BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

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Application of San Diego Gas & Electric Company (U 902 E) for Approval Pursuant to Public Utilities Code Section 851 to Lease Transfer Capability Rights to Citizens Energy Corporation	A.09-10-___	A0910010

APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) FOR APPROVAL PURSUANT TO PUBLIC UTILITIES CODE SECTION 851 TO LEASE TRANSFER CAPABILITY RIGHTS TO CITIZENS ENERGY CORPORATION

John A. Pacheco
101 Ash Street, HQ12
San Diego, California 92101
Telephone: (619) 699-5130
Facsimile: (619) 699-5027
E-Mail: jpacheco@sempra.com

Attorney for
San Diego Gas & Electric Company

October 9, 2009

236146

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I. INTRODUCTION

Pursuant to Section 851 of the California Public Utilities Code and the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission" or "CPUC"), San Diego Gas & Electric Company ("SDG&E") respectfully requests authority to lease transfer capability rights along the Imperial Valley section of its Sunrise Powerlink Transmission Project ("Sunrise") to Citizens Energy Corporation ("Citizens"), pursuant to the Development and Coordination Agreement by and between SDG&E and Citizens ("DCA"), dated May 11, 2009 (see Attachment 1). The DCA provides Citizens with an option to lease 50% of the transfer capability on that portion of Sunrise that will be located in Imperial County (the "Border-East Line") (see map at Schedule 1.1 of DCA, attached as Attachment 1). The term of the lease will be for 30 years. The DCA that SDG&E is requesting the Commission approve contains the principal terms to be incorporated into this lease. If Citizens exercises its option prior to the in-service date of Sunrise, which is currently anticipated to be in June 2012, Citizens will invest what SDG&E currently estimates to be approximately $83 million as prepaid rent to lease the entitlement to power transfer capability over the Border-East Line. The DCA further provides that it is

contingent upon regulatory approvals required by both the CPUC and the Federal Energy Regulatory Commission ("FERC").

One of SDG&E's main goals in negotiating the DCA was to ensure that ratepayers would be protected from rates above that which SDG&E would charge if SDG&E were to apply its cost of service principles to Citizens' involvement, keeping in mind that Citizens will incur additional costs above that allocated from SDG&E to Citizens. Specifically, SDG&E was concerned that Citizens could obtain a FERC-approved rate much greater than the rate SDG&E would charge in the absence of the DCA. However, it is also possible that FERC would approve a rate much lower than the rate SDG&E would charge. With this in mind, the DCA includes a model designed to generate what is called a "SDG&E Representative Rate," which approximates the capital cost recovery rate SDG&E would charge for Citizens' interest, including some of Citizens' incremental development costs.

Pursuant to the DCA, the SDG&E Representative Rate constitutes a ceiling or cap on the capital cost rate Citizens may charge. However, because this SDG&E Representative Rate is determined based on actual costs incurred by SDG&E and Citizens, it is impossible to predict with 100% certainty what the SDG&E Representative Rate will yield at the time Citizens actually exercises its option under the DCA. Nevertheless, these costs can be estimated, and in an effort to provide an illustrative comparative analysis of annual levelized revenue requirements that include both incremental capital and expense related costs that arise as a result of the DCA, the testimony of SDG&E witness Michael Calabrese includes a comparison of a current snap shot case for SDG&E and a current snap shot case and high case for Citizens. The SDG&E snap shot case was prepared from the perspective that Citizens would not exercise its option under the DCA and therefore not

participate in the Border-East Line. Conversely, the Citizens snap shot case and high case were prepared from the perspective that Citizens would exercise its option under the DCA and participate in the Border-East Line. The annual levelized revenue requirements for this comparative analysis are produced from the SDG&E Representative Rate Model ("Model") referenced in the DCA, with modifications made to the capital structure depending on the case. Ultimately, Mr. Calabrese's testimony shows that the annual discounted and levelized revenue requirement under the snap shot case is slightly higher for Citizens by $77 thousand or 0.6% when compared to that of SDG&E. The annual discounted and levelized revenue requirement under the high case is $734 thousand or 5.8% higher for Citizens when compared to SDG&E. It should be noted that these differences of between 0.6% and 5.8 % in the present value of rates are being calculated in the context of 30 year forecasts and are easily within the margin of forecasting error.

In its determination of whether this transaction is in the public interest, SDG&E requests that the Commission consider these possible rate impacts together with the following benefits[1] of Citizens' participation in the Border-East Line, the consumer protections built into the cap on Citizens' rate in the SDG&E Representative Rate, the permanently locked in nature of Citizens' rate discussed below, and the relative magnitude of the overall dollars at stake (Citizens' participation will be only to the extent of approximately $83 million out of a total Sunrise cost of approximately $1.9 billion):

- Citizens is a new competitor in an industry that is traditionally absent of competition. As evidenced by a June 25, 2009 letter that the CPUC filed in a Startrans, IO, LLC proceeding in Docket No. ER08-413-002, the CPUC recognizes the value of bringing new entrants into transmission

[1] Further details regarding these benefits are included in the testimony of SDG&E witness James Avery.

development.[2] SDG&E believes that it is important to bring such diverse participating interests not only into the development of Sunrise, but also into other feasible projects that result in benefits for California Independent System Operator ("CAISO") customers and the development of new transmission. The fact that the value of Citizens' participation goes beyond the Border-East Line portion of Sunrise is reflected in Citizens' expressed interest in facilitating the development of new transmission resources beyond the Border-East Line. Citizens has been a partner in discussions around the Green Path North project, and more recently, Citizens entered into a Memorandum of Understanding in July of this year with the Western Area Power Administration ("WAPA") ("Citizens-WAPA MOU"), with WAPA acting under its new American Recovery and Reinvestment Act of 2009 ("Recovery Act"), Public Law No. 111-5, which directed WAPA to facilitate the delivery of renewable resources. Citizens, in conjunction with WAPA, intends to study the feasibility of Citizens' Imperial Valley Renewables Transmission Project ("IVRTP"). The proposed IVRTP would interconnect the transmission systems of major utilities in Arizona and California with new 500 kV transmission lines. This project could enhance the transfer capacity between Arizona and California by up to several thousand megawatts. In addition, the IVRTP could unlock additional renewables that would remain undevelopable, even with the completion of the Sunrise Powerlink. The IVRTP will increase the transfer capability of

