STATE OF CALIFORNIA GA M, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

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Ratesetting

TO PARTIES OF RECORD IN APPLICATION 17-11-005:

This is the proposed decision of Administrative Law Judge Lau. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's March 14, 2019, Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.2(c)(4)(B).

/s/ ANNE E. SIMON
Anne E. Simon
Chief Administrative Law Judge

AES:jt2

Attachment

Decision **PROPOSED DECISION OF ALJ LAU (Mailed 2/8/2019)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902E) and Citizens Energy Corporation for Authorization Pursuant to Public Utilities Code Section 851 to Lease Transfer Capability Rights to Citizens Sycamore-Penasquitos Transmission LLC.	Application 17-11-005

DECISION GRANTING APPROVAL OF A LEASE OF TRANSFER CAPABILITY RIGHTS FROM SAN DIEGO GAS & ELECTRIC COMPANY TO CITIZENS ENERGY CORPORATION

Table of Contents

Title **Page**

DECISION GRANTING APPROVAL OF A LEASE OF TRANSFER CAPABILITY RIGHTS FROM SAN DIEGO GAS & ELECTRIC COMPANY TO CITIZENS ENERGY CORPORATION ... 1
Summary ... 2
1 Background ... 2
1.1 Application ... 2
1.2 The Project and Environmental Considerations ... 3
1.3 Citizens ... 3
1.4 The Transfer Capability Lease and the Development, Coordination, and Option Agreement (DCOA) ... 4
1.5 Benefits to Low-Income and Disadvantaged Communities ... 7
1.6 Procedural Background ... 7
2 Discussion ... 8
2.1 Standard of Review ... 8
2.2 Will electric service to the public be negatively impacted by the Lease? . 10
2.3 Will the Public Be Able to Continue Receiving Electric Services at Fair and Reasonable Rates Under the Lease? ... 11
2.3.1 Rate Impacts for SDG&E Ratepayers ... 11
2.3.2 Citizens' Electric Rate ... 12
2.3.3 SDG&E Representative Rate (Representative Rate) ... 13
2.3.4 Rate Stability ... 15
2.3.5 Fair and Reasonable Electric Transmission Rates for Citizens' Ratepayers ... 16
2.3.6 The Lease will not affect the public from continuing to receive electric service at fair and reasonable rates ... 18
2.4 The proposed Lease is not adverse to the public interest ... 18
2.5 The proposed Lease serves the public interest ... 18
2.5.1 Citizens' pledge benefits disadvantaged and low-income communities and advances Senate Bill (SB) 350 goals ... 18
2.5.2 The proposed Lease brings a net benefit to the San Diego Community ... 19
2.6 The proposed Lease is reasonable and is approved ... 19
3 New Federal Income Tax Rate ... 20

Table of Contents (con't.)

Title **Page**

4 Motion of SDG&E and Citizens to Admit Testimony and Supplemental Testimony 20
5 Comments on Proposed Decision 21
6 Assignment of Proceeding 22
Findings of Fact 22
Conclusions of Law 23
ORDER 24

DECISION GRANTING APPROVAL OF A LEASE OF TRANSFER CAPABILITY RIGHTS FROM SAN DIEGO GAS & ELECTRIC COMPANY TO CITIZENS ENERGY CORPORATION

Summary

This decision grants San Diego Gas & Electric Company's (SDG&E) application for Commission authorization, under Public Utilities (Pub. Util.) Code Section 851, to convey, by means of a lease, an approximately 12.92 percent share of the transfer capability rights in an underground segment of the Sycamore to Penasquitos 230 kilovolt (kV) Transmission Project (SX-PQ or the Project) to Citizens Sycamore-Penasquitos Transmission LLC (CSPT or Citizens). Citizens Sycamore-Penasquitos Transmission LLC is a wholly-owned subsidiary of Citizens Energy Corporation (Citizens). This percentage share is only an estimate and will be finalized when Citizens exercises its option to execute the lease. The final percentage share will be determined based on the proportionate share of costs that Citizens' rent of $27 million covers of SX-PQ's final construction costs. This decision finds that SDG&E's lease to Citizens is not adverse to the public interest, will not affect the operation of the SX-PQ line, and offers benefits to the ratepayers and the community of San Diego County, where the underground segment of SX-PQ is located.

1 Background

1.1 Application

On November 13, 2017, San Diego Gas & Electric Company (SDG&E) and Citizens Energy Corporation (Citizens) (collectively, the Applicants) filed Application (A.)17-11-005 to request Commission authorization, under Pub. Util. Code § 851, to lease an approximately 12.92 percent share of the transfer capability rights in an underground segment (Segment B) of the Sycamore to

Penasquitos (SX-PQ) 230 kV Transmission Project to Citizens Sycamore-Penasquitos Transmission LLC (CSPT or Citizens).

