transactional costs, sales costs, use or excise tax costs, and Financing Costs (defined below) incurred by Citizens Sycamore-Penasquitos Transmission allocated to the Citizens Transfer Capability. The phrase "Financing Costs" shall mean (a) with respect to any bridge financing that Citizens Sycamore-Penasquitos Transmission may consummate prior to the term financing that Citizens Sycamore-Penasquitos Transmission will consummate for the final acquisition of the Citizens Transfer Capability, all reasonable and customary financing costs, including without limitation, lenders' fees, consultants' fees (for Citizens Sycamore-Penasquitos Transmission and its lenders), lawyers' fees (for Citizens Sycamore-Penasquitos Transmission and its

lenders), and interest associated with such bridge financing, and (b) with respect to the term financing that Citizens Sycamore-Penasquitos Transmission will consummate for the final acquisition of its Transfer Capability, all reasonable and customary consultants' fees (for Citizens Sycamore-Penasquitos Transmission and its lenders), lawyers' fees (for Citizens Sycamore-Penasquitos Transmission and its lenders), and capitalized interest charged prior to commencement of rate recovery, and excluding any lenders' fees and any amounts set aside for reserve accounts. For purposes of clarity, the extra one percent is intended to account for, among other costs, the ordinary and customary lenders' fees that SDG&E would have incurred if it held the Citizens Transfer Capability.

(b) The following parameters, among others, are constants in the model and shall not be reset at any time in determining the SDG&E Representative Rate: (1) SDG&E's return on equity fixed at 10.05%, (2) SDG&E's capital structure fixed at 55.23% equity and 44.77% debt, and (3) SDG&E's federal income tax rate fixed at 35.00% and state income tax rate fixed at 8.84%. For purposes of explanation, the model also calculates the following parameters, among others, in determining the SDG&E Representative Rate: (x) SDG&E estimated debt rate for 30 years which is the five-day average Moody's Aa 30-year Utility Bond Index plus 48 basis points, (y) SDG&E weighted average cost of capital which is the weighted average (based on the SDG&E fixed capital structure in clause (2) immediately above) of the SDG&E return on equity in clause (1) immediately above and the SDG&E estimated debt rate in clause (x), and (z) SDG&E discount rate which is equal to the SDG&E weighted average cost of capital in clause (y). The example attached hereto as part of Exhibit A sets forth the SDG&E Representative Rate for a five-day average Moody's Aa 30-year Utility Bond Index equal to [3.71%], Costs of Transfer Capability equal to [\$29,000,000], and an AFUDC amount equal to [\$1,944,386]. *[Note to form: The bracketed numbers above and the final example as of the Effective Date should be populated with the actual Moody's Aa 30-year Utility Bond Index, the actual Costs of Transfer Capability, and the portion of the actual Costs of Transfer Capability that is actual SDG&E AFUDC, all of which should be known at the time of execution.]*

(c) At the time Citizens Sycamore-Penasquitos Transmission makes the compliance filing related to its application made on *[Note to form: insert applicable date on execution date]* in FERC Docket No. *[Note to form: insert applicable docket number on execution date]* seeking FERC approval of its annual fixed rate methodology for recovery of the costs described in this Section 4.3.2 and conditionally accepted by the FERC pursuant to an order issued on *[Note to form: insert applicable date on execution date]* in FERC Dockets Nos. *[Note to form: insert applicable docket numbers on execution date]*, Citizens Sycamore-Penasquitos Transmission shall demonstrate that its proposed rate methodology (including any of the adjustments described under Section 8.3) results in an annual fixed rate for recovery of the costs described in this Section 4.3.2 such that such annual fixed rate is no greater than the SDG&E Representative Rate (which also shall include any adjustments described in

Section 8.3). [Note to form: adjust this section to match the applicable FERC filings and orders on execution date]

(d) For purposes of determining whether Citizens Sycamore-Penasquitos Transmission has a fixed rate that is no higher than the rate SDG&E could recover at the time of COD if SDG&E held the Citizens Transfer Capability in compliance with this Section 4.3.2, the Parties shall compare the SDG&E Representative Rate (which does not include any of the adjustments described under Section 8.3) against Citizens Sycamore-Penasquitos Transmission's FERC-approved annual fixed rate for recovery of the costs described in this Section 4.3.2 (excluding any of the adjustments described under Section 8.3) at such time as Citizens Sycamore-Penasquitos Transmission consummates the debt financing transaction for this Lease of the Citizens Transfer Capability and at such time as Citizens Sycamore-Penasquitos Transmission submits its compliance filing to FERC showing its actual rates based on the FERC-accepted annual fixed rate methodology.

(e) In the event Citizens Sycamore-Penasquitos Transmission is not able to demonstrate to the FERC that its fixed annual rate (excluding any of the adjustments described under Section 8.3) is no higher than the SDG&E Representative Rate (which also does not include any of the adjustments described under Section 8.3), then Citizens Sycamore-Penasquitos Transmission agrees to limit or cap its fixed annual rate (excluding any of the adjustments described under Section 8.3) before the FERC such that its fixed annual rate (excluding any of the adjustments described under Section 8.3) shall be equal to the SDG&E Representative Rate (which also does not include any of the adjustments described under Section 8.3).

4.3.3 Waiver of Section 205/206 Rights. Except to the extent a change in law, rule, or regulation results in any new taxes, income taxes, Property Taxes, fees or other charges being levied by a Governmental Authority, to the fullest extent permitted by applicable law, Citizens Sycamore-Penasquitos Transmission, for itself and its successors and assigns, shall waive any rights it can or may have, now or in the future, whether under Sections 205 and/or 206 of the Federal Power Act or otherwise, to seek to obtain from FERC by any means, directly or indirectly (through complaint, investigation or otherwise), and Citizens Sycamore-Penasquitos Transmission covenants and agrees not at any time to seek to so obtain, an order from FERC changing the FERC-approved fixed rate for recovery of the costs described in Section 4.3.2 above. For the avoidance of doubt, to the extent a change in law, rule, or regulation results in any new taxes, income taxes, Property Taxes, fees or other charges being levied by a Governmental Authority, Citizens Sycamore-Penasquitos Transmission may seek approval for inclusion in its rates an allowance to recover any such new taxes, income taxes, Property Taxes, fees or other charges. SDG&E shall fully support, through timely intervention and active participation in any proceeding relating to or affecting Citizens Sycamore-Penasquitos Transmission's rates, Citizens Sycamore-Penasquitos Transmission's recovery and implementation of rates conforming to the provisions of this Lease in accordance with Section 205 of the Federal Power Act and orders issued by FERC thereunder in order that Citizens Sycamore-Penasquitos Transmission may acquire, finance, operate and maintain its leasehold

interest in the Underground Segment B. SDG&E acknowledges that among other things, Citizens Sycamore-Penasquitos Transmission will seek recovery of and SDG&E will support Citizens Sycamore-Penasquitos Transmission as a PTO seeking to recover from CAISO Eligible Customers in its transmission revenue requirement for the Underground Segment B (a) all prudently incurred pre-commercial operations costs in current rates, (b) all costs of abandoned facilities, provided such abandonment is due to factors beyond Citizens Sycamore-Penasquitos Transmission's control, and (c) all capital requirements as described in Section 4.3.2 above. SDG&E's support shall include providing FERC with assurances that all costs sought to be recovered by Citizens Sycamore-Penasquitos Transmission through its rates that were originally incurred by SDG&E were prudently incurred.

4.3.4 Credits. Citizens Sycamore-Penasquitos Transmission shall credit to CAISO Eligible Customers any revenues that are derived from, or associated with, this Lease that are in addition to its cost-of-service recovery described above, including any tax credit payments from SDG&E under Section 8.3. Citizens Sycamore-Penasquitos Transmission's obligations under this Section 4.3.4 shall be satisfied by crediting any such revenues against costs that it seeks to recover in its rates.

ARTICLE V. MEETINGS; OTHER AGREEMENTS

5.1 Meetings. Unless otherwise agreed upon, the Parties shall schedule a meeting at least once each year for the purpose of discussing the Underground Segment B. Either Party may call a special meeting upon reasonable advance notice and in coordination with the other Party. For avoidance of doubt, SDG&E shall be solely responsible for and shall make all final decisions with respect to the development, design, permitting, engineering, procurement, construction, commissioning, upgrades, capital expenditures, repairs, replacement, renewals, operation and maintenance of the Project; provided, however, that SDG&E shall (i) provide Citizens Sycamore-Penasquitos Transmission with periodic reports regarding the development, design, permitting, engineering, procurement, construction, commissioning, upgrades, capital expenditures, repairs, replacement, renewals, operation, and maintenance of the Underground Segment B no less than once per year, and (ii) promptly inform Citizens Sycamore-Penasquitos Transmission of any material change or development regarding the foregoing that would significantly impact Citizens Sycamore-Penasquitos Transmission or the Citizens Transfer Capability or that would result in a payment obligation by Citizens Sycamore-Penasquitos Transmission pursuant to Section 3.2.1. Citizens Sycamore-Penasquitos Transmission shall provide SDG&E with periodic reports regarding Citizens Sycamore-Penasquitos Transmission's activities associated with its interest in the Underground Segment B including Citizens Sycamore-Penasquitos Transmission's performance of its obligations under Section 5.3.1 no less than once per year.

5.2 SDG&E Covenants.

5.2.1 SDG&E Provision of Cost Recovery. During the Term, if SDG&E is no longer part of the CAISO or a successor regional transmission entity that has Operational Control over SDG&E's transmission system, SDG&E shall ensure that Citizens Sycamore-Penasquitos Transmission can recover any and all of the costs specified in Section 4.3.1 and Section 4.3.2 as if Citizens Sycamore-Penasquitos Transmission were still recovering these costs under its FERC-

filed and accepted transmission service tariff. Further, if SDG&E is no longer a member of any regional transmission entity and SDG&E itself has Operational Control over SDG&E's transmission system, then SDG&E shall guarantee or financially support (as applicable under the circumstances) the receipt by Citizens Sycamore-Penasquitos Transmission of, such costs. While SDG&E is part of the CAISO or a successor regional transmission entity that has Operational Control over SDG&E's transmission system, SDG&E shall not be required to guarantee or financially support Citizens Sycamore-Penasquitos Transmission's cost recovery.