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

the west-of-river and east-of-river transmission systems to provide renewable developers with greater opportunities to reach both the California and Arizona transmission grids. Citizens' efforts under its Citizens-WAPA MOU to develop the IVRTP have already triggered a broader discussion among WAPA, Citizens, SDG&E and other regional utilities examining the feasibility of pursuing the IVRTP in conjunction with extensive transmission additions in western Arizona which would even further strengthen the transmission system needed to deliver renewable resources in southern California and the desert southwest. While these discussions are in their early stages, it is expected that WAPA, Citizens, SDG&E and other utilities will be undertaking a feasibility study in the fall of 2009 of several projects on a combined basis. Citizens has been a leader in spearheading the discussion which has led to these developments so far.

- Citizens' participation also benefits the interests of Imperial County in which the Boarder-East Line is located and one of the poorest counties in California. Citizens does so by investing in Sunrise, which will enhance the development potential of renewable projects in this area of California. This will improve both the employment opportunities and the tax base in Imperial County. Citizens has gone further to publicly commit that its participation in the Border-East Line will not affect property tax proceeds paid to Imperial County.
- Citizens has agreed to spend fifty percent of its profits, after taxes, to programs serving low income families in Imperial County.

- SDG&E's assurances concerning ratemaking and accounting principles demonstrate that this transaction cannot result in SDG&E recovering rates for the Border-East Line both from Citizens and CAISO customers.
- Rate stability for the Citizens' entitlement in the Border-East Line for 30 years offers substantial value to customers. Citizens' rate will not be subject to change after it closes its levelized debt financing necessary to fund the lease over the term of the agreement (compared to SDG&E's capital cost recovery rate for which SDG&E can seek a higher rate of return after the Settlement Agreement expires in 2013). In other words, Citizens would be providing long-term rate stability to the extent that capital market costs ever increased significantly during the 30 years of Citizens' participation by locking in all 100 percent of its required financing over 30 years as opposed to a traditional investor-owned utility's financing that would have half of its costs subjected to swings in the equity markets.
- While the capital cost component will be capped during the lease term, at the end of this lease the capital costs for the portion of the Border-East Line will be fully depreciated and customers will have the benefit of 28 years remaining useful life for this facility.
- The DCA secures for the benefit of the CAISO's customers perpetual rights to 100 percent of the transfer capability on Citizens' portion of the 500kV line, in order to ensure that SDG&E's ratepayers will realize the full benefits of SDG&E's portion of the 500kV line. So long as Citizens remains a PTO entitled to cost recovery under CAISO's FERC tariff, SDG&E ratepayers will have access to Citizens' portion of the 500kV line

at reasonable rates. In the event that Citizens is no longer participating in the project, ceases to be a PTO, or upon a breach of Citizens' obligations, Citizens' entitlement in the Border-East Line will revert to SDG&E and, of course, be placed under the CAISO's operational control.

- The lease to Citizens of a portion of the transfer capability of the Border-East Line will not affect SDG&E's commitment to meet its 33-percent RPS commitment. Whether Citizens leases a portion of the line has no effect on the CAISO's duty to provide non-discriminatory access to Sunrise. Sunrise will provide the avenue for delivery of resources from the renewable-rich Imperial Valley region and is essential to meeting SDG&E's voluntary commitment to 33-percent renewables.

II. BACKGROUND

A. Sunrise

On December 18, 2008, in Decision ("D.") 08-12-058, the Commission granted SDG&E's application for a Certificate of Public Convenience and Necessity ("CPCN") to construct Sunrise. In its Decision approving the project, the Commission determined that Sunrise will generate net benefits, primarily reliability related, and the delivery of renewable generation in the Imperial Valley of California, of over $117 million per year to CAISO customers.[3] As approved, Sunrise is comprised of a new electric transmission line between the existing Imperial Valley and Sycamore Canyon Substations, a proposed new Suncrest Substation, and other system modifications in order to reliably operate the new line. Sunrise is comprised of three separate segments or "links" according to geographical

[3] On July 9, 2009, in D.09-07-024, the CPUC issued its Order Modifying D.08-12-058 and Denying Rehearing of Decision, As Modified.

location, including the Imperial County 500 kV Link or the Border-East Line that traverses approximately 30 miles.

B. Citizens

Citizens 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 is a FERC-jurisdictional public utility, whose commercial subsidiaries support 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, mail-order service pharmaceuticals, and environmental business consulting.

Citizens 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, including Citizens Business Enterprises. Citizens will utilize a limited liability company, which will be a subsidiary of Citizens Business Enterprises, to effectuate the ultimate lease transaction with SDG&E. Citizens relies on profits from the businesses it owns and operates to generate revenues for charitable and social programs.

C. History Leading To The DCA

To facilitate cooperative development and shared ownership of Sunrise in the Imperial Valley, on March 16, 2006, SDG&E, the Imperial Irrigation District ("IID") and Citizens executed a Memorandum of Agreement ("MOA"). IID ultimately terminated its interest in co-development of Sunrise under the MOA in November 2007 because the

disagreements over routing were not resolvable. SDG&E remains amenable to co-development of Sunrise with IID, but that avenue presently appears no longer feasible. Because SDG&E remained committed to continue negotiating with Citizens as one of the key preliminary partners, on May 11, 2009, SDG&E and Citizens signed the DCA. Negotiations leading to the final execution of the DCA were protracted for the following reasons:

- SDG&E's management was focused on concluding the Sunrise proceeding;
- there existed substantial uncertainty as to how Citizens and SDG&E would structure their transaction;
- SDG&E needed assurances that Citizens was willing to limit the capital cost component of its rate request to FERC to ensure that ratepayers would be protected from rates above that which SDG&E would charge without Citizens' involvement, keeping in mind that such involvement could come at an added cost;
- SDG&E further had substantial concerns that the transaction must be structured so as to eliminate any potential tax exposure.