1.2 The Project and Environmental Considerations

The Sycamore to Penasquitos (SX-PQ) 230 kV Transmission Project is a project that the California Independent System operator (CAISO) determined necessary for reliability, particularly given the unplanned retirement of the San Onofre Nuclear Generating Station. CAISO selected SDG&E's and Citizens' joint application to develop the SX-PQ Project.

The SX-PQ Project is a new 230kV electric transmission line of approximately 14.5 miles between the existing Sycamore Canyon Substation and the Penasquitos Substation. The SX-PQ line has three components: Segment A is an overhead line of approximately 0.9 miles from the Sycamore Canyon Substation to Stonecroft Trail; Segment B is an underground line of approximately 11.5 miles along Pomerado Road, crossing Interstate 15 and the commercial area of Mira Mesa, and ending at Interstate 805 at Carroll Canyon Road; and Segment C is an overhead line of approximately 2.2 miles into the Pensasquitos Substation.

The Commission granted SDG&E a Certificate of Public Convenience and Necessity (CPCN) to construct the SX-PQ project in D.16-10-005. In the proceeding, A.14-04-011, the Commission conducted an environmental review in the proceeding and issued an Environmental Impact Report, certifying that the project meets the requirements of the California Environmental Quality Act (CEQA).

1.3 Citizens

Citizens Energy Corporation is a non-profit charitable corporation. Its primary mission is to help low-income families and disadvantaged communities in the areas of energy and health care. Citizens serve communities in the U.S., Africa, Central and South America, and the Caribbean. Citizens is also a Federal Energy Regulatory Commission (FERC) jurisdictional public utility.

Citizens Energy Corporation, as a non-profit company, owns 100 percent of a for-profit holding company. This for-profit company owns several for-profit subsidiaries, including Citizens Business Enterprises. Profit from this company and subsidiaries fund Citizens' charitable and social programs.

For the SX-PQ Project, Citizens created a for-profit subsidiary, Citizens Sycamore-Penasquitos Transmission LLC (CSPT or Citizens), to work with SDG&E on the Project. CSPT is a Delaware limited liability for-profit corporation and is a wholly-owned subsidiary of Citizens Business Enterprises, which itself is owned by Citizens Energy Corporation.

1.4 The Transfer Capability Lease and the Development, Coordination, and Option Agreement (DCOA)

On November 9, 2017, SDG&E and Citizens signed a Development, Coordination, and Option Agreement. The DCOA gives Citizens an option to lease a portion of the transfer capability of Segment B, the underground segment, of the SX-PQ Project for 30 years. This portion, currently estimated at 12.92 percent, will be determined at the execution of the lease (the Lease) and will be calculated based on the proportionate share of cost that Citizen's $27 million of prepaid rent covers of SX-PQ's total construction costs, which is currently estimated at $209 million.[1]

[1] Ex. SDGE-1 at 5.

Option: Citizens has an option to exercise the Lease until 31 days after the commercial operation date of SX-PQ.

Prepaid Rent and Percentage Share: Citizens will pay $27 million to SDG&E in a lump sum after Citizens exercises its Option. Citizens' prepaid rent of $27 million covers approximately 12.92 percent of SX-PQ's total project costs for Segment B, currently estimated to be $209 million portion.[2]

Project Development, Construction, Operations and Maintenance: SDG&E continues to be responsible for the development, design, permitting, engineering, procurement and construction of Segment B, as well as the operations and maintenance of Segment B.[3]

Generator Interconnection: Upon execution of the Lease, Citizens will sign a Transmission Control Agreement with the California Independent System Operator (CAISO) as a Participating Transmission Owner (PTO). Citizens will maintain status as a PTO as long as it is an owner of SX-PQ and SDG&E is part of CAISO.[4] CAISO will have the operational control of the entire transfer capability of SX-PQ, so that SX-PQ will be available to all CAISO customers. SDG&E will be the interconnection agent on behalf of Citizens.

Rate Recovery: Because SX-PQ is a federally-regulated transmission line, Citizens will need to seek approval from the Federal Energy Regulatory Commission (FERC) to recover costs from transmission rates. Citizens will request authority from FERC to recover the $27 million of rent as a capital expense. Subsequently, SDG&E will reduce the $27 million, dollar-for-dollar,

[2] Ex. SDGE-1 at 6.

[3] Ex. SDGE-1 at 4.