5.2.2 Information Sharing. Upon reasonable notice and during regular business hours, SDG&E shall allow Citizens Sycamore-Penasquitos Transmission access to the Project site and provide other information related to the Project as may be reasonably requested by Citizens Sycamore-Penasquitos Transmission, including but not limited to:

- (a) Costing information to ensure that costs for the Project are allocated to appropriate portions of the Project and that SDG&E keeps its accounts and provides sufficient information to Citizens Sycamore-Penasquitos Transmission to allow Citizens Sycamore-Penasquitos Transmission to review those allocations and accounts on an on-going basis;
- (b) Permitting information;
- (c) Plans, specifications, design, or maps of the Project; and
- (d) Contracts reasonably deemed material that affect the development, design, permitting, engineering, procurement and construction of the Project.

5.3 Citizens Sycamore-Penasquitos Transmission Covenants.

5.3.1 Low Income Energy Programs. Citizens Sycamore-Penasquitos Transmission and SDG&E have agreed that with respect to each calendar year during the Term that Citizens Sycamore-Penasquitos Transmission shall pay one-half of Citizens Sycamore-Penasquitos Transmission's net after-tax profits attributable to the Citizens Transfer Capability (as calculated before such payments are deducted from such profits as a business expense) to programs or entities assisting low income persons of San Diego County to participate in the electrification of transportation, including the purchase of electric vehicles and related equipment, which shall be selected by Citizens Sycamore-Penasquitos Transmission in its reasonable discretion and may include such programs conducted by one of its affiliates. To implement this agreement, with respect to each calendar year during the Term, Citizens Sycamore-Penasquitos Transmission shall pay, by no later than April 30 of the following calendar year, to programs or entities assisting low income persons of San Diego County to participate in the electrification of transportation, including the purchase of electric vehicles and related equipment an amount equal to or greater than Citizens Sycamore-Penasquitos Transmission's Net After-Tax Cash Flow for such year (exclusive of the proceeds of indebtedness and after deducting payments required under this Section 5.3.1). If Citizens Sycamore-Penasquitos Transmission has not finally determined its Net After-Tax Cash Flow for a calendar year during the Term by April 30 of the following calendar year, then Citizens Sycamore-Penasquitos Transmission shall make a good faith estimate of such Net After-Tax

Cash Flow for purposes of making the payment required by the previous sentence and the amount of such payment shall be trued up by Citizens Sycamore-Penasquitos Transmission based on its final determination of such Net After-Tax Cash Flow for the applicable calendar year by no later than the date that is 180 days after it has finally determined such Net After-Tax Cash Flow for the applicable calendar year. Each year as part of its annual reporting under Section 5.1, Citizens Sycamore-Penasquitos Transmission shall provide to SDG&E a certificate from an officer of Citizens Sycamore-Penasquitos Transmission confirming that it has complied with this Section 5.3.1. Solely for purposes of this Section 5.3.1, Citizens Sycamore-Penasquitos Transmission shall be deemed to be treated as a corporation for tax purposes. For purposes of this Section 5.3.1, the following terms shall have the following meanings:

(a) “Net After-Tax Cash Flow” means, for any calendar year, the excess, if any, of (i) all Revenues received by Citizens Sycamore-Penasquitos Transmission with respect to such year over (ii) the sum, without duplication, of (A) all Expenses paid by Citizens Sycamore-Penasquitos Transmission with respect to such year, and (B) all interest, principal, fees, premiums and make-whole amounts paid and amounts used to fund cash reserves with respect to such year by Citizens Sycamore-Penasquitos Transmission with respect to its indebtedness (excluding therefrom any such amounts to the extent paid with funds on deposit in reserve accounts), in all cases, to the extent associated with the Citizens Transfer Capability.

(b) “Expenses” means the sum, computed without duplication, of all cash operating and maintenance expenses and capital expenditures of Citizens Sycamore-Penasquitos Transmission, and required reserves in respect of any such expenses, in all cases, associated with the Citizens Transfer Capability, including (without duplication) (i) all amounts paid by Citizens Sycamore-Penasquitos Transmission under this Lease (other than the Prepaid Rent) plus (ii) all costs described in Section 4.3.1 plus (iii) all federal, state and local income taxes that would be payable by Citizens Sycamore-Penasquitos Transmission if Citizens Sycamore-Penasquitos Transmission were treated as a corporation for tax purposes plus (iv) any new taxes, income taxes, property taxes, fees or other charges being levied by a Governmental Authority described in Section 4.3.3 paid by Citizens Sycamore-Penasquitos Transmission plus (v) payments made by Citizens Sycamore-Penasquitos Transmission to programs or entities assisting low income persons of San Diego County to participate in the electrification of transportation, including the purchase of electric vehicles and related equipment, in all cases, to the extent associated with the Citizens Transfer Capability. Expenses shall not include (A) any of the foregoing expenses to the extent paid with funds on deposit in reserve accounts, (B) distributions of any kind by Citizens Sycamore-Penasquitos Transmission made with respect to its equity interests held by any of its affiliates, (C) depreciation or obsolescence charges or reserves therefor, amortization of intangibles, or other bookkeeping entries of a similar non-cash nature and (D) expenses covered by the proceeds of insurance that are not included in the definition of Revenues below.

(c) “Revenues” means all income, revenues, and receipts (without duplication) received by Citizens Sycamore-Penasquitos Transmission that are derived from, or associated with, the Citizens Transfer Capability, including, without limitation, revenues from (i) the total annual authorized revenue requirement of Citizens Sycamore-Penasquitos Transmission associated with the Citizens Transfer Capability as approved by the FERC, (ii) proceeds of any business interruption or other insurance received by Citizens Sycamore-Penasquitos Transmission, plus (iii) the proceeds of any condemnation awards relating to the Lease received by Citizens Sycamore-Penasquitos Transmission, plus (iv) all investment income on balances of funds held in the accounts of Citizens Sycamore-Penasquitos Transmission, plus (v) at the maturity of all of Citizens Sycamore-Penasquitos Transmission’s indebtedness, all balances of funds held in reserve accounts of Citizens Sycamore-Penasquitos Transmission, in all cases, to the extent derived from, or associated with, the Citizens Transfer Capability.

5.3.2 Information Sharing. Upon reasonable notice, Citizens Sycamore-Penasquitos Transmission shall provide information related to the Project as may be reasonably requested by SDG&E including but not limited to information regarding Citizens Sycamore-Penasquitos Transmission’s performance of its obligations under Section 5.3.1.

5.3.3 Control. At all times during the Term, Citizens Sycamore-Penasquitos Transmission shall execute any documents reasonably requested by SDG&E and provide any other cooperation reasonably requested by SDG&E in order to cause the Citizens Transfer Capability to be under the Operational Control of the System Operator.

5.3.4 Local Furnishing Bonds. Citizens Sycamore-Penasquitos Transmission agrees that during the Term of the Lease, it shall, or it shall use commercially reasonable efforts to cause the System Operator to, undertake its Operational Control of the Citizens Transfer Capability consistent with the Local Furnishing Bond Encumbrances, as may be amended, modified, or supplemented from time to time pursuant to applicable law.

ARTICLE VI. EVENTS OF DEFAULT; REMEDIES

6.1 Events of Default. An “Event of Default” shall mean, with respect to either Party (a “Defaulting Party”), the occurrence of any of the following:

6.1.1 Failure to Make Payment. A Party shall fail to make payments for amounts due under this Lease within 30 days after notice that such payment is past due.

6.1.2 Failure to Perform. A Party shall fail to comply with any other material provision of this Lease, and any such failure shall continue uncured for 30 days after notice thereof, provided that if such failure is not capable of being cured within such period of 30 days with the exercise of reasonable diligence, then such cure period shall be extended for an additional reasonable period of time so long as the Defaulting Party is exercising commercially reasonable efforts to cure such failure.

6.1.3 Failure of Representation. Any representation made by a Party hereunder shall fail to be true in any material respect at the time such representation is given and such failure shall not be cured within 30 days after notice thereof by the non-Defaulting Party.

6.1.4 System Operator Control. Any of the Citizens Transfer Capability shall fail to be:

(a) provided for the benefit of and made available to CAISO Eligible Customers at rates, terms and conditions deemed just and reasonable and not unduly discriminatory by FERC pursuant to Section 205 of the Federal Power Act, or

(b) in the Balancing Authority Area and under the Operational Control of the CAISO, or a successor System Operator designated by SDG&E;

and any such failure shall continue uncured for 90 days after Notice thereof from SDG&E to Citizens Sycamore-Penasquitos Transmission.

6.1.5 Assignment. The failure to comply with the assignment and subletting provisions of Section 11.1 and Section 11.2.

6.1.6 Bankruptcy. Such Party becomes bankrupt.

6.2 Remedies. Subject to Article XII and Section 6.3, if an Event of Default occurs and is continuing, the non-Defaulting Party shall have the right to pursue all remedies available at law or in equity, including without limitation, the right to institute an action, suit or proceeding in equity for specific performance of the obligations under this Lease.

6.3 Limitation on Liability. THERE IS NO WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT TO ANY PRODUCT, AND ANY AND ALL IMPLIED WARRANTIES ARE DISCLAIMED. THE OBLIGOR'S LIABILITY SHALL BE LIMITED TO DIRECT ACTUAL DAMAGES ONLY, SUCH DIRECT ACTUAL DAMAGES TO BE THE SOLE AND EXCLUSIVE REMEDY AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY (OTHER THAN INJUNCTIVE RELIEF AS PROVIDED IN THIS LEASE) ARE WAIVED. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS LEASE, NEITHER PARTY SHALL BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, SPECIAL, EXEMPLARY, INCIDENTAL, PUNITIVE, LOST PROFITS, BUSINESS INTERRUPTION OR CONSEQUENTIAL DAMAGES WHATSOEVER UNDER ANY THEORY, INCLUDING BY STATUTE, CONTRACT, TORT (INCLUDING NEGLIGENCE) OR STRICT LIABILITY, UNDER ANY INDEMNITY PROVISION SET FORTH IN THIS LEASE OR OTHERWISE (EXCEPT TO THE EXTENT SUCH DAMAGES ARE THIRD PARTY CLAIMS FOR WHICH A PARTY IS LIABLE AND FOR WHICH THE OTHER PARTY HAS AN INDEMNITY OBLIGATION HEREUNDER), RESULTING FROM A PARTY'S PERFORMANCE OR NONPERFORMANCE OF ITS OBLIGATIONS UNDER OR TERMINATION OF THIS LEASE. THE PARTIES INTEND THAT THE LIMITATIONS HEREIN IMPOSED ON REMEDIES AND THE MEASURE OF DAMAGES BE WITHOUT REGARD TO THE CAUSE OR CAUSES RELATED THERETO, INCLUDING THE

NEGLIGENCE OF ANY PARTY, WHETHER SUCH NEGLIGENCE BE SOLE, JOINT OR CONCURRENT, OR ACTIVE OR PASSIVE. NOTHING IN THIS SECTION PREVENTS OR IS INTENDED TO PREVENT A PARTY FROM SEEKING SPECIFIC PERFORMANCE UNLESS PERFORMANCE IS OTHERWISE EXCUSED HEREIN. THE PROVISIONS OF THIS SECTION 6.3 SHALL NOT BE CONSTRUED TO RELIEVE ANY INSURER OF ITS OBLIGATION TO PAY ANY INSURANCE PROCEEDS IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF VALID AND ENFORCEABLE INSURANCE POLICIES.