These concerns were addressed both by the conclusion of the Sunrise proceeding in December 2008 and after several months of conversations with Citizens leading up to the execution of the DCA.

D. Key Features Of The DCA

As described in more detail in the testimony of SDG&E witness James Avery, the DCA includes the following key features:

- Development and Construction: SDG&E is responsible for the development, design, permitting, engineering, procurement and

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

- 30-Year Option: The option is effective until no later than 10 days prior to the targeted commercial operation date for Sunrise. Citizens may exercise its option by delivering written notice to SDG&E no later than 90 days prior to the targeted commercial operation date. If Citizens fails to exercise its option within the defined period prior to the targeted commercial operation date, such unexercised option will expire.
- Prepaid Rent: The prepaid rent owed by Citizens to SDG&E for the transfer capability (currently estimated to be $83 million) is the proportionate share of the actual cost incurred by SDG&E to develop, design, permit, engineer and construct the Border-East Line through the Imperial Valley. The rent will be paid in a lump sum at the closing of the transaction after Citizens exercises its option. The parties will attach a schedule to the lease allocating the prepaid rent over the lease term and will report the rent as accruing for tax purposes quarterly in arrears according to the schedule. They will treat the prepayment to the extent it exceeds the rent that has accrued as a loan by Citizens to SDG&E that bears interest at a rate equal to 110 percent of the "applicable federal rate" as required by Section 467 of the U.S. Tax Code.

- SDG&E does not guarantee Citizens' cost recovery: While SDG&E is part of the CAISO, SDG&E shall not be responsible to guarantee or financially support Citizens' cost recovery.
- The capital cost component of Citizens rate is capped: By far the largest cost component in Citizens rate is the capital cost for the Border-East Line. To ensure that ratepayers would be protected from rates above that which SDG&E would charge if SDG&E were to apply its cost of service principles to Citizens' involvement, keeping in mind that Citizens would incur additional costs above that allocated from SDG&E to Citizens, SDG&E structured the capital cost requirements portion of the DCA so that the capital cost component of Citizens' rates is capped at a rate which approximates the capital cost recovery rate SDG&E would charge for Citizens' interest, including some of Citizens' incremental development costs ("SDG&E Representative Rate").[4] A detailed description of this cap is provided in the testimony of SDG&E witness Michael Calabrese.
- Citizens Operating Costs: Pursuant to the DCA, Citizens will be responsible for operation and maintenance services incurred by SDG&E for the Border-East Line. SDG&E will charge Citizens the actual costs incurred for the operations and maintenance associated with Citizens' proportionate share of the Border-East Line, plus applicable overheads. Citizens will recover these SDG&E operations and maintenance ("O&M"), administrative and general ("A&G") charges and any other overheads through Citizens rates

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

that will be the subject of its rate filings at the FERC. These costs would be in customer rates even in the absence of Citizens. In addition to the SDG&E component of the SDG&E flow through of its A&G costs, Citizens will recover its own A&G costs through FERC-approved rates, such as those required to effect billing and settlements with the CAISO. As described in more detail in the testimony of SDG&E witness Michael Calabrese, these Citizens-related A&G costs will be incremental to charges that ratepayers would have paid in the absence of Citizens.

- Operations and maintenance, capital improvements, and interconnection: The DCA provides that SDG&E shall be responsible for operations and maintenance services. SDG&E shall charge Citizens the actual costs incurred for the operations and maintenance associated with Citizens' proportionate share of Sunrise, plus applicable overheads. To the extent of their proportionate share of transfer capability, SDG&E and Citizens will share pro rata any increases in the transfer capability on Sunrise resulting from changes to the configuration of adjoining systems or upgrades to adjoining systems. Subject to the CAISO tariff and rules governing interconnection, as between SDG&E and Citizens, SDG&E will be the interconnection agent for Sunrise.
- Citizens will transfer operational control over its leasehold entitlement in the Border-East Line to the CAISO: The DCA requires that Citizens become a Participating Transmission Owner ("PTO") under the CAISO tariff and turn over to the CAISO operational control of its transfer capability, as SDG&E will do with its transfer capability. In the end, the

entire transfer capability of Sunrise will be under the operational control of the CAISO and available to CAISO customers. Citizens' commitment to do so is consistent with the economic analysis utilized by the Commission in D.08-12-058 for Sunrise that was based on a CAISO ratepayer perspective.

- The transaction is structured pursuant to Internal Revenue Code §467 to meet IRS requirements for leases: An exception to the general income tax rules is provided for lease transactions by Internal Revenue Code Section 467 ("IRC §467"). Where a lease agreement calls for prepaid rent, the parties must recognize the expenses and revenues from the transaction in a reciprocal manner during the life of the lease agreement. As more fully described in the testimony of SDG&E witness Randall Rose, SDG&E and Citizens agreed to structure the transaction as an IRC §467 lease in order to obtain more certainty regarding the tax treatment that both parties desired.
- Termination and Reinstatement: SDG&E has the right to terminate the DCA and be under no obligation to pursue additional development activities if:

  (a) any of the applications for the regulatory approvals are denied, or are approved with conditions that are unacceptable to SDG&E or otherwise materially inconsistent with Sunrise;

  (b) the receipt of any regulatory approvals is delayed such that SDG&E will not be able to reasonably complete construction activities until 12 months after the targeted commercial operation date;

  (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; or

  (d) it is no longer reasonably feasible for SDG&E to continue development, design, permitting, engineering, procurement and construction activities for Sunrise.