[4] Ex. SDGE-1 at 12.

from its rate base. In other words, SDG&E will not seek recovery of any of the capital costs for the asset leased, $27 million in total. In addition to capital costs, Citizens will also request authority to recover any operations, maintenance, general and administrative costs.

Citizen's capital cost recovery is capped: Citizens' capital cost is the largest component of costs that Citizens will seek to recover. As a protection to ratepayers, the DCOA includes a provision that caps the capital cost component of Citizens' rate by the SDG&E Representative Rate. The SDG&E Representative Rate is the rate that SDG&E would charge to recover the capital costs of the leased asset, plus any incremental costs Citizens may incur for project development, transactions, regulations, and financing.[5]

Citizens Operating Costs: Because SDG&E will continue to operate and maintain Segment B, SDG&E will charge to Citizens its proportionate share of the actual incurred operational costs. Citizens will pass on SDG&E's operational costs to ratepayers, in addition to recovering $150,000 of its annual administrative and general overhead costs from ratepayers.[6]

Internal Revenue Code (IRC) §467: Citizens and SDG&E agree to structure the transaction such that it receives treatment under Internal Revenue Code (IRC) §467. IRC §467 gives the Applicants more certainty in receiving the tax treatment they desire.[7] Pursuant to IRC §467, the parties will treat the $27 million of prepaid rent as a loan to SDG&E by Citizens, amortized over the 30-year term of the lease. The IRC §467 treatment does not change

[5] Ex. SDGE-1 at 7.

[6] Ex. Citizens-1 at 10.

[7] Ex. SDGE-1 at 12.

SDG&E's or Citizens' total taxable income or expense.[8] For tax expense purposes, SDG&E's ratepayers will be economically neutral to the Lease, while Citizens' cost recovery for tax expenses are subjected to the capital cost cap set at the SDG&E Representative Rate.[9]

1.5 Benefits to Low-Income and Disadvantaged Communities

Citizens is contractually committed to dedicating 50 percent of its after-tax profits from the Lease to support transportation electrification for low-income ratepayers and disadvantaged communities in San Diego County, where Segment B is located. Citizens estimates that it would be able to spend approximately $400,000 each year, for a total of $12 million over the 30-year lease term, on these programs.[10] Citizens will use the other half of the proceeds to fund Citizens' other charitable programs.

1.6 Procedural Background

Pacific Bell Telephone Company, d/b/a AT&T California (AT&T), filed a timely response on December 15, 2017, raising safety concerns caused by SDG&E's alleged noncompliance with the mitigation measures ordered in A.14-04-011. In A.14-04-011, the Commission conducted a comprehensive environmental review, in accordance with CEQA, of the construction of the SX-PQ project and granted SDG&E a CPCN to construct the line. Citizens and SDG&E filed a timely reply to AT&T's response on December 26, 2017, arguing that AT&T's assertions are outside the scope of this proceeding. In their

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[8] Ex. SDGE-3 at 2.

[9] Ex. SDGE-5 at 1-3, Response to Question 1.

[10] Ex. Citizens-1 at 10.

response, the Applicants explain that this application seeks approval of the economic business terms in a lease, a transaction that will not add any new or more significant operational impacts beyond what the Commission has analyzed and approved in the A.14-04-011 proceeding.

A Prehearing Conference (PHC) was held on March 9, 2018 to determine parties, discuss the scope, the schedule, and other procedural matters. At the PHC, ALJ Lau directed the Applicants to submit additional information on 1) how the prepaid rent of $27 million was determined, 2) how will SDG&E use the $27 million in lease payments, 3) how is Citizen planning to recover the costs of the lease and the costs of operations, maintenance and capital pertaining to the line, and 4) to update the calculations of the representative rates to reflect the changes of the Tax Cuts and Jobs Act. On March 23, 2018, the Applicants submitted the additional information and served it on the service list.

The Scoping Ruling was issued on April 10, 2018. It determined that the requested lease will not change the operation of the line or the load carried on the line, and thus will not cause any adverse safety impacts. It further affirms that the operational safety of the SX-PQ transmission line has been fully vetted through the CEQA process in the A.14-04-011 CPCN proceeding. The Scoping Ruling set the category, issues, need for hearing, and schedule of the proceeding.

2 Discussion

2.1 Standard of Review

Section 851 provides in relevant part that:

"A public utility…shall not sell, lease, assign, mortgage, or otherwise dispose of, or encumber the whole or any part of its…line, plant, system, or other property necessary or useful in the performance of its duties to the public,…without first having…secured an order from the commission authorizing it to do so for qualified transactions valued above five million dollars…"

Section 851 does not specify the standard by which the Commission is to review such requests. In previous Commission decisions, the Commission has a long-standing policy to apply the standard of "not adverse to the public interest" as a standard of review for applications requesting approval under PUC Code Section 851.