ARTICLE VII. REPRESENTATIONS AND WARRANTIES

7.1 SDG&E. As of the Effective Date, SDG&E represents and warrants as follows:

7.1.1 Organization and Existence. SDG&E is a duly organized and validly existing corporation in good standing under the laws of the State of California and is qualified to transact business in all jurisdictions where the ownership of its properties or its operations require such qualification, except where the failure to so qualify would not have a material adverse effect on its financial condition, its ability to own its properties or transact its business, or to carry out the transactions and activities contemplated hereby.

7.1.2 Execution, Delivery and Enforceability. SDG&E has full corporate power and authority to carry on its business as now conducted, enter into, and to carry out its obligations under this Lease. The execution, delivery and performance by SDG&E of this Lease, and the consummation of the transactions and activities contemplated under this Lease, have been duly authorized by all necessary corporate action required on the part of SDG&E. This Lease has been duly and validly executed and delivered by SDG&E and constitutes the valid and legally binding obligations of SDG&E, enforceable against SDG&E in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application relating to or affecting the enforcement of creditors' rights and by general equitable principles.

7.1.3 No Violation. None of the execution and delivery of this Lease, the compliance with any provision hereof, nor the consummation of the transactions and activities contemplated hereby will: (1) violate or conflict with, or result in a breach or default under, any provisions of the articles of incorporation or bylaws of SDG&E or any material agreement to which SDG&E is a party or by which its assets are bound; or (2) violate or conflict with, or result in a breach or default under, any applicable law or regulation of any Governmental Authority. *[Note to form: confirm that there will not be any outstanding regulatory consents required upon the Effective Date.]*

7.2 Citizens Sycamore-Penasquitos Transmission. As of the Effective Date, Citizens Sycamore-Penasquitos Transmission represents and warrants as follows:

7.2.1 Organization and Existence. Citizens Sycamore-Penasquitos Transmission is a duly organized and validly existing limited liability company in good standing under the laws of the State of Delaware and is qualified to transact business in all jurisdictions where the ownership of its properties or its operations require such qualification, except where the failure to so qualify would not have a material adverse effect on its financial condition, its

ability to own its properties or transact its business, or to carry out the transactions and activities contemplated hereby.

7.2.2 Execution, Delivery and Enforceability. Citizens Sycamore-Penasquitos Transmission has full company power and authority to carry out its obligations under this Lease. The execution, delivery and performance by Citizens Sycamore-Penasquitos Transmission of this Lease, and the consummation of the transactions and activities contemplated under this Lease, have been duly authorized by all necessary company action required on the part of Citizens Sycamore-Penasquitos Transmission. This Lease has been duly and validly executed and delivered by Citizens Sycamore-Penasquitos Transmission and constitutes the valid and legally binding obligations of Citizens Sycamore-Penasquitos Transmission, enforceable against Citizens Sycamore-Penasquitos Transmission in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application relating to or affecting the enforcement of creditors' rights and by general equitable principles.

7.2.3 No Violation. None of the execution and delivery of this Lease, the compliance with any provision hereof, nor the consummation of the transactions and activities contemplated hereby will: (1) violate or conflict with, or result in a breach or default under, any provisions of the certificate of formation or operating agreement of Citizens Sycamore-Penasquitos Transmission or any material agreement to which Citizens Sycamore-Penasquitos Transmission is a party or by which its assets are bound; or (2) violate or conflict with, or result in a breach or default under, any applicable law or regulation of any Governmental Authority. *[Note to form: confirm that there will not be any outstanding regulatory consents required upon the Effective Date.]*

7.2.4 No Objection to Current Design. Citizens Sycamore-Penasquitos Transmission has no objection to the proposed schedule, plans, specifications, and design of the Project to the extent described in SDG&E's CPCN Application, the Final EIR, and the CPCN Decision.

ARTICLE VIII. TAXES AND ASSESSMENTS

8.1 Property Taxes. The Parties contemplate that the Property Taxes on the Underground Segment B will be assessed by the California State Board of Equalization. If the Property Taxes on the Underground Segment B are assessed against and paid by SDG&E and no Property Taxes are assessed on the Citizens Transfer Capability against Citizens Sycamore-Penasquitos Transmission, then the Additional Rent for any period shall include the Applicable Portion of Property Taxes for such period. If the Property Taxes on the Underground Segment B are assessed against and paid by both SDG&E and Citizens Sycamore-Penasquitos Transmission, then the Additional Rent for any period shall be adjusted so that Citizens Sycamore-Penasquitos Transmission bears the cost of the Applicable Portion of Property Taxes either by reimbursement to SDG&E or payment directly to taxing authorities and SDG&E bears the remainder of the costs of such Property Taxes. If during the Term the regulatory regime by which Property Taxes are assessed shall change, then the Parties shall make appropriate adjustments to this Section 8.1 so that Citizens Sycamore-Penasquitos Transmission bears the cost of the Applicable Portion of Property Taxes either by reimbursement to SDG&E or payment directly to taxing authorities.

8.2 Section 467 Rental Agreement. It is the intention of the Parties that (i) this Lease constitute a “Section 467 rental agreement” within the meaning of Section 467(d)(1) of the U.S. Internal Revenue Code and (ii) that prepaid rent accrue for U.S. tax purposes in accordance with Section 467(b)(1) of the U.S. Internal Revenue Code, and the provisions of this Lease shall to the fullest extent feasible be construed consistent with such intention. Attached as Exhibit B is a schedule allocating the Prepaid Rent over the Term, and as shown on such schedule, the Parties shall treat items of income and expense in a reciprocal manner. The Parties shall report the Prepaid Rent as accruing for tax purposes quarterly in arrears. The Parties shall treat the Prepaid Rent to the extent it exceeds the rent that has accrued as a loan by Citizens Sycamore-Penasquitos Transmission to SDG&E that bears interest at a rate equal to 110% of the “applicable Federal rate” as required by Section 467(e)(4) of the U.S. Internal Revenue Code. [Note to form: include the final Exhibit B in the final execution version]

8.3 Tax Benefits. As the owner of the residual interest in the Citizens Transfer Capability after the expiration or earlier termination of this Lease, SDG&E may be deemed to be the tax owner of the entire Underground Segment B and may be entitled to receive tax credits or benefits, including bonus tax depreciation deductions, in connection with its ownership of the Underground Segment B that Citizens Sycamore-Penasquitos Transmission may not be entitled to receive in connection with its ownership of a leasehold interest in the Underground Segment B. To the same extent that SDG&E seeks such tax credits or benefits related to its interest in the Underground Segment B, SDG&E shall also seek such tax credits or benefits related to Citizens Sycamore-Penasquitos Transmission’s interest in the Underground Segment B. To the extent SDG&E realizes such tax credits or benefits related to Citizens Sycamore-Penasquitos Transmission’s interest in the Underground Segment B and only to the extent such tax credits or benefits are not already accounted for in the SDG&E Representative Rate model, SDG&E shall pay or credit against Additional Rent otherwise payable hereunder by Citizens Sycamore-Penasquitos Transmission each year an amount equal to the annual revenue requirement reduction SDG&E could have realized from ratepayers if SDG&E could reduce its rates associated with such tax credits or benefits related to Citizens Sycamore-Penasquitos Transmission’s interest in the Underground Segment B, as may be reasonable and appropriate for the particular tax credit or benefit. The Parties acknowledge that neither the tax credits or benefits that SDG&E may be entitled to nor the potential reduction in SDG&E’s rates associated with such tax credits or benefits, each as described under this Section 8.3, are fully known to the Parties as of the Effective Date. Accordingly, the Parties shall cooperate to determine a reasonable and equitable payment amount under this Section 8.3 each year of the Term.

ARTICLE IX. INSURANCE; INDEMNITY

9.1 Insurance. SDG&E shall insure the Project in accordance with its standard practices with respect to transmission projects. If SDG&E does not apply the insurance proceeds it receives directly attributable to the damage or destruction of the Underground Segment B toward the repair, reconstruction, or replacement of the Underground Segment B, then subject to the SDG&E Indenture, SDG&E shall pay to Citizens Sycamore-Penasquitos Transmission a pro rata share of such insurance proceeds to the extent of its interest remaining in the Underground Segment B. If SDG&E does apply the insurance proceeds it receives directly attributable to the damage or destruction of the Underground Segment B toward the repair, reconstruction, or replacement of the Underground Segment B and SDG&E incurs additional capital costs

(including any deductibles) beyond such insurance proceeds for the repair, reconstruction or replacement of the Underground Segment B, the Citizens Percentage Interest shall be adjusted pursuant to Section 3.5 in respect of such additional capital costs only (and not in respect of the insurance proceeds).

9.2 Indemnity. A Party shall not be liable to the other Party for any liability, loss, claim, damage, cost or expense to the extent caused by or arising as a result of the gross negligence or willful misconduct of such other Party, its officers, employees, representatives, advisors, contractors or agents, or to the extent caused by or arising as a result of the gross negligence or willful misconduct of any other person (other than such first Party or its employees, contractors or agents) entering upon the Project site under invitation of such other Party, and such other Party agrees to indemnify, defend and hold harmless such first Party and its successors, assigns, officers, employees, representatives, advisors, contractors and agents from any liability, loss, claim, damage, cost or expense suffered or incurred by such first Party by reason of the gross negligence or willful misconduct of such other Party, its officers, employees, representatives, advisors, contractors or agents, or to the extent caused by or arising as a result of the gross negligence or willful misconduct of any other person (other than such first Party or its employees, contractors or agents) entering upon the Project site under invitation of such other Party.