If within five years of the effective date SDG&E resumes development of Sunrise, then this termination will no longer be effective and the option will be automatically reinstated.

- Low Income Energy Programs: Among other expenditures Citizens will make, Citizens agrees that it will pay annually 50 percent of its profits attributable to assets located in Imperial County to programs assisting low income families of Imperial County.
- Right of First Refusal: SDG&E has a right of first refusal in any proposed sale of Citizens' leasehold interest in the Border-East Line.

E. Related FERC Filings

As noted above, the DCA is contingent on approvals both by the Commission through the instant Application and by the FERC. Simultaneously with this filing, Citizens has filed at the FERC a Petition for Declaratory Order[5] seeking approval of two rate treatments for its entitlement in the Border-East Line. Specifically, Citizens is requesting authorization to recover its (i) prudently incurred transmission-related development and construction costs pertaining to its entitlement interest in the Border-East Line in the event it is canceled or abandoned as a result of factors beyond Citizens' control; and (ii) operating costs and capital requirements, pertaining to its entitlement interest in the Border-East Line under a formula rate it will file with FERC for acceptance at a later point.

On the same day, in a complementary submission to FERC, SDG&E filed a Petition for Declaratory Order and the supporting affidavit of R. Craig Gentes.[6] The purpose of this filing is to ensure CAISO customer ratepayer indifference to this

[5] Citizens' Petition for Declaratory Order is appended to this Application as Attachment 2.
[6] SDG&E's Petition for Declaratory Order and supporting affidavit of Mr. Gentes is appended to the testimony of SDG&E witness James Avery as Appendix 2.

transaction. Specifically, this petition seeks authorization to account for ratemaking purposes for the Citizens transaction so that during the 30-year term of the lease with Citizens, SDG&E will not seek to recover in its transmission rates any capital costs that are the subject of the lease. Further, at the conclusion of the lease, SDG&E will not have on its books any capital costs associated with the Citizens transaction because Citizens will have fully depreciated that portion of the Border-East Line that was the subject of the lease.

After the FERC acts on its Petition, Citizens proposes to file an application pursuant to Section 205 of the Federal Power Act to obtain FERC acceptance of a transmission formula rate. Citizens' formula rate methodology will recover operating expenses on an actual incurred basis, and capital requirements on a fixed basis levelized for 30 years. SDG&E's actual O&M and A&G costs will be a straight flow through the Citizens formula rate. Citizens' own actual A&G costs will also flow through this formula. Citizens proposes that capital requirements will be determined using a return on a rate base approach incorporating a hypothetical capital structure and proxy return on equity in determining an appropriate rate of return capped at the SDG&E Representative Rate described above and in the testimony of SDG&E witnesses James Avery and Michael Calabrese. No later than sixty days prior to the in-service date for Sunrise, Citizens will submit to FERC its revenue requirements reflecting the prepaid rent and other costs identified in the DCA that will flow through Citizens' FERC-approved formula.

Separately, SDG&E will file with FERC no later than sixty days prior to the in-service date for Sunrise an application pursuant to Section 205 to obtain acceptance, if applicable, of the lease and transmission services agreement. This agreement will reflect terms of the lease in a form substantially similar to those terms set forth in the DCA,

including SDG&E's recovery of O&M and A&G costs for transmission services provided to Citizens. At the same time, SDG&E proposes that the lease and transmission services agreement also be provided to the CPUC via an advice letter compliance filing requiring no further action by the CPUC.

III. COMPLIANCE WITH THE COMMISSION'S RULES OF PRACTICE AND PROCEDURE

SDG&E provides the following information in compliance with the Commission's Rules of Practice and Procedure:

A. Rule 2.1 (a) and Rule 3.6 (a) - Legal Name and Character of Business

1. SDG&E

SDG&E is a corporation organized and existing under the laws of the State of California. SDG&E is engaged in the business of providing electric service in a portion of Orange County and electric and gas service in San Diego County. SDG&E's principal place of business is 8330 Century Park Court, San Diego, California 92123.

2. Citizens

See description under Section II, B, above.

B. Rule 2.1 (b) - Correspondence

Correspondence or communications regarding this Application should be addressed to:

SDG&E

Kevin O'Beirne
Regulatory Case Manager
San Diego Gas & Electric Company
8330 Century Park Court, CP32D
San Diego, California 92123
Telephone: (858) 654-1765
Facsimile: (858) 654-1788
KO'Beirne@semprautilities.com

with copies to:

John A. Pacheco
Attorney for:
San Diego Gas & Electric Company
101 Ash Street
San Diego, CA 92101-3017
Telephone: (619) 699-5130
Facsimile: (619) 699-5027
JPacheco@sempra.com

Citizens

Peter F. Smith
Citizens Energy Corporation
88 Black Falcon Avenue, Suite #342
Boston, Massachusetts, 02210

with copies to:

Donald R. Allen and Paul M. Breakman
Attorneys for Citizens Energy Corporation
Duncan & Allen
1575 Eye Street, NW, Suite 300
Washington, DC 20005
DRA@DuncanAllen.com
PMB@DuncanAllen.com

C. Rule 2.1 (c)

1. Proposed Category of Proceeding

In accordance with Rule 7.1, SDG&E requests that this Application be categorized as ratesetting.

2. Need for Hearings

SDG&E does not believe that approval of this Application will require hearings. SDG&E has provided ample supporting testimony, analysis and documentation that provide the Commission with a sufficient record upon which to grant the relief requested on an ex parte basis.

3. Issues to be Considered

The issues to be considered are described in this Application and the accompanying testimony and attachments.