In addition to the standard of "not adverse to the public interest," previous Commission decisions also evaluated whether the proposed transactions benefit the public interest. D.09-07-035 states, "In reviewing Section 851 applications, the Commission historically looked to public interest as its guiding post. While the minimal standard we consider in our review is that the transaction being proposed in a particular application is 'not adverse to the public interest,' we do foster and encourage transactions…where the transaction is also 'in the public interest.'"[11] D.09-04-013 states, "The primary question for the Commission in Section 851 proceedings is whether the proposed transaction serves the public interest: 'The public interest is served when utility property is used for other productive purposes without interfering with the utility's operations or affecting service to utility customers."[12]

Given the precedence set by previous Commission decisions such as those cited above, the minimal standard of review that we use to examine the merits of

[11] D.09-07-035 at 13.

[12] D.09-04-013 at 6.

this Application is whether the requested Lease is "adverse to the public interest." To evaluate whether the proposed Lease meets the standard of "not adverse to the public interest", we examine whether the Lease will 1) negatively impact the delivery of electric service to the public, and 2) allow the public to continue receiving electric service at fair and reasonable rates. Afterwards, we will also examine whether the requested Lease will benefit the public interest.

In addition, while "public interest" includes ratepayers served by Segment B, "public interest" also includes members of the Public that may be affected by the proposed Lease even if they are not served by Segment B. After reviewing the facts presented in the Application, we find that the proposed Lease will not affect the electric service or electric rates of members of the Public, other than the ratepayers that are served by Segment B, which we shall henceforth refer to as Citizens' ratepayers, and potentially SDG&E ratepayers who are not served by Segment B. Hence, our discussions below examining whether the proposed Lease negatively affects public interest will mainly focus on whether the Lease will negatively impact SDG&E's and Citizens' ratepayers.

2.2 Will electric service to the public be negatively impacted by the Lease?

The DCOA provides several layers of protection that ensures that the proposed Lease will not impact the operation of the Segment B or Segment B's delivery of electric service to the public. Under the DCOA, SDG&E will continue to operate and maintain SX-PQ, including the leased portions of Segment B, and will continue to be the interconnection agent of SX-PQ on behalf of Citizens. Furthermore, the entire transfer capability of the SX-PQ will under the operational control of the CAISO and will be available to CAISO customers, all of which would happen if SDG&E did not lease SX-PQ. The DCOA secures the ability for CAISO customers to have the perpetual rights to 100 percent of the transfer capability of SX-PQ. In the event that Citizens is no longer participating in the Project, ceases to be a PTO, or breaches its obligations, Citizens' entitlement of the SX-PQ will revert to SDG&E, which would still be placed under CAISO's operational control.[13]

We determine that the terms of the DCOA offer some degrees of protection that ensure the Lease will not change the operation of SX-PQ or cause any disruptions of electric service to the public. Therefore, we find that the proposed Lease will not negatively impact the delivery of electric service to the public.

2.3 Will the Public Be Able to Continue Receiving Electric Services at Fair and Reasonable Rates Under the Lease?

Next, in evaluating whether the proposed Lease is adverse to the public interest, we examine whether the proposed Lease will allow the public to continue receiving electric services at fair and reasonable rates. Upon review, we conclude that the Lease does not affect the electric rates received by the Public, but the Lease will impact the rates of ratepayers served by Segment B, which we shall refer henceforth as Citizens' ratepayers, and possibly the rates of SDG&E ratepayers. Thus, our examination of the Lease's impact on electric rates will narrowly focus on the impact for these two groups of ratepayers.

2.3.1 Rate Impacts for SDG&E Ratepayers

Before examining the rate impacts for Citizens' ratepayers, we first examine any potential rate impacts the proposed Lease may have on SDG&E ratepayers not served by Segment B. Upon execution of the Lease, SDG&E will

[13] Ex. SDGE-1 at 16.

reduce its rate base by the total amount of prepaid rent received from Citizens, $27 million of capital costs. As such, SDG&E will not seek recovery of any of the capital costs for the portion of SX-PQ leased, $27 million in total. SDG&E will also charge Citizens for Citizens' proportionate share of the actual operations, maintenance, administrative and general costs SDG&E will incur for operating Segment B. In addition, SDG&E will not recover from ratepayers any additional income tax liabilities it may incur as a result of the Lease.[14] In sum, SDG&E ratepayers who are not served by Segment B will not have to pay any additional capital, operational, or tax expenses as a result of the Lease. Thus, we conclude that the Lease will not have any impact on the rates of SDG&E ratepayers not served by Segment B.