ARTICLE X. CASUALTY; CONDEMNATION; FORCE MAJEURE

10.1 Condemnation. In the event all or a portion of the Project is temporarily or permanently condemned, each Party shall be entitled to separately apply for and claim all compensation from the condemning entity and be entitled to whatever it is awarded.

10.2 Casualty. In the event of a casualty affecting the Underground Segment B, SDG&E shall seek to restore service on the Underground Segment B consistent with its general practices applicable to its transmission system.

10.3 Force Majeure. Notwithstanding anything in this Lease to the contrary, if a Party's performance is impacted by Force Majeure, the affected Party shall be excused from performing its affected obligations under this Lease (other than the obligation to make payments with respect to obligations arising prior to the event of Force Majeure) and shall not be liable for damages or other liabilities due to its failure to perform, during any period that such Party is unable to perform due to an event of Force Majeure; provided, however, that the Party declaring an event of Force Majeure shall: (i) act expeditiously to resume performance; and (ii) exercise all commercially reasonable efforts to mitigate or limit damages to the other Party. A Party unable to perform under this Lease due to an event of Force Majeure shall: (i) provide prompt written notice of such event of Force Majeure to the other Party, which shall include an estimate of the expected duration of the Party's inability to perform due to the event of Force Majeure; and (ii) provide prompt notice to the other Party when performance resumes.

ARTICLE XI. ASSIGNMENT AND SUBLETTING

11.1 No Sublet. Citizens Sycamore-Penasquitos Transmission shall not sublet all or any portion of the Citizens Transfer Capability.

11.2 Assignment. Neither Party shall assign this Lease without the prior written consent of the other Party, which consent shall not be unreasonably conditioned, delayed or withheld; provided, that no such consent shall be required for (i) subject to Section 11.3, a collateral assignment of, or creation of a security interest in, this Lease in connection with any financing or refinancing of the Project or the Rent due hereunder, or (ii) in the case of SDG&E, an assignment in connection with the merger of SDG&E with, or the acquisition of substantially all of the transmission assets of SDG&E. Any assignee shall have an equal or greater credit rating as SDG&E and the legal authority and operational ability to satisfy the obligations of SDG&E hereunder. For the avoidance of doubt, any assignment by Citizens Sycamore-Penasquitos Transmission shall also require any third party assignee to continue to make contributions in accordance with Section 5.3.1 of this Lease. For purposes hereof, the transfer of more than fifty percent (50%) of the equity ownership or voting interest of any Party (or any parent entity holding directly or indirectly at least fifty percent (50%) of the equity ownership or voting interest of such Party) where the fair market value of such Party's interest in the Underground Segment B is greater than thirty percent (30%) of the fair market value of the assets of such Party or such parent entity to a person that is not an affiliate of such Party shall also constitute an assignment of this Lease requiring the other Party's prior written consent.

11.3 Form of Collateral Assignment. In connection with any financing or refinancing of the Citizens Transfer Capability, Citizens Sycamore-Penasquitos Transmission and SDG&E shall, and Citizens Sycamore-Penasquitos Transmission shall cause each lender to, enter into a consent to collateral assignment in a customary form that is mutually agreeable to the Parties in their reasonable discretion.

11.4 Right of First Refusal. Except in connection with (i) a collateral assignment under clause (i) of Section 11.2 above or (ii) any foreclosure sale or deed in lieu of foreclosure in connection with the exercise of remedies under such collateral assignment, SDG&E shall have the right of first refusal with respect to any proposed assignment by Citizens Sycamore-Penasquitos Transmission of all or any portion of its interest in this Lease. In the event Citizens Sycamore-Penasquitos Transmission receives a bona fide offer from an unaffiliated third party to purchase all or any portion of the interest of Citizens Sycamore-Penasquitos Transmission in this Lease that Citizens Sycamore-Penasquitos Transmission desires to accept, Citizens Sycamore-Penasquitos Transmission shall provide SDG&E with a copy of the bona fide third party purchase offer within five Business Days following receipt thereof. For a period of 90 days following SDG&E's receipt of the bona fide third party purchase offer, SDG&E shall have the right to purchase such interest as set forth in the offer on the same terms and conditions set forth in such offer (excluding any required commitment from a third party to continue making the contributions in accordance with Section 5.3.1 of this Lease) and to conduct due diligence regarding the contemplated purchase. In the event that SDG&E elects to exercise its right, SDG&E and Citizens Sycamore-Penasquitos Transmission shall close the purchase and sale of the interest in this Lease upon the terms and conditions contained in the offer. In the event that SDG&E elects not to exercise its right and subject to SDG&E's prior written consent under Section 11.2 above, Citizens Sycamore-Penasquitos Transmission shall be free to sell such interest to the third party that made the offer on terms and conditions no more favorable to Citizens Sycamore-Penasquitos Transmission than those contained in the offer. In the event that such sale is not consummated within 12 months following SDG&E's failure to exercise this right of first refusal, then SDG&E's right of first refusal shall be revived with respect to such sale. In

the event that there is a material revision in any offer in favor of any prospective purchaser, then SDG&E's right of first refusal shall be revived so that SDG&E again has the right of first refusal to purchase the interest in this Lease on the revised terms.

ARTICLE XII. DISPUTE RESOLUTION

12.1 Intent of the Parties. The sole procedure to resolve any claim arising out of or relating to this Lease or any related agreement is the dispute resolution procedure set forth in this Article XII; provided, however, that either Party may seek a preliminary injunction or other provisional judicial remedy if such action is necessary to prevent irreparable harm or preserve the status quo, in which case both Parties nonetheless will continue to pursue resolution of the dispute by means of this procedure and nothing in this Section 12.1 shall restrict the rights of any party to file a complaint with the FERC under relevant provisions of the Federal Power Act.

12.2 Management Negotiations. The Parties will attempt in good faith to resolve any controversy or claim arising out of or relating to this Lease or any related agreements by prompt negotiations between each Party's authorized representative. If the matter is not resolved thereby, either Party's authorized representative may request in writing that the matter be referred to the designated senior officers of their respective companies that have corporate authority to settle the dispute. Within five Business Days after such referral date (the "Referral Date"), each Party shall provide one another Notice confirming the referral and identifying the name and title of the senior officer who will represent such Party. Within five Business Days after such Referral Date, the senior officers shall establish a mutually acceptable location and date to meet which shall not be greater than 30 days after such Referral Date. After the initial meeting date, the senior officers shall meet, as often as they reasonably deem necessary, to exchange relevant information and to attempt to resolve the dispute. All communication and writing exchanged between the Parties in connection with these negotiations shall be confidential and shall not be used or referred to in any subsequent binding adjudicatory process between the Parties. If the matter is not resolved within 45 days of such Referral Date, or if either Party refuses or does not meet within the 30 day period specified above, either Party may initiate arbitration of the controversy or claim by providing notice of a demand for binding arbitration at any time thereafter.

12.3 Arbitration. Any dispute that cannot be resolved by management negotiations as set forth in Section 12.2 above shall be resolved through binding arbitration by a retired judge or justice from the American Arbitration Association panel conducted in San Diego, California, administered by and in accordance with American Arbitration Association Commercial Arbitration Rules.

- (a) The Parties shall cooperate in good faith with one another in selecting the arbitrator within 60 days after Notice of the demand for arbitration. Absent mutual agreement on a different method of selecting an arbitrator within 15 days of a demand for arbitration, the Parties shall request a list of potential arbitrators having the minimum qualifications set forth in this Section 12.3 from the Commercial Roster of the American Arbitration Association. Each Party shall then strike the potential arbitrators unacceptable to it, and the Parties shall exchange lists of strikes until either (i) they have selected a single eligible and available arbitrator by mutual agreement, or (ii) they have selected a list of not

more than five arbitrators acceptable to each Party. In the latter case, the Parties (if unable to agree on a single arbitrator) shall provide the list of five arbitrators to American Arbitration Association and request the American Arbitration Association to select the arbitrator. Any arbitrator shall have no affiliation with, financial or other interest in, or prior employment with either Party and shall have a minimum of ten years experience in the field of the dispute.

(b) Each Party shall provide the documents in its possession, custody or control which it believes to support its position in arbitration to the other Party within 30 days of the demand, and shall supplement its provision of such documents in a reasonable manner as additional documents come to light. Each Party shall be entitled to make not more than two requests for production of documents prior to the commencement of the hearing. Depositions shall be limited to a maximum of three per Party and shall be held within 30 days of the making of a request. Additional depositions may be scheduled only with the permission of the arbitrator, and for good cause shown. Each deposition shall be limited to a maximum of seven hours duration unless otherwise permitted by the arbitrator for good cause shown. All objections are reserved for the arbitration hearing except for objections based on privilege and proprietary and confidential information. The arbitrator shall also have discretion to order the Parties to exchange relevant documents. The arbitrator shall also have discretion to order the Parties to answer not more than 25 interrogatories (including subparts), upon good cause shown.

(c) The arbitrator's award shall be made within nine months of the filing of the notice of intention to arbitrate (demand) and the arbitrator shall agree to comply with this schedule before accepting appointment. However, this time limit may be extended for one period of up to 30 days by agreement of the Parties or by the arbitrator, if necessary.

(d) The prevailing Party in this dispute resolution process is entitled to recover its costs, including reasonable attorneys' fees, as determined by the arbitrator. Until such award is made, however, the Parties shall share equally in paying the costs of the arbitration.

(e) The arbitrator shall have the authority to grant dispositive motions prior to the commencement of or following the completion of discovery if the arbitrator concludes that there is no material issue of fact pending before the arbitrator.

(f) The existence, content, and results of any arbitration hereunder shall be confidential information subject to the provisions of Section 13.2.

12.4 Enforcement of Award. By execution and delivery of this Lease, each Party hereby (a) accepts and consents to the use of binding arbitration pursuant to the American Arbitration Association's Commercial Arbitration Rules and other procedures described in this Article XII, and, solely for purposes of the enforcement of an arbitral award under this Section

12.4, to the jurisdiction of any court of competent jurisdiction, for itself and in respect of its property, and (b) waives, solely for purposes of the enforcement of an arbitral award under this Section 12.4, in respect of both itself and its property, all defenses it may have as to or based on jurisdiction, improper venue or forum non conveniens. Each Party hereby irrevocably consents to the service of process or other papers by the use of any of the methods and to the addresses set out for the giving of notices in Section 13.1 hereof. Nothing herein shall affect the right of each Party to serve such process or papers in any other manner permitted by law.