4. Proposed Schedule

SDG&E proposes the following schedule:

ACTION	DATE
Application filed	October 9, 2009
Approx. End of Response/Protest Period (including SDG&E's Reply)	November 18, 2009
Proposed Decision	April of 2010
Commission Decision Adopted	May of 2010

D. Rule 2.2 – Articles of Incorporation

A copy of SDG&E's Restated Articles of Incorporation as last amended, presently in effect and certified by the California Secretary of State, was filed with the Commission on August 31, 2009 in connection with SDG&E's Application No. 09-08-019, and is incorporated herein by reference.

E. Rule 3.6 (b) − Description of Property

See Section II, A, above, and the map that is part Schedule 1.1 of the DCA (see Attachment 1).

F. Rule 3.6 (c) − Reasons for Entering Into Transaction

See Sections I and II, above, as well as the testimony of SDG&E witnesses James Avery, Michael Calabrese and Randall Rose.

G. Rule 3.6 (d) − Price and Terms for Payment

See Section II, D, above, as well as the DCA (Attachment 1 to this Application) and the testimony of SDG&E witness James Avery.

H. Rule 3.6 (e) − Balance Sheet and Income Statement

A copy of SDG&E's most recent quarterly balance sheet and income statement is appended hereto as Attachment 3.

I. Rule 3.6 (f) − Copy of Agreement

A copy of the DCA is appended hereto as Attachment 1.

J. Rule 2.4 −CEQA Compliance

As noted above, a CPCN for Sunrise has already been issued by the Commission. Because the Commission must act on this application and issue a discretionary decision without which the project cannot proceed, the Commission must act as either a Lead or Responsible Agency under the California Environmental Quality Act ("CEQA"). As part of the CPCN process, the Commission acted as the state lead agency and conducted a comprehensive environmental review of Sunrise in accordance with CEQA. The Commission certified the Final Environmental Impact Report/Environmental Impact Statement ("FEIR/EIS") it jointly prepared with the Bureau of Land Management. The DCA, because it is essentially an agreement on the principal *economic* business terms of a lease of transfer capability rights along a portion of Sunrise, will not add any new or more severe significant environmental impacts beyond what has already been analyzed and approved as part of the Sunrise proceeding. That is, the development, design, permitting, engineering, construction and operation and maintenance of Sunrise that is undertaken by SDG&E remain the same, regardless of whether or not the DCA is approved in this proceeding. Further, whether Citizens leases a portion of the line has no effect on the

CAISO's duty to provide non-discriminatory access to Sunrise and, thus, the operational aspects of Sunrise governed by the ISO Tariff remain unchanged. There will be no change in the physical environment with the DCA that would trigger CEQA in the first instance. (CEQA Guidelines § 15378(b)(5).) Moreover, pursuant to Section 15061(b)(3) of the CEQA Guidelines, this Application is exempt from CEQA requirements. In any event, the Commission can rely on the joint FEIR/EIS it previously certified to satisfy its CEQA obligations herein.

K. Service

This is a new application. No service list has been established. Accordingly, SDG&E is serving this Application and the supporting testimony of SDG&E witnesses James Avery, Michael Calabrese and Randall Rose to those parties that appear on the official service list for the Sunrise proceeding (A.06-08-010). Hard copies will also be sent to the Assigned Commissioner and Administrative Law Judge ("ALJ") in the Sunrise proceeding (A.06-08-010) and to Chief ALJ Karen Clopton.

IV. CONCLUSION

Wherefore, the Applicant respectfully requests that the Commission issue an order:

1. authorizing SDG&E, under Section 851, to lease the transfer capability rights described herein, subject to the terms and conditions of the DCA;

2. authorize the future filing of the final, executed lease and transmission service agreement between SDG&E and Citizens (consistent with the principal terms contained in the DCA) as part of an advice letter compliance filing requiring no further action by the Commission; and

3. granting such other and further relief as the Commission deems proper.

Respectfully submitted this 9th day of October 2009.

By: /s/ JOHN A. PACHECO
John A. Pacheco
Attorney for:
SAN DIEGO GAS & ELECTRIC COMPANY
101 Ash Street
San Diego, CA 92101
Telephone: (619) 699-5130
Facsimile: (619) 699-5027
E-mail: jpacheco@sempra.com

SAN DIEGO GAS & ELECTRIC COMPANY

By: /s/ LEE SCHAVRIEN
Lee Schavrien
San Diego Gas & Electric Company
Senior Vice President – Regulatory and Finance

CITIZENS ENERGY CORPORATION

By: /s/ PETER F. SMITH
Peter F. Smith
Citizens Energy Corporation
Chief Operating Officer

VERIFICATION

I, the undersigned, declare:

I am an officer of SAN DIEGO GAS & ELECTRIC COMPANY, a corporation, and am authorized to make this verification on its behalf. The statements in the foregoing document pertaining or relating to San Diego Gas & Electric Company are true of my own knowledge, except as to the matters which are therein stated on information and belief, and as to those matters I believe them to be true.

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

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

/s/ LEE SCHAVRIEN
Lee Schavrien
San Diego Gas & Electric Company
Senior Vice President – Regulatory and Finance

VERIFICATION

I, the undersigned, declare:

I am an officer of CITIZENS ENERGY CORPORATION, a corporation, and am authorized to make this verification on its behalf. The statements in the foregoing document pertaining or relating to Citizens Energy Corporation are true of my own knowledge, except as to the matters which are therein stated on information and belief, and as to those matters I believe them to be true.