2.3.2 Citizens' Electric Rate

In order to charge transmission rates, Citizens first needs to obtain approval from the Federal Energy Regulatory Commission (FERC). Upon FERC approval, Citizens' transmission rates would be set to allow it to recover its capital and operating costs. Citizens' capital costs constitute the largest cost component that Citizen needs to recover from rates.[15]

SDG&E and Citizens negotiated terms in the DCOA that will provide a degree of rate protection for Citizens' ratepayers. The DCOA sets a cap on the capital costs that Citizens would be able to recover in rates. The cap was designed to ensure that the rates charged by Citizens would be similar to those

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[14] Ex. SDGE-5 at 2

[15] Ex. SDGE-1 at 8.

charged by SDG&E, as if SDG&E did not lease SX-PQ to Citizens. The DCOA sets the cap at the SDG&E Representative Rate.

2.3.3 SDG&E Representative Rate (Representative Rate)

The SDG&E Representative Rate (Representative Rate) is an illustrative rate that is calculated based on the capital costs SDG&E would recover from ratepayers if SDG&E was to own and operate 100 percent of Segment B's transfer capability, absent a lease to Citizens. The Representative Rate, however, is slightly higher than the rate SDG&E would charge, because the Representative Rate also includes incremental costs that Citizens would incur. These incremental costs include Citizens' own project, development, regulatory, transactional, sales, use or excise tax and financing costs.[16]

Under the terms of the DCOA, Citizens would not be able to set a rate higher than the Representative Rate to recover its capital costs. In the model used to derive the Representative Rate, SDG&E's capital costs are estimated to be $27.12M, comprised of $27.00M of plants costs for the leased portion of SX-PQ, and $0.12M, or 1 percent of the plant costs, for debt financing.[17] The estimated 1 percent of debt financing is for ordinary and customary lenders' fee. Citizens' capital costs, under the Representative Rate model, are estimated to be $29.29M, approximately $2 million more than SDG&E's capital costs. The $29.29M is comprised of $27.00M of plant costs, $2.00M of Citizens' capital and development costs, and $0.29M, or 1 percent of the plant and development costs,

[16] Ex. SDGE-1 at 8.

[17] Ex. SDGE-2 at 7.

for debt financing.[18] The Representative Rate includes $2 million more in capital costs than if SDG&E was to operate Segment B without the Lease. The additional $2 million accounts for Citizens' own capital and development costs. Citizens estimates that its capital and development costs will be approximately $2 million[19], but it may incur more or less than this estimate.

During the term of the lease, SDG&E will be responsible for the operation and maintenance of Segment B. SDG&E will charge Citizens for its proportionate share of the actual operations, maintenance, administrative, and general costs SDG&E incurs for the operation of the Segment B. Citizens will pass SDG&E's operational and administrative costs on to its ratepayers. SDG&E would recover these operational and administrative costs from ratepayers even if it didn't lease Segment B. In addition, Citizens will seek to recover the administrative and general (A&G) costs that Citizens itself incurs. Citizens estimates that it will incur approximately $150,000 of A&G costs annually to perform functions like billing or negotiating settlements with CAISO.[20]

Altogether, Citizens' ratepayers would have to pay an additional one-time capital expense of $2 million for Citizens' capital and development costs, in addition to an annual $150,000 of Citizens' A&G costs throughout the 30-year term of the lease. Given the above estimated capital and non-capital costs, the model shows that SDG&E's annual revenue requirement, if it didn't lease the SX-PQ to Citizens, would be $2.669M, assuming that its capital costs are fixed for the 30 years of the lease term at today's financing rates. In comparison,

[18] *Ibid.*

[19] Ex. Citizens-1 at 9.

[20] Ex. Citizens-1 at 10.

Citizens' estimated annual revenue requirement would be $3.006M, which is 12.6 percent or $336,561 more than SDG&E's estimated annual revenue requirement.

The costs and figures that SDG&E and Citizens present in this Application are estimates and are not the actual numbers that will be used in the model to derive the Representative Rate. The actual Representative Rate will be set at the time Citizens exercises its option, using the actual costs SDG&E and Citizens incurred at that time. The Representative Rate will be fixed throughout the term of the lease.