12.5 Performance during Arbitration. While resolution of any dispute is pending, each Party shall continue to perform its obligations hereunder (unless such Party is otherwise entitled to suspend its performance hereunder or terminate this Lease in accordance with the terms hereof), and no Party shall refer or attempt to refer the matter in dispute to a court or other tribunal in any jurisdiction, except as provided in this Article XII.

ARTICLE XIII. MISCELLANEOUS

13.1 Notices. Unless otherwise specified herein, all notices shall be in writing and delivered by hand, overnight mail or facsimile or e-mail (if facsimile numbers or e-mail addresses are identified below or by subsequent notice and provided a copy is also sent by overnight mail) to the applicable addresses below. A notice delivered in accordance herewith shall be deemed received (i) on the date of delivery, if hand delivered, (ii) two Business Days after the date of sending, if sent by a nationally recognized overnight courier, or at such earlier time as is confirmed by the receiving Party, (iii) three Business Days after the date of mailing, if mailed by registered or certified mail, return receipt requested, or at such earlier time as is confirmed by the receiving Party, and (iv) on the Business Day on which such notice was transmitted by facsimile transmission or e-mail (where permitted); provided, however, that a notice delivered in accordance with this Section but received on any day other than a Business Day or after 5:00 p.m. in the place of receipt will be deemed received on the next Business Day. A Party may change its address for notices by providing notice of the same in accordance with this Section 13.1.

If to SDG&E:

San Diego Gas & Electric
8330 Century Park Court
San Diego, CA 92123
Attention: Vice President – [Electric Engineering & Construction]
Fax: [858-650-6106]

With a copy to:

San Diego Gas & Electric
8330 Century Park Court
San Diego, CA 92123
Attention: Assistant General Counsel – Commercial
Fax: [619-696-4443]

If to Citizens Sycamore-Penasquitos Transmission:
Citizens Sycamore-Penasquitos Transmission
88 Black Falcon Ave. Suite 342
Boston, MA 02210
Attention: Chief Operating Officer
Fax: 617-542-4487

With copies to:
Duncan & Allen
1730 Rhode Island Avenue, N.W., Suite 700
Washington, D.C., 20036
Attention: Counsel to Citizens Energy Corporation
Fax: 202-289-8450

and

Hemenway & Barnes
60 State Street
Boston Massachusetts 02109-1899.
Attention: Stephen Kidder
Fax: 617-227-0781

13.2 Confidentiality. During the Term and for a period of three years after the expiration the Term, the Parties shall keep confidential any confidential information relating to the Project obtained from the other Party, and shall refrain from using, publishing or revealing such confidential information without the prior written consent of the Party whose confidential information the disclosing Party is seeking to disclose, unless (a) compelled to disclose such document or information to a securities exchange or by judicial, regulatory or administrative process or other provisions of law; (b) such document or information is generally available to the public; (c) such document or information was available to the disclosing Party on a non-confidential basis; (d) such document or information was available to the disclosing Party on a non-confidential basis from a third-party, provided that the disclosing Party does not know, and, by reasonable effort, could not know that such third-party is prohibited from transmitting the document or information to the receiving Party by a contractual, legal or fiduciary obligation; or (e) such document or information is necessary to support a rate case or other regulatory filing with a Governmental Authority, provided that, the Party disclosing such document or information must make reasonable efforts to maintain confidentiality with respect to any proprietary information.

13.3 Public Relations. The Parties will cooperate in good faith with each other and, to the extent reasonable, seek mutual approval with respect to any public announcements regarding this Lease or Citizens Sycamore-Penasquitos Transmission's participation in the Project.

13.4 Governing Law. This Lease and the obligations hereunder shall be governed by the laws of the State of California, without regard to principles of conflicts of law.

13.5 No Amendments or Modifications. This Lease shall not be amended, modified, terminated, discharged or supplemented, nor any provision hereof waived, unless mutually agreed to in writing by the Parties. If and to the extent that the CAISO Agreements are amended or modified such that a Party or the Parties can no longer comply with the terms of this Lease, the Parties shall negotiate in good faith to amend or modify this Lease to effectuate the same intent and essential purpose of this Lease as of the Effective Date in light of the CAISO Agreements amendment or modification.

13.6 Delay and Waiver. Except as otherwise provided in this Lease, no delay or omission to exercise any right, power or remedy accruing to the respective Parties hereto upon any breach or default of any other Party under this Lease shall impair any such right, power or remedy, nor shall it be construed to be a waiver of any such similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character of any breach or default under this Lease, or any waiver of any provision or condition of this Lease, must be in writing and shall be effective only to the extent specifically set forth in such writing.

13.7 Entirety; Conflicts. This Lease constitutes the entire agreement between the Parties hereto. There are no prior or contemporaneous agreements or representations affecting the same subject matter other than those herein expressed. In the event of any conflicts or inconsistencies between the terms Lease and the DCOA, the terms of this Lease shall govern and prevail.

13.8 Relationship of the Parties. Except as otherwise set forth herein, this Lease shall not make any of the Parties partners or joint venturers one with the other, nor make any the agent of the others. Except as otherwise explicitly set forth herein, no Party shall have any right, power or authority to enter into any agreement or undertaking for, or act on behalf of, or to act as or be an agent or representative of, or to otherwise bind, the other Party. Notwithstanding anything to the contrary, no fiduciary duty or fiduciary relationship shall exist between the Parties.

13.9 Good Faith. In carrying out its obligations and duties under this Lease, each Party shall have an implied obligation of good faith.

13.10 Successors and Assigns. This Lease shall inure to the benefit of, and be binding upon, the Parties hereto and their respective successors and permitted assigns.

13.11 Third Parties. This Lease is intended solely for the benefit of the Parties. Nothing in this Lease shall be construed to create any duty or liability to, or standard of care with reference to, any Person other than the Parties.

13.12 Headings. The headings contained in this Lease are solely for the convenience of the Parties and should not be used or relied upon in any manner in the construction or interpretation of this Lease.

13.13 Construction of Lease. Ambiguities or uncertainties in the wording of this Lease shall not be construed for or against any Party either on account of such Party having drafted or

provided any language in this Lease or otherwise, and shall be construed in accordance with the fair meaning of this Lease.

13.14 Counterparts. This Lease may be executed in one or more counterparts, each of which shall be deemed an original.

13.15 Memorandum. Concurrently with the execution and delivery of this Lease, the Parties will execute a memorandum of this Lease in a customary form that is mutually agreeable to the Parties in their reasonable discretion (the "Memorandum"), which Memorandum shall be recorded in the official real estate records of San Diego County, California. Nothing contained therein shall be deemed or construed to in any way modify or otherwise affect any of the terms and conditions of this Lease or to create any inference about the characterization of the leasehold interest as real property or personalty. Further, nothing in this Lease or therein shall be deemed an assignment, in whole or in part, of any right or interest in SDG&E's franchise agreement with the City of San Diego, SDG&E's franchise agreement with the County of San Diego, SDG&E's crossing/encroachment permit with the State of California Department of Transportation (CalTrans), or SDG&E's other rights-of-way, easements, or other real property entitlements along the alignment of the Underground Segment B. The provisions of this Lease will control with regard to any provisions of this Lease that may be in conflict with the Memorandum.

13.16 Subordinate to SDG&E Indenture. Citizens Sycamore-Penasquitos Transmission acknowledges and agrees that at all times this Lease, Citizens Sycamore-Penasquitos Transmission's rights arising under this Lease, and all liens, encumbrances, or recordings securing or evidencing any of the foregoing are and shall be subject to and subordinate to the SDG&E Indenture, any modifications, amendments, renewals or extensions thereof, and all liens, encumbrances, or recordings securing or evidencing the SDG&E Indenture.

[Signature page follows]

IN WITNESS WHEREOF, the Parties have signed this Transfer Capability Lease as of the Effective Date.

SDG&E:

SAN DIEGO GAS & ELECTRIC COMPANY,
a California corporation

By: _____
Name:
Title:

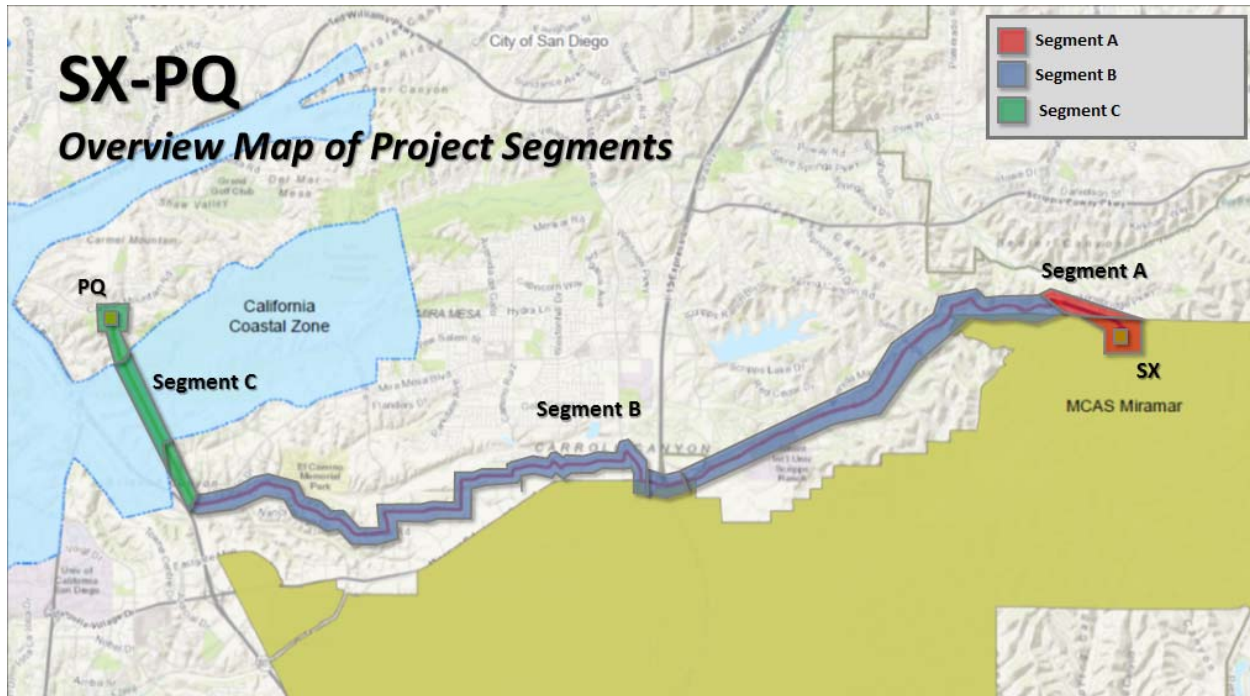
**CITIZENS SYCAMORE-PENASQUITOS
TRANSMISSION:**

CITIZENS SYCAMORE-PENASQUITOS
TRANSMISSION LLC,
a Delaware limited liability company