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

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

/s/ PETER F. SMITH
Peter F. Smith
Citizens Energy Corporation
Chief Operating Officer

Attachment 1

DEVELOPMENT AND COORDINATION AGREEMENT

BY AND BETWEEN

SAN DIEGO GAS & ELECTRIC COMPANY,

AND

CITIZENS ENERGY CORPORATION

DATED AS OF MAY 11, 2009

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DEVELOPMENT AND COORDINATION AGREEMENT

This DEVELOPMENT AND COORDINATION AGREEMENT ("DCA") is made and entered into as of May 11, 2009 (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 Sunrise Powerlink Project to connect the Imperial Valley Substation to its transmission system at a central location in its service territory (as more fully defined herein, the "Project");

WHEREAS, SDG&E, Citizens, and the Imperial Irrigation District, an irrigation district organized under the laws of the state of California ("IID"), executed a Memorandum of Agreement on March 16, 2006, as amended by a letter agreement executed on June 20, 2006 (as amended, supplemented, or restated from time to time, the "MOA"), to provide for the coordinated development by IID, SDG&E and Citizens of portions of the Project;

WHEREAS, in a letter from Stella Mendoza, President of the IID Board of Directors, to Michael Niggli, Chief Operating Officer of SDG&E, dated November 14, 2007, and in a letter from Stella Mendoza, President of the IID Board of Directors, to Joseph Kennedy, Chairman and President of Citizens, dated November 15, 2007, IID informed the Parties that it was terminating its participation under the MOA;

WHEREAS, subject to certain conditions specified herein, the Parties desire to continue the coordinated development of the Project in a manner consistent with the original intent of the MOA but in the absence of IID whereby SDG&E will develop, design, permit, engineer, procure, construct and own the Project, and Citizens 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 DCA, hereby agree, subject to the terms and conditions of this DCA, as follows:

ARTICLE I. DEFINITIONS; RULES OF INTERPRETATION

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

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control of such Person. For purposes of this definition, "control", when used with respect to any Person, means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

"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.

"BLM" means the Bureau of Land Management, an agency within the United States Department of the Interior.

"Border Demarcation" means a demarcation point on the Project where the Transfer Capability interests of the Parties change, which point shall be the border between San Diego County and Imperial County, as generally depicted in Schedule 1.1.

"Border-East Line" means the proposed 500 kV transmission line that extends east of the Border Demarcation up to, but not including, the Imperial Valley Substation, as generally depicted in Schedule 1.1. For the avoidance of doubt, the Border-East Line shall include only the 500 kV transmission line and shall not include any transmission facilities that may operate at a lower voltage, or any substation facilities.

"Border-West Facilities" means the proposed 500kV and 230kV transmission lines and associated facilities extending west of the Border Demarcation, including without limitation, a proposed 500/230 kV substation located in the east-central portion of SDG&E's electrical system and all down-stream 230 kV improvements to one or more existing SDG&E substations and related transmission facilities and any transmission facilities that may operate at a lower voltage, as generally depicted in Schedule 1.1.

"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.

"Coastal Commission" means the California Coastal Commission.

"Commercial Operation Date" and "COD" means the date on which the Project begins commercial operation.

"Control 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 Control 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.

"CPCN Application" means the August 4, 2006 amended 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 August 4, 2006.

"CPCN Decision" means the "Decision Granting a Certificate of Public Convenience and Necessity for the Sunrise Powerlink Transmission Project," and all attachments thereto, issued by the CPUC on December 24, 2008.

"CPUC" means the California Public Utilities Commission.

"DCA" 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/EIS" means the Final Environmental Impact Report/Environmental Impact Statement, prepared jointly by the CPUC and the BLM, 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 this DCA is 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 failure to timely seek, 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.

"IID" has the meaning set forth in the recitals hereto.

"Imperial Valley Substation" means the 500/230 kV substation, including those modifications necessary to connect the Border-East Line to the existing 500 kV bus, located southwest of El Centro, California, as generally depicted in Schedule 1.1, and currently owned by IID and SDG&E as tenants in common pursuant to, and in proportion to the allocation set out in, that certain California Transmission System Participation Agreement, dated May 1, 1983, as amended, modified, or supplemented from time to time, between SDG&E and IID.

"MOA" has the meaning set forth in the recitals hereto.

"NEPA" means the National Environmental Policy Act.

"Operational Control" means the rights of the Control Area operator to direct the operation of transmission facilities and other electric plant in the Control 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 Sunrise Powerlink Project and more specifically the "Environmentally Superior Southern Route" identified in the Final EIR/EIS and modified by the CPCN Decision, and reasonable alterations thereto, as generally depicted in Schedule 1.1. For purposes hereof, the Project is divided into the following components: the Border-West Facilities, the Border-East Line, and the Imperial Valley Substation, as generally depicted in Schedule 1.1.

"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 BLM, FERC and the 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, as of the Effective Date, May 30, 2012, subject to modification by SDG&E as provided in Section 6.3 (Project Schedule Revisions) of this DCA, but in no event on or after the Commercial Operation Date.

"Target COD" means the target Commercial Operation Date, which as of the Effective Date is June 2012, subject to modification by SDG&E as provided in Section 6.3 (Project Schedule Revisions) of this DCA.

"Target Construction Date" means, as of the Effective Date, June 2010, subject to modification by SDG&E as provided in Section 6.3 (Project Schedule Revisions) of this DCA.

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

"Transfer Capability" means the amount of power (in mega-watts) that can be transferred over part, or all, of the Project in a reliable manner while meeting all of a specific set of defined pre-contingency and post-contingency system conditions in accordance with Western Electricity Coordinating Council standards. The holder of Transfer Capability 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 of the Project as may be subsequently defined by the CAISO Agreements.

"Transfer Capability Lease" has the meaning set forth in Section 2.2 (Subsequent Agreements) hereof.

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

Section 1.2 Rules of Interpretation. Unless otherwise provided herein or the context otherwise requires, and to the extent consistent with the Parties' original intent hereunder: (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

Section 2.1 Term. The "Term" of this DCA 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 end of the thirty-year term of Citizens' lease of Transfer Capability if the Option has been exercised, (iii) in the event of mutual written agreement by all Parties that explicitly

supersedes in its entirety or otherwise terminates this DCA, or (iv) as otherwise provided for herein.