2.3.4 Rate Stability

If SDG&E's current capital costs remain the same for the 30 years of the lease term, ratepayers would pay higher annual electric transmission rates if Citizens leases SX-PQ. This scenario would only hold true if SDG&E's capital costs did not change throughout the 30 years of the lease term. But, experts predict that SDG&E's capital costs will most likely increase in the future. Citizens provides an expert economist, Dr. John Wilson, who testifies that interest rates and money costs will increase in the future for utility service providers such as SDG&E.[21] Dr. Wilson also points to several other financial publications which forecast that money costs, such as interest rates for utility bonds, will increase in the near future.[22]

On the other hand, Citizens' financing costs are fixed at today's low financing rates for the full 30-year term of the lease,[23] because Citizens plans to

[21] Ex. Citizens-2 at 6-8.

[22] Ex. Citizens-2 at 17-18.

[23] Ex. Citizens-2 at 4.

finance its capital costs with an issuance of debt for a 30-year term.[24] Given Citizens' fixed financing costs, Dr. Wilson indicates that Citizens' financing costs may be less costly to ratepayers over time, while SDG&E's financing costs will most likely increase.[25]

Despite the model showing Citizens' revenue requirement being higher than SDG&E's, we are convinced that this outcome only holds true if SDG&E's capital costs remain at its current low rates. Given that industry literature and expert opinion forecast that SDG&E's financing costs will most likely increase in the future, there is a high probability that, given Citizens' fixed capital costs, Citizens' revenues would be lower than SDG&E's over the term of the lease, even accounting for the incremental capital and operating costs Citizens would incur. Regardless, Citizens' fixed capital costs provide rate stability to ratepayers. They also protect ratepayers from changes in money costs caused by fluctuations in the market. The rate stability and protection from market fluctuations provide tangible benefits to ratepayers.

2.3.5 Fair and Reasonable Electric Transmission Rates for Citizens' Ratepayers

To evaluate whether Citizens' ratepayers would receive electric services at fair and reasonable rates, we consider the following factors.

The terms of the DCOA provide a level of rate protection by imposing a cap on Citizens' capital cost recovery. The cap was intended to ensure that Citizens' rates would not be significantly higher than those that SDG&E would charge. Even with this rate protection, there is a possibility that ratepayers may

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[24] Ex. Citizens-1 at 9-10

[25] Ex. Citizens-2 at 7-8.

have to pay higher electric transmission rates as a result of the Lease. Despite the rate cap, the model shows that ratepayers may have to pay as much as 12.6 percent or $336,561 higher in annual transmission revenues during the term of the lease. This result, however, will only hold true if SDG&E's financing costs remain as low as today's rate over the 30-year term of the lease. But experts and industry literature forecast that SDG&E's financing costs will most likely increase. As a result, SDG&E may end up charging ratepayers more over the 30-year lease term than Citizens. While SDG&E's financing costs will most likely increase, Citizens' financing costs are fixed throughout the term of the Lease. With the fixed financing costs, Citizens can set capital cost recovery at the cap imposed by the DCOA. Citizens' fixed capital cost recovery offers ratepayers the benefits of rate stability and protection against capital cost fluctuations.

Even though the model's results show that Citizens' cost of service is currently slightly higher than SDG&E's, there is a high possibility that SDG&E's total cost of service over the term of the Lease may be higher than that of Citizens, since experts predict that SDG&E's financing costs will most likely increase. As such, we are convinced that there is also a high possibility that, over the duration of the lease term, Citizen's rates may be lower than the rates SDG&E would offer. Because of the high possibility that Citizens' ratepayers may receive lower electric rates under the Lease than they would otherwise, we find that the Lease will allow Citizens' ratepayers to receive fair and reasonable electric rates.

Furthermore, any rate Citizens charges must be authorized by FERC. FERC, which evaluates cost reasonableness using the same cost-of-service ratemaking principles that this Commission uses, will review Citizens' costs to ensure that Citizens' transmission rates are just and reasonable.

2.3.6 The Lease will not affect the public from continuing to receive electric service at fair and reasonable rates

As discussed above, the proposed Lease does not affect the electric rates of people who are not served by Segment B or the rates of SDG&E ratepayers. For Citizens' ratepayers, our analysis, detailed above, shows that they too will also be able to receive electric service at fair and reasonable rates. Given our conclusions above, we find that the public will still be able to continue receiving electric service at fair and reasonable rates after SDG&E leases SX-PQ to Citizens.

2.4 The proposed Lease is not adverse to the public interest

The terms of the DCOA provide several levels of protection against any adverse impact the Lease may have on the public's electric service or rates. Since the Lease will not negatively impact the public's electric services or rates, we conclude that the proposed Lease is not adverse to the public interest.