By: _____
Name:
Title:

SCHEDULE 1.1

Project Diagram



Project Segments:

- **Segment A: Sycamore Canyon Substation – Stonebridge Parkway Segment**
(0.9 miles) New 230 kV steel poles in existing ROW
- **Segment B: Underground Segment**
(11.5 miles) New underground 230 kV line in existing franchise position (City streets)
- **Segment C: Carroll Canyon Road – Penasquitos Substation Segment**
(2.2 miles) New 230 kV conductor on existing steel structures

Exhibit A

Model for SDG&E Representative Rate

(See attached CD entitled “Exhibit A to Transfer Capability Lease, dated [*insert date at time of execution*]” containing the model in a Microsoft Excel worksheet file)

[Note to form: The final model as of the Effective Date will be populated with the actual Moody’s Aa 30-year Utility Bond Index, the actual Costs of Transfer Capability, and the portion of the actual Costs of Transfer Capability that is actual SDG&E AFUDC, all of which will be known at the time of execution. The Model template for the SDG&E Representative Rate at the time of execution of the DCOA is the file titled “LD2D-#312576-v7-SXPQ_Citizens_Lease_SDGE_Representative_Rate_Model.XLSX.”]

Example of SDG&E Representative Rate

[Note to form: The final model as of the Effective Date and this exhibit will be populated with the actual Moody's Aa 30-year Utility Bond Index, the actual Costs of Transfer Capability, and the portion of the actual Costs of Transfer Capability that is actual SDG&E AFUDC, all of which will be known at the time of execution.]

Model Inputs

The Moody's Aa Utility Bond Index	3.71%
Cost of Transfer Capability	29,000,000
AFUDC	\$1,944,386

Calculation of Debt Cost as Input to Model

The Moody's Aa Utility Bond Index	3.71%
Adjustment to Bond Index	0.48% remains fixed "do not change"
Total Debt Cost per Model	<u>4.19%</u>

Calculation of WACC

	<u>Capital Ratio</u>	<u>Cost</u>	<u>WACC</u>	
Debt	44.77%	4.19%	1.88%	
Preferred Equity	0.00%	0.00%	0.00%	remains fixed "do not change"
Common Equity	<u>55.23%</u>	10.05%	<u>5.55%</u>	remains fixed "do not change"
			7.43%	

Revenue Requirement	Total	1 Year-1	2 Year-2	3 Year-3	4 Year-4	5 Year-5	6 Year-6	7 Year-7	8 Year-8	9 Year-9	10 Year-10	11-30 Year-11-58
Depreciation Expense	29,000,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	24,000,000
Return on Common Equity	32,626,123	1,585,808	1,523,615	1,449,913	1,381,697	1,318,437	1,259,655	1,204,116	1,149,903	1,096,095	1,042,665	19,614,218
Return on Preferred Equity	-	-	-	-	-	-	-	-	-	-	-	-
Return on Debt	11,026,438	535,945	514,926	490,018	466,963	445,584	425,717	406,947	388,625	370,440	352,383	6,628,889
Federal Income Taxes	19,075,432	1,025,961	832,865	800,998	764,300	730,655	699,360	669,709	640,616	611,672	582,932	11,716,363
State Income Taxes	6,080,091	271,657	246,901	236,664	226,490	217,093	208,358	200,097	192,018	183,994	176,025	3,920,795
Property Taxes	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue Requirement	97,808,083	3,919,370	3,618,307	3,477,592.4	3,339,450.8	3,211,769.0	3,093,090.2	2,980,869.3	2,871,163.5	2,762,200.9	2,654,004.8	65,880,265.5
Net Present Value (58 yrs)	35,425,173	3,781,469	3,249,662	2,907,369	2,598,873	2,326,713	2,085,834	1,871,193	1,677,731	1,502,478	1,343,826	12,080,024.1
Levelized Annual Amount (30 yrs)	\$2,978,059											

SDG&E Representative Rate	\$2,978,059
---------------------------	-------------

Exhibit B

Accrual of Prepaid Rent

[Note to form: The final table as of the Effective Date will be populated with the actual Prepaid Rent and AFR which will be known at the time of execution. At the time of execution of the DCOA, the model template for determining the values below is the file titled "LD2D-#313963-v2-SXPQ_Citizens_Lease_Amortization_Prepaid_Rent.XLS."]

Project: Sycamore-Penasquitos
 Lessor: SDG&E
 Lessee: Citizens Sycamore-Penasquitos Transmission
 Interest Rate: 0.75% (110% LT SA AFR 05/2017)/4

Quarter	Rent Allocation	Pre-Payment	Allocated Rent	Fraction* (B / A)	Proportional Rent	IRC § 467 Interest	IRC § 467 Rent	IRC § 467 Loan Balance	Net IRC § 467 Income (Loss)
		\$27,000,000						\$27,000,000	
1	\$341,586	-	\$341,586	1.000000	\$341,586	201,825	(\$341,586)	26,860,239	(\$139,761)
2	341,586	-	341,586	1.000000	341,586	200,780	(341,586)	26,719,433	(140,806)
3	341,586	-	341,586	1.000000	341,586	199,728	(341,586)	26,577,574	(141,859)
4	341,586	-	341,586	1.000000	341,586	198,667	(341,586)	26,434,655	(142,919)
5	341,586	-	341,586	1.000000	341,586	197,599	(341,586)	26,290,668	(143,987)
6	341,586	-	341,586	1.000000	341,586	196,523	(341,586)	26,145,604	(145,064)
7	341,586	-	341,586	1.000000	341,586	195,438	(341,586)	25,999,456	(146,148)
8	341,586	-	341,586	1.000000	341,586	194,346	(341,586)	25,852,216	(147,240)
9	341,586	-	341,586	1.000000	341,586	193,245	(341,586)	25,703,874	(148,341)
10	341,586	-	341,586	1.000000	341,586	192,136	(341,586)	25,554,425	(149,450)
11	341,586	-	341,586	1.000000	341,586	191,019	(341,586)	25,403,857	(150,567)
12	341,586	-	341,586	1.000000	341,586	189,894	(341,586)	25,252,165	(151,693)
13	341,586	-	341,586	1.000000	341,586	188,760	(341,586)	25,099,339	(152,826)
14	341,586	-	341,586	1.000000	341,586	187,618	(341,586)	24,945,370	(153,969)
15	341,586	-	341,586	1.000000	341,586	186,467	(341,586)	24,790,250	(155,120)
16	341,586	-	341,586	1.000000	341,586	185,307	(341,586)	24,633,971	(156,279)
17	341,586	-	341,586	1.000000	341,586	184,139	(341,586)	24,476,523	(157,447)
18	341,586	-	341,586	1.000000	341,586	182,962	(341,586)	24,317,899	(158,624)
19	341,586	-	341,586	1.000000	341,586	181,776	(341,586)	24,158,089	(159,810)
20	341,586	-	341,586	1.000000	341,586	180,582	(341,586)	23,997,084	(161,005)
21	341,586	-	341,586	1.000000	341,586	179,378	(341,586)	23,834,876	(162,208)
22	341,586	-	341,586	1.000000	341,586	178,166	(341,586)	23,671,455	(163,421)
23	341,586	-	341,586	1.000000	341,586	176,944	(341,586)	23,506,813	(164,642)

Quarter	Rent Allocation	Pre-Payment	Allocated Rent	Fraction* (B / A)	Proportional Rent	IRC § 467 Interest	IRC § 467 Rent	IRC § 467 Loan Balance	Net IRC § 467 Income (Loss)
24	341,586	-	341,586	1.000000	341,586	175,713	(341,586)	23,340,940	(165,873)
25	341,586	-	341,586	1.000000	341,586	174,474	(341,586)	23,173,827	(167,113)
26	341,586	-	341,586	1.000000	341,586	173,224	(341,586)	23,005,465	(168,362)
27	341,586	-	341,586	1.000000	341,586	171,966	(341,586)	22,835,845	(169,621)
28	341,586	-	341,586	1.000000	341,586	170,698	(341,586)	22,664,956	(170,888)
29	341,586	-	341,586	1.000000	341,586	169,421	(341,586)	22,492,790	(172,166)
30	341,586	-	341,586	1.000000	341,586	168,134	(341,586)	22,319,338	(173,453)
31	341,586	-	341,586	1.000000	341,586	166,837	(341,586)	22,144,588	(174,749)
32	341,586	-	341,586	1.000000	341,586	165,531	(341,586)	21,968,533	(176,056)
33	341,586	-	341,586	1.000000	341,586	164,215	(341,586)	21,791,161	(177,372)
34	341,586	-	341,586	1.000000	341,586	162,889	(341,586)	21,612,464	(178,697)
35	341,586	-	341,586	1.000000	341,586	161,553	(341,586)	21,432,431	(180,033)
36	341,586	-	341,586	1.000000	341,586	160,207	(341,586)	21,251,052	(181,379)
37	341,586	-	341,586	1.000000	341,586	158,852	(341,586)	21,068,317	(182,735)
38	341,586	-	341,586	1.000000	341,586	157,486	(341,586)	20,884,216	(184,101)
39	341,586	-	341,586	1.000000	341,586	156,110	(341,586)	20,698,739	(185,477)
40	341,586	-	341,586	1.000000	341,586	154,723	(341,586)	20,511,876	(186,863)
41	341,586	-	341,586	1.000000	341,586	153,326	(341,586)	20,323,616	(188,260)
42	341,586	-	341,586	1.000000	341,586	151,919	(341,586)	20,133,949	(189,667)
43	341,586	-	341,586	1.000000	341,586	150,501	(341,586)	19,942,863	(191,085)
44	341,586	-	341,586	1.000000	341,586	149,073	(341,586)	19,750,350	(192,513)
45	341,586	-	341,586	1.000000	341,586	147,634	(341,586)	19,556,397	(193,953)
46	341,586	-	341,586	1.000000	341,586	146,184	(341,586)	19,360,995	(195,402)
47	341,586	-	341,586	1.000000	341,586	144,723	(341,586)	19,164,132	(196,863)
48	341,586	-	341,586	1.000000	341,586	143,252	(341,586)	18,965,798	(198,334)
49	341,586	-	341,586	1.000000	341,586	141,769	(341,586)	18,765,981	(199,817)
50	341,586	-	341,586	1.000000	341,586	140,276	(341,586)	18,564,670	(201,311)
51	341,586	-	341,586	1.000000	341,586	138,771	(341,586)	18,361,855	(202,815)
52	341,586	-	341,586	1.000000	341,586	137,255	(341,586)	18,157,523	(204,332)
53	341,586	-	341,586	1.000000	341,586	135,727	(341,586)	17,951,664	(205,859)
54	341,586	-	341,586	1.000000	341,586	134,189	(341,586)	17,744,266	(207,398)
55	341,586	-	341,586	1.000000	341,586	132,638	(341,586)	17,535,319	(208,948)
56	341,586	-	341,586	1.000000	341,586	131,077	(341,586)	17,324,809	(210,510)
57	341,586	-	341,586	1.000000	341,586	129,503	(341,586)	17,112,725	(212,083)
58	341,586	-	341,586	1.000000	341,586	127,918	(341,586)	16,899,056	(213,669)
59	341,586	-	341,586	1.000000	341,586	126,320	(341,586)	16,683,791	(215,266)
60	341,586	-	341,586	1.000000	341,586	124,711	(341,586)	16,466,915	(216,875)