Section 2.2 Subsequent Agreements. The Parties shall develop and, to the extent Citizens exercises and closes its Option, execute further agreements as may be reasonably necessary to effectuate the purpose and intent of this DCA including, without limitation, the principal terms outlined in Articles III (Responsibility for Development, Construction and Operation of Project) and IV (Ownership and Option) and Schedule 2.2. The Parties expect that such agreements shall include, without limitation, a lease of Transfer Capability that also provides for interconnection, operation and maintenance of the Project (the "Transfer Capability Lease"), and consents, estoppels and other acknowledgements of the foregoing as a Party's lenders may reasonably request. 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 DCA. 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 DCA 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. In particular, SDG&E and Citizens shall negotiate a final form of Transfer Capability Lease that provides for the lease of Transfer Capability, interconnection, operation and maintenance of the Project reasonably acceptable to each Party, and as further described in Schedule 2.2, by no later than nine months after the Effective Date. The Parties acknowledge that negotiation of a final form of the Transfer Capability Lease no later than nine months after the Effective Date is critical to the timely completion of development and permitting activities hereunder and a material term hereof.

ARTICLE III. RESPONSIBILITY FOR DEVELOPMENT, CONSTRUCTION AND OPERATION OF PROJECT

Section 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.

Section 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 begin construction of the Project on or before the Target Construction Date;

(h) to complete construction of the Project on or before the Target COD;

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

Section 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

Section 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 50% of the Transfer Capability on the Border-East Line.

Section 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"):

Section 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, 50% of the Transfer Capability on the Border-East Line 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 DCA or a material breach of its obligations under any subsequent agreements between Citizens and SDG&E as contemplated in this DCA that is not cured in accordance with the applicable subsequent agreement.

Section 4.2.2 Exercise of Option. Citizens may exercise the Option by delivering written notice to SDG&E no later than 90 days prior to the Target Closing

Date. If Citizens fails to exercise its Option by the earlier of (i) no later than 90 days prior to the Target Closing Date and (ii) the 10th anniversary of the Effective Date, such unexercised Option shall expire.

Section 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 the Target Closing Date. SDG&E and Citizens shall execute, acknowledge and deliver any and all documents reasonably necessary to lease such Transfer Capability and otherwise carry out the terms and conditions of this DCA. 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.

Section 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 50% of the actual cost incurred by SDG&E to develop, design, permit, engineer and construct the Border-East Line, including AFUDC and payments still due under pending construction contracts for work to be completed after closing of the Option (provided that SDG&E shall provide Citizens a good faith estimate of all such costs in writing no later than 90 days prior to the date of closing on the Option). 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.

Section 4.2.5 Final Construction Activities Subsequent to Close of Option. After closing of the lease of Transfer Capability pursuant to an exercised Option, SDG&E shall provide construction management services to Citizens in order to assist Citizens in coordinating construction punch list items and all other final construction activities for the Border-East Line. Citizens will be responsible for 50% of the costs incurred in completing final construction work on the Border-East Line incurred after closing of the lease of Transfer Capability, including payments still due under pending construction contracts, and such payments shall be deemed to be additional prepaid rent.

Section 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 SDG&E's receipt of (i) a final, nonappealable order by the CPUC approving this lease under Section 851 of the California Public Utilities Code or otherwise, and (ii) 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 (i) above, SDG&E will seek any necessary approvals from the CPUC no later than 90 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 90 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 (ii) above, SDG&E will seek

any necessary approvals from FERC promptly after the Parties have agreed to substantially final forms of the subsequent transaction documents.

ARTICLE V. REGULATORY APPROVALS

Section 5.1 Mutual Cooperation.

Section 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.

Section 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

Section 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.

Section 6.2 Sharing Information.

Section 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.

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

Section 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.

Section 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 DCA (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

Section 7.1 Force Majeure. Notwithstanding anything in this DCA 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 DCA (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).

Section 7.2 Notification. A Party unable to perform under this DCA 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

Section 8.1 Withdrawal. SDG&E shall have the right to withdraw from and terminate this DCA 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.

Section 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).

Section 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 DCA under Section 8.1 (Withdrawal) ("Project Recommencement"), then such termination shall no longer be effective and this DCA shall be automatically reinstated with reasonable extensions to the dated terms of this DCA. The effect of such Project Recommencement and reinstatement of this DCA 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 DCA.

ARTICLE IX. EVENTS OF DEFAULT; REMEDIES

Section 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 DCA 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 DCA, 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 Control 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.

Section 9.2 Limitation on Damages. No Party shall be liable under this DCA 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.

Section 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 DCA.

ARTICLE X. DISPUTE RESOLUTION

Section 10.1 Intent of the Parties. The sole procedure to resolve any claim arising out of or relating to this DCA 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.

Section 10.2 Management Negotiations. The Parties will attempt in good faith to resolve any controversy or claim arising out of or relating to this DCA 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 Business 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.

Section 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).

Section 10.4 Enforcement of Award. By execution and delivery of this DCA, 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.

Section 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 DCA 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

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

Section 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.

Section 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 DCA. The execution, delivery and performance by SDG&E of this DCA, and the consummation of the transactions and activities contemplated under this DCA, have been duly authorized by all necessary corporate action required on the part of SDG&E. This DCA 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.

Section 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 DCA, 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.

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

Section 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.

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

Section 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 DCA, 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.