2.5 The proposed Lease serves the public interest

2.5.1 Citizens' pledge benefits disadvantaged and low-income communities and advances Senate Bill (SB) 350 goals

Citizens pledges 50 percent of its after-tax profits from the SX-PQ project to support transportation electrification for low-income families and disadvantaged communities in the San Diego County, the same area where Segment B is located. Citizens estimates that its annual contribution would be approximately $400,000 per year, for a total of $12 million over the 30-year term of the lease. Citizens' pledge not only benefits disadvantaged and low-income communities in the San Diego County but also supports the state's implementation of SB 350. SB 350 promotes clean energy programs such as transportation electrification to achieve goals for greenhouse-gas reduction and encourages more access of these programs for low-income and disadvantaged communities. By supporting the electrification of transportation for low-income and disadvantaged communities, Citizens' pledge supports two of SB 350's key goals.

2.5.2 The proposed Lease brings a net benefit to the San Diego Community

The Lease to Citizens also bring additional benefits to the San Diego Community. First, the lease offers some rate stability because Citizens' financing costs are fixed throughout the 30-year term of the lease, while experts forecast that SDG&E's financing costs will most likely increase. Second, the leased portion of the SX-PQ will be fully depreciated by the end of the lease. Thus, after the Lease, ratepayers would have paid off the capital costs of the leased asset but would still be able to use Segment B for its next 28 years of remaining life. Most importantly, Citizens' pledge to donate 50 percent of its after-tax profits to support transportation electrification for low-income and disadvantaged communities in San Diego County supports SB 350's goal of promoting access to clean energy programs for low-income communities. Also, of note is that Citizens' estimated $400,000 annual support is greater than the estimated $336,561 in higher cost of service Citizens has over SDG&E. Thus, even in the unlikely event that SDG&E's capital costs remain at today's low rates for the 30 years of the lease, Citizens' involvement still brings a net positive gain to the community in San Diego County. In summary, Citizens' Lease will benefit San Diego County and will thus serve the public interest.

2.6 The proposed Lease is reasonable and is approved

SDG&E's proposed Lease of a portion of SX-PQ's transfer capability to Citizens is not adverse to the public interest. On the contrary, the Lease will bring net positive benefit to San Diego County, the community served by the leased asset, and will benefit public interest. Therefore, we conclude that the Lease is reasonable and is approved.

3 New Federal Income Tax Rate

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. The Tax Cuts and Jobs Act reduced the federal corporate tax rate from 35 percent to 21 percent. The terms drafted in the DCOA relied on figures based on the former federal tax rate of 35 percent. The Applicants indicate that they will reflect the new federal income tax rate in the final, executed version of the lease agreement. The Applicants propose to file a Tier 1 Advice Letter to submit the final version of the Lease agreement to the Commission.[26] The Applicants' proposed Advice Letter 1 filing is reasonable. We direct SDG&E to file a Tier 1 Advice Letter with the Commission's Energy Division within 30 days of the execution of the Lease to submit a copy of its final, executed lease agreement with Citizens. The terms in the lease agreement shall reflect the current federal tax rate of 21 percent.

4 Motion of SDG&E and Citizens to Admit Testimony and Supplemental Testimony

On May 11, 2018, SDG&E and Citizens filed a joint motion to request the admission of the following exhibits into the formal evidentiary record of this proceeding:

Ex. SDGE-1: Direct Testimony of John D. Jenkins

Ex. SDGE-2: Direct Testimony of Amanda D. White

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[26] Responses of San Diego Gas & Electric Company and Citizens Energy Corporation to Questions from Administrative Law Judge Elaine Lau during Prehearing Conference at 5.

Ex. SDGE-3: Direct Testimony of Ragan G. Reeves

Ex. SDGE-4: Supplemental Testimony of Amanda D. White

Ex. Citizens-1: Direct Testimony of Peter F. Smith

Ex. Citizens-2: Direct Testimony of John W. Wilson

Ex. Citizens-3: Supplemental Testimony of John W. Wilson

The motion is unopposed. After review, we grant the admission of the above exhibits into the formal record of this proceeding.[27] The exhibits shall be marked and identified as listed above.

On June 7, 2018, SDG&E and Citizens filed a joint motion to request the admission of the Supplemental Direct Testimony of Amanda D. White into the formal record of this proceeding. The Supplemental Direct Testimony responds to questions regarding tax expenses posed by Administrative Law Judge (ALJ) Elaine Lau in a Ruling issued on May 21, 2018. This motion is also unopposed. After reviewing the motion, we also grant the Applicant's joint motion and admit the requested testimony into the formal record of this proceeding. The requested testimony shall be marked and identified as:

Ex. SDGE-5: Supplemental Direct Testimony of Amanda D. White (Taxes)

5 Comments on Proposed Decision

The proposed decision of ALJ Lau in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on ________________, and reply comments were filed on ________________ by ____________________.