Quarter	Rent Allocation	Pre-Payment	Allocated Rent	Fraction* (B / A)	Proportional Rent	IRC § 467 Interest	IRC § 467 Rent	IRC § 467 Loan Balance	Net IRC § 467 Income (Loss)
61	341,586	-	341,586	1.000000	341,586	123,090	(341,586)	16,248,419	(218,496)
62	341,586	-	341,586	1.000000	341,586	121,457	(341,586)	16,028,290	(220,129)
63	341,586	-	341,586	1.000000	341,586	119,811	(341,586)	15,806,515	(221,775)
64	341,586	-	341,586	1.000000	341,586	118,154	(341,586)	15,583,082	(223,433)
65	341,586	-	341,586	1.000000	341,586	116,484	(341,586)	15,357,979	(225,103)
66	341,586	-	341,586	1.000000	341,586	114,801	(341,586)	15,131,194	(226,785)
67	341,586	-	341,586	1.000000	341,586	113,106	(341,586)	14,902,713	(228,481)
68	341,586	-	341,586	1.000000	341,586	111,398	(341,586)	14,672,525	(230,189)
69	341,586	-	341,586	1.000000	341,586	109,677	(341,586)	14,440,615	(231,909)
70	341,586	-	341,586	1.000000	341,586	107,944	(341,586)	14,206,973	(233,643)
71	341,586	-	341,586	1.000000	341,586	106,197	(341,586)	13,971,583	(235,389)
72	341,586	-	341,586	1.000000	341,586	104,438	(341,586)	13,734,435	(237,149)
73	341,586	-	341,586	1.000000	341,586	102,665	(341,586)	13,495,513	(238,921)
74	341,586	-	341,586	1.000000	341,586	100,879	(341,586)	13,254,806	(240,707)
75	341,586	-	341,586	1.000000	341,586	99,080	(341,586)	13,012,299	(242,507)
76	341,586	-	341,586	1.000000	341,586	97,267	(341,586)	12,767,980	(244,319)
77	341,586	-	341,586	1.000000	341,586	95,441	(341,586)	12,521,834	(246,146)
78	341,586	-	341,586	1.000000	341,586	93,601	(341,586)	12,273,848	(247,986)
79	341,586	-	341,586	1.000000	341,586	91,747	(341,586)	12,024,009	(249,839)
80	341,586	-	341,586	1.000000	341,586	89,879	(341,586)	11,772,302	(251,707)
81	341,586	-	341,586	1.000000	341,586	87,998	(341,586)	11,518,714	(253,588)
82	341,586	-	341,586	1.000000	341,586	86,102	(341,586)	11,263,230	(255,484)
83	341,586	-	341,586	1.000000	341,586	84,193	(341,586)	11,005,836	(257,394)
84	341,586	-	341,586	1.000000	341,586	82,269	(341,586)	10,746,518	(259,318)
85	341,586	-	341,586	1.000000	341,586	80,330	(341,586)	10,485,262	(261,256)
86	341,586	-	341,586	1.000000	341,586	78,377	(341,586)	10,222,053	(263,209)
87	341,586	-	341,586	1.000000	341,586	76,410	(341,586)	9,956,876	(265,177)
88	341,586	-	341,586	1.000000	341,586	74,428	(341,586)	9,689,718	(267,159)
89	341,586	-	341,586	1.000000	341,586	72,431	(341,586)	9,420,562	(269,156)
90	341,586	-	341,586	1.000000	341,586	70,419	(341,586)	9,149,394	(271,168)
91	341,586	-	341,586	1.000000	341,586	68,392	(341,586)	8,876,200	(273,195)
92	341,586	-	341,586	1.000000	341,586	66,350	(341,586)	8,600,963	(275,237)
93	341,586	-	341,586	1.000000	341,586	64,292	(341,586)	8,323,669	(277,294)
94	341,586	-	341,586	1.000000	341,586	62,219	(341,586)	8,044,302	(279,367)
95	341,586	-	341,586	1.000000	341,586	60,131	(341,586)	7,762,846	(281,455)
96	341,586	-	341,586	1.000000	341,586	58,027	(341,586)	7,479,287	(283,559)
97	341,586	-	341,586	1.000000	341,586	55,908	(341,586)	7,193,609	(285,679)

Quarter	Rent Allocation	Pre-Payment	Allocated Rent	Fraction* (B / A)	Proportional Rent	IRC § 467 Interest	IRC § 467 Rent	IRC § 467 Loan Balance	Net IRC § 467 Income (Loss)
98	341,586	-	341,586	1.000000	341,586	53,772	(341,586)	6,905,794	(287,814)
99	341,586	-	341,586	1.000000	341,586	51,621	(341,586)	6,615,829	(289,966)
100	341,586	-	341,586	1.000000	341,586	49,453	(341,586)	6,323,696	(292,133)
101	341,586	-	341,586	1.000000	341,586	47,270	(341,586)	6,029,379	(294,317)
102	341,586	-	341,586	1.000000	341,586	45,070	(341,586)	5,732,862	(296,517)
103	341,586	-	341,586	1.000000	341,586	42,853	(341,586)	5,434,129	(298,733)
104	341,586	-	341,586	1.000000	341,586	40,620	(341,586)	5,133,163	(300,966)
105	341,586	-	341,586	1.000000	341,586	38,370	(341,586)	4,829,947	(303,216)
106	341,586	-	341,586	1.000000	341,586	36,104	(341,586)	4,524,464	(305,483)
107	341,586	-	341,586	1.000000	341,586	33,820	(341,586)	4,216,698	(307,766)
108	341,586	-	341,586	1.000000	341,586	31,520	(341,586)	3,906,632	(310,067)
109	341,586	-	341,586	1.000000	341,586	29,202	(341,586)	3,594,247	(312,384)
110	341,586	-	341,586	1.000000	341,586	26,867	(341,586)	3,279,528	(314,719)
111	341,586	-	341,586	1.000000	341,586	24,514	(341,586)	2,962,456	(317,072)
112	341,586	-	341,586	1.000000	341,586	22,144	(341,586)	2,643,014	(319,442)
113	341,586	-	341,586	1.000000	341,586	19,757	(341,586)	2,321,184	(321,830)
114	341,586	-	341,586	1.000000	341,586	17,351	(341,586)	1,996,949	(324,236)
115	341,586	-	341,586	1.000000	341,586	14,927	(341,586)	1,670,290	(326,659)
116	341,586	-	341,586	1.000000	341,586	12,485	(341,586)	1,341,189	(329,101)
117	341,586	-	341,586	1.000000	341,586	10,025	(341,586)	1,009,628	(331,561)
118	341,586	-	341,586	1.000000	341,586	7,547	(341,586)	675,588	(334,039)
119	341,586	-	341,586	1.000000	341,586	5,050	(341,586)	339,052	(336,536)
120	341,586	-	341,586	1.000000	341,586	2,534	(341,586)	0	(339,052)
Totals	\$40,990,365	\$27,000,000	\$40,990,365		\$40,990,365	13,990,365	(\$40,990,365)		(\$27,000,000)

	A	B
Present Value	\$27,000,000	\$27,000,000

See Fraction Computation Above *

Rent Allocation **\$341,586**

Exhibit C

Local Furnishing Bond Encumbrances

[Note to form: update this exhibit as of the Effective Date]

I. Local Furnishing Transmission System Encumbrances.

The CAISO shall exercise Operational Control over SDG&E's Local Furnishing Transmission System consistent with the following encumbrances in accordance with the Local Furnishing Bonds Operating Procedures that SDG&E has provided the CAISO:

- A. Section 9600(a)(6) of the California Public Utilities Code provides that Participating TOs shall not be compelled to violate restrictions applicable to facilities financed with tax-exempt bonds or contractual restrictions and covenants regarding use of transmission facilities existing as of December 20, 1995.

SDG&E's transmission facilities and other electric properties are financed in part with the proceeds of Local Furnishing Bonds. Prior to December 20, 1995, pursuant to provisions of the loan agreements, engineering certificates, and tax certificates and agreements associated with outstanding Local Furnishing Bonds issued for its benefit, SDG&E has covenanted not to take or permit any action that would jeopardize the tax-exempt status of interest on Local Furnishing Bonds issued for its benefit. Accordingly, notwithstanding anything to the contrary contained in the Agreement, including SDG&E's agreement to be bound by the terms of the Restated and Amended CAISO Tariff and the Restated and Amended TO Tariff, SDG&E may not take (nor may SDG&E allow the CAISO to take) any action that would jeopardize the tax-exempt status of interest on Local Furnishing Bonds issued or to be issued for its benefit, including (without limitation) the actions specified below.