Section 11.2.4 No Objection to Current Design. Citizens has reviewed SDG&E's CPCN Application, the Final EIR/EIS, 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

Section 12.1 Notices. Unless otherwise specified herein, all notices shall be in writing and delivered by hand, overnight mail or facsimile (provided a copy is also sent by overnight mail) to the applicable addresses below. Notice shall be effective on the next Business Day after it is sent. 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 – Sunrise Powerlink
Fax: 858-650-6106

With a copy to:
San Diego Gas & Electric
8330 Century Park Court
San Diego, CA 92123
Attention: Vice President and Associate General Counsel
Fax: 619-696-4582

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
1575 Eye Street, N.W.
Washington, D.C., 20005
Attention: Counsel to Citizens Energy Corporation
Fax: 202-289-8450

Section 12.2 Assignment.

Section 12.2.1 General. Any time prior to COD, Citizens shall not assign this DCA, 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 DCA, 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 DCA 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. Any change of control of a Party (or of any parent entity holding directly or indirectly at least fifty percent of the equity interest in such Party if such interest constitutes more than thirty percent of the value of such parent entity) whether voluntary or by operation of law shall be deemed an assignment hereunder. Any assignment in violation of this Section 12.2 (Assignment) shall be null and void.

Section 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 DCA 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 DCA (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 DCA (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 DCA (and the Project) on the revised terms.

Section 12.3 Confidentiality. During the term of this DCA and for a period of three years after the expiration or termination of this DCA, 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.

Section 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 the Project.

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

Section 12.6 No Amendments or Modifications. This DCA 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 DCA, the Parties shall negotiate in good faith to amend or modify this DCA to effectuate the same intent and essential purpose of this DCA as of the Effective Date in light of the CAISO Agreements amendment or modification.

Section 12.7 Delay and Waiver. Except as otherwise provided in this DCA, 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 DCA 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 DCA, or any waiver of any provision or condition of this DCA, must be in writing and shall be effective only to the extent specifically set forth in such writing.

Section 12.8 Entirety. This DCA 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 DCA supersedes the MOA in its entirety.

Section 12.9 Relationship of the Parties. Except as otherwise set forth herein, this DCA 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.

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

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

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

Section 12.13 Headings. The headings contained in this DCA 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 DCA.

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

Section 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***]

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

SAN DIEGO GAS & ELECTRIC COMPANY

By: _____

Name: JAMES P AVERY

Title: SVP

Date: 5/11/09

CITIZENS ENERGY CORPORATION

By: _____

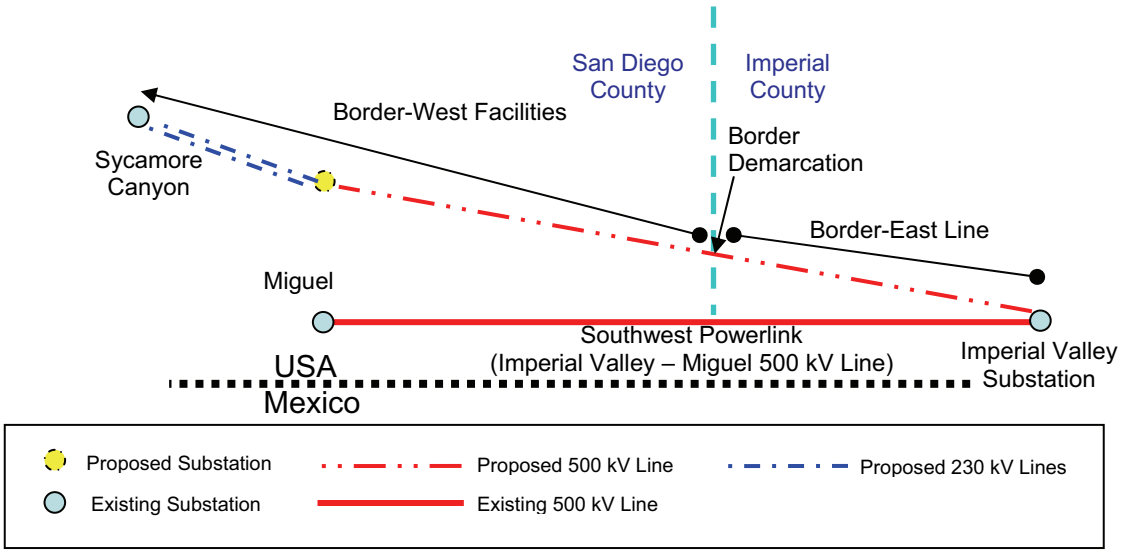
Name: Joseph P. Kennedy II

Title: Chief Executive Officer

Date: 5/11/09

SCHEDULE 1.1

Project Diagram



SCHEDULE 2.2

PRINCIPLE TERMS

A. ALLOCATION ASSUMING CLOSE OF OPTION

ELEMENTS OF PROJECTS	COST RESPONSIBILITY	OWNERSHIP	TRANSFER CAPABILITY
Imperial Valley Substation	100% SDG&E*	100% SDG&E*	100% SDG&E/CAISO*
Border-East Line	50% Citizens** 50% SDG&E**	100% SDG&E**	50% Citizens/CAISO** 50% SDG&E/CAISO**
Border-West Facilities	100% SDG&E	100% SDG&E	100% SDG&E/CAISO

* Subject to that certain California Transmission System Participation Agreement, dated May 1, 1983, as amended, modified, or supplemented from time to time, between SDG&E and IID.

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

B. Other Material Terms of Transfer Capability Lease and Other Subsequent Agreements

As provided in the Recitals and Section 2.2 (Subsequent Agreements) of this DCA, to the extent Citizens exercises and closes its Option, the Parties intend to enter into a Transfer Capability Lease and other subsequent agreements to provide for the interconnection, operation and maintenance of the Project:

1. Control Area. For the Useful Life of the Project, the Project shall remain in the Control Area of the CAISO.

2. Operational Control Over Citizens Transfer Capability. Citizens shall assign to the CAISO Operational Control of its Transfer Capability on the Project. Citizens shall obtain and maintain status comparable to that of SDG&E in any regional transmission entity in which SDG