[27] The Applicants' motion also requests that their joint opening brief be admitted into the record. The Opening Brief was already filed and thus is already part of the record of this proceeding.

6 Assignment of Proceeding

Michael Picker is the assigned Commissioner and Elaine Lau is the assigned ALJ in this proceeding.

Findings of Fact

1. The Sycamore to Penasquitos Transmission Project (SX-PQ) will be under the operational control of the California Independent System Operator (CAISO) and will be maintained and operated by SDG&E, regardless of whether SDG&E leases a portion of Segment B to Citizens or not.

2. The Lease does not affect the electric rates of the Public other than Citizens' ratepayers, which are the ratepayers served by Segment B.

3. The DCOA sets a cap on the capital costs that Citizens would be able to recover at the SDG&E Representative Rate, an illustrative rate that is based on SDG&E's capital costs if it did not lease SX-PQ to Citizens.

4. The model shows that Citizens' annual revenue requirement would be 12.6 percent or $335,561 higher than SDG&E's, assuming that SDG&E's capital costs remain constant at today's rates throughout the 30-year lease term.

5. An expert economist, who testified for Citizens, predicts that SDG&E's capital costs will most likely increase in the future such that SDG&E's cost of service may be more than that of Citizens over the 30-year term of the Lease.

6. Citizens' fixed capital costs provide tangible benefits to ratepayers by offering them a level of rate stability and protection from capital market fluctuations.

7. Because SDG&E's capital costs will most likely increase, while Citizens' financing costs are fixed, there is a high possibility that SDG&E's total cost of service over the duration of the Lease term is higher than that of Citizens, which would cause SDG&E's rates to be higher than that of Citizens.

8. The Federal Energy Regulatory Commission must review and approve the electric rates that Citizens charges.

9. Citizens pledges 50 percent of its after-tax profits from Segment B, estimated to be $400,000 annually for a total of $12 million over the 30 years of the lease term, to support transportation electrification for low-income families and disadvantaged communities in the San Diego County, the same area where Segment B is located.

10. Citizens' pledge will benefit disadvantaged communities and low-income families in San Diego County and advance Senate Bill 350's goal of increasing access of clean energy programs for disadvantaged and low-income communities.

11. The proposed Lease brings a net positive benefit to the San Diego Community.

12. The Tax Cuts and Jobs Act, which was signed into law on December 22, 2017, reduced the federal corporate tax rate from 35 percent to 21 percent.

Conclusions of Law

1. Consistent with prior Commission decisions regarding Section 851 applications, the minimal standard of review to use in examining the merits of this Application is whether the Lease is adverse to the public interest, which includes ratepayer interest.

2. The proposed Lease will not negatively impact the delivery of electric service to the Public.

3. The proposed Lease will allow Citizens' ratepayers to receive electric service at fair and reasonable rates.

4. FERC's review of Citizens' rates helps to ensure that Citizens' ratepayers pay just and reasonable electric rates.

5. The proposed Lease will allow the Public to receive electric service at fair and reasonable rates.

6. The proposed Lease is not adverse to the public interest but benefits the public interest.

7. SDG&E and Citizens should reflect the current federal tax rate of 21 percent in their final lease agreement.

8. Application 17-11-005 should be approved, and the proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company's request for authority pursuant to Public Utilities Code Section 851 to lease transfer capability rights of the Sycamore to Penasquitos Transmission Project to Citizens Sycamore-Penasquitos Transmission LLC is granted.

2. San Diego Gas & Electric Company's and Citizens Energy Corporation's request, submitted via a motion on May 11, 2018, to admit the exhibits listed in Section 4 into the formal record of the proceeding is granted. The exhibits shall be marked and identified as listed in the discussion above.

3. San Diego Gas & Electric Company's and Citizens Energy Corporation's motion, submitted on June 7, 2018, to request the admission of Amanda D. White's Supplemental Direct Testimony into the formal record of the proceeding is granted. The exhibit shall be marked and identified as listed in the discussion above.

4. San Diego Gas & Electric Company shall file a Tier 1 Advice Letter with the Commission's Energy Division, within 30 days of the execution of the lease, to submit a copy of its final, executed lease agreement with Citizens Energy Corporation. The terms in the lease agreement shall reflect the current federal tax rate of 21 percent.

5. Application 17-11-005 is closed.

This decision is effective today.

Dated _________, at Coachella, California.