- B. Absent an approving written opinion of nationally recognized bond counsel selected by SDG&E, taking into account the adjustments outlined in paragraph C below, SDG&E will not operate its facilities (or allow its facilities to be operated) so as to cause or permit a cumulative annual net outbound flow of electric energy during any calendar year from the points of interconnection between (i) SDG&E's wholly-owned electric distribution facilities or SDG&E's wholly-owned electric transmission facilities which are directly connected to SDG&E's wholly-owned electric distribution facilities (the "Local T/D System"), and (ii) other electric utility properties. As of December 15, 2016, these interconnection points include:

1. the point at the International Border where SDG&E's wholly-owned interest in 230kV TL 23040 (Otay Mesa – Tijuana I) connects with CFE's ownership interest in TL 23040;
2. the set of points at the San Onofre Nuclear Generating Station ("SONGS") switchyard bus where SDG&E's wholly-owned transmission facilities

interconnect with facilities owned (in whole or in part) by Southern California Edison Company (“SCE”);

3. the point where SDG&E’s wholly-owned 500kV TL 50004 (Imperial Valley – East County) interconnects with the Imperial Valley Substation facilities owned in part by Imperial Irrigation District (“IID”);
4. the point where SDG&E’s wholly-owned 500kV TL 50005 (Imperial Valley – Ocotillo) connects to the Imperial Valley Substation facilities owned in part by IID;
5. the point at the San Diego/Imperial County border where SDG&E’s ownership interest in a 2.5-mile-long radial distribution line intersects with IID’s ownership interest in that same distribution line;
6. the points at the Riverside/Orange County border and the Riverside/San Diego County border where SDG&E’s ownership interest in several isolated distribution lines interconnect with SCE’s ownership interest in those same distribution lines; and,
7. the point where SDG&E’s wholly-owned Narrows Substation interconnects with transmission facilities owned in whole or in part by IID.

C. For purposes of paragraph B, net flows of electric energy shall be calculated after taking into account the following adjustments:

1. Treating as a deemed outbound flow (or as a reduction in inbound flow) SDG&E’s share as owner or lessee of electric energy generated at facilities which are not connected directly to the Local T/D System (“Owned/Leased Remote SDG&E Generating Units”).
 - i. As of December 15, 2016, Owned/Leased Remote SDG&E Generating Units consist of only SDG&E’s 480 MW Desert Star Energy Center.
2. Excluding outbound flows (or reductions in inbound flows) attributable to or caused by wheeling of electric energy generated by independent power projects
 - i. which interconnect directly to the Local T/D System, and
 - ii. with bilateral contracts to sell the electric energy output at wholesale to electric utilities other than SDG&E.
3. Excluding outbound flows (or reductions in inbound flows) attributable to or caused by wholesale sales of excess electric energy from SDG&E’s available generating units to the extent generation of that electric energy is required pursuant to federal or state regulations, rules, orders, decisions or

mandatory protocols, but only if the total amount of electric energy supplied by SDG&E to its retail customers who receive both electric energy delivery service and electric energy supply service from SDG&E (“Native Load Customers”) during the calendar year equals or exceeds

- i. the total amount of SDG&E’s share of electric energy generated during the calendar year by facilities which are either owned, leased, or controlled by or for the benefit of SDG&E, reduced by
 - ii. the sum of:
 - (a) assumed line losses, based on the most recent long- term demand forecast adopted by the California Energy Commission (as of December 16, 2010, 6.4% of electric energy delivered to SDG&E’s retail customers);
 - (b) a pro rata share of electric energy actually produced by SDG&E’s available generating units and allocable to CPUC-mandated reserves (15% as of July 1, 2011)];
 - (c) electric energy actually produced by SDG&E’s available generating units pursuant to least-cost, best- fit orders of the CPUC and/or the CAISO; and
 - (d) electric energy actually produced by SDG&E’s available generating units which exceeds the requirements of SDG&E’s Native Load Customers due to SDG&E’s inability to reduce generation from peak levels during off-peak periods.
- D. SDG&E will not operate its facilities (or allow its facilities to be operated) so as to curtail delivery of electric energy to its Native Load Customers involuntarily in order to provide electric energy to customers outside of its electric service territory in San Diego and Orange Counties, unless such curtailment is necessitated by the failure of facilities either partially or wholly owned by SDG&E.
- E. Upon SDG&E’s receipt of a written request from the CAISO to take (or to refrain from taking) any action that SDG&E believes might jeopardize the tax-exempt status of interest on Local Furnishing Bonds issued for its benefit, SDG&E in good faith shall promptly seek to obtain an opinion (of the type generally regarded in the municipal bond market as unqualified) from a nationally recognized bond counsel selected by SDG&E that the requested action (or inaction) will not adversely affect such tax-exempt status. Examples of actions the CAISO might request SDG&E to take (or refrain from taking) might include
1. closing (or refraining from opening) switches to allow electric energy to flow out of the Local T/D System,

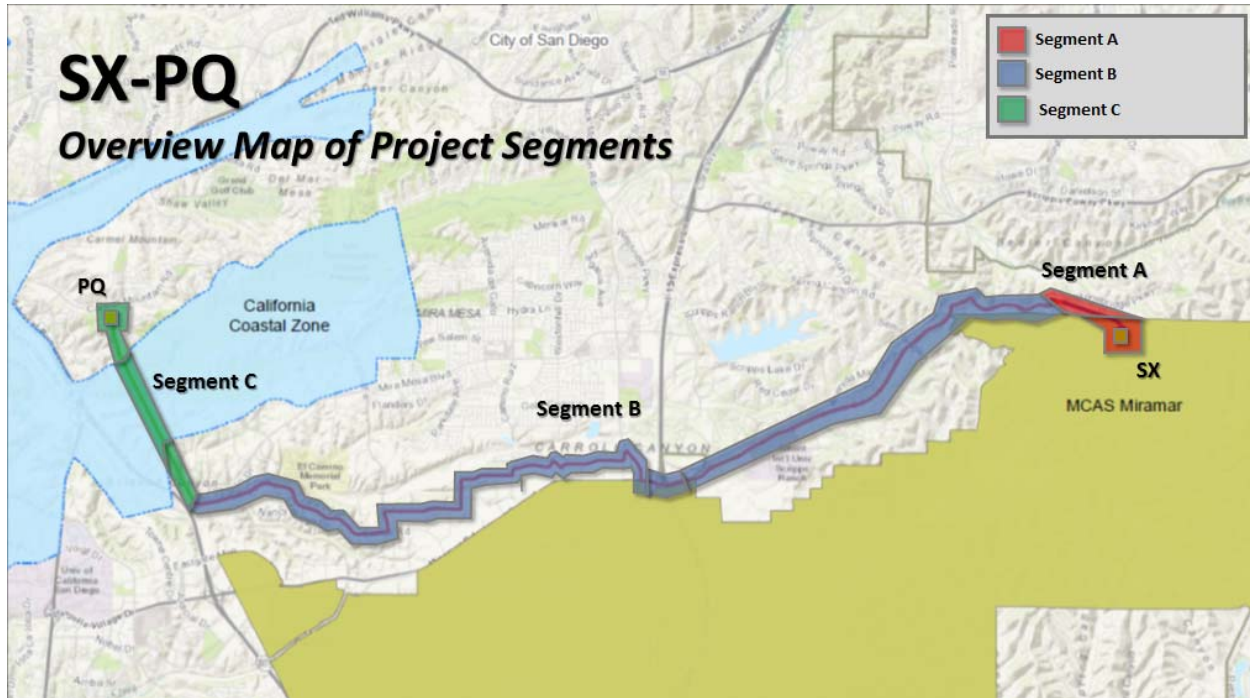
2. closing (or refraining from opening) switches to allow electric energy from local generating units to flow into the Local T/D System,
3. acquiring or constructing new electric utility facilities or improving existing electric utility facilities,
4. generating electric energy or refraining from generating electric energy at resources which are directly or indirectly under SDG&E's control, or
5. bringing transmission or generation facilities or resources into service (or withholding transmission or generation facilities or resources from service).

Until the opinion of bond counsel described above is obtained, SDG&E shall not be required to take (or to refrain from taking) the specified action, and the CAISO shall exercise its Operational Control consistent with such limitation.

- F. If SDG&E has been unable to obtain the unqualified opinion of bond counsel described in paragraph E above, upon written request by an entity eligible to file an application under Section 211 of the Federal Power Act ("FPA") (or the CAISO acting as its agent) (collectively, the "Eligible Entity"), SDG&E in good faith shall promptly seek to obtain a ruling from the Internal Revenue Service that the requested action (or inaction) will not adversely affect the tax-exempt status of interest on Local Furnishing Bonds issued for the benefit of SDG&E. If such a ruling cannot be obtained, SDG&E will not object to an Eligible Entity seeking an order under Section 211 of the FPA with respect to the requested action (or inaction). Until such a ruling is obtained from the Federal Energy Regulatory Commission, and such ruling has become final and non-appealable, SDG&E shall not be required to take (or to refrain from taking) the specified action, and the CAISO shall exercise its Operational Control consistent with such limitation.

Exhibit No. CEC-4

Map of the Sycamore-Penasquitos Transmission Line Project



Project Segments:

- **Segment A: Sycamore Canyon Substation – Stonebridge Parkway Segment**
(0.9 miles) New 230 kV steel poles in existing ROW
- **Segment B: Underground Segment**
(11.5 miles) New underground 230 kV line in existing franchise position (City streets)
- **Segment C: Carroll Canyon Road – Penasquitos Substation Segment**
(2.2 miles) New 230 kV conductor on existing steel structures

CERTIFICATE OF SERVICE

I hereby certify that I have this day electronically served the foregoing document upon each of the parties identified below in accordance with the requirements of 18 C.F.R. § 385.2010 of the Commission's Rules and Regulations:

Anthony Ivancovich
Deputy General Counsel
California Independent System Operator
Corp.
250 Outcropping Way
Folsom, CA 95630
Email: aivancovich@caiso.com

Harvey Y. Morris
California Public Utilities
Commission
Assistant General Counsel
505 Van Ness Avenue
San Francisco, CA 94102
Email: hym@cpuc.ca.gov

/s/ Ashley M. Bond

Counsel for Citizens Energy Corporation

Dated this 9th day of November, 2017
at Washington, D.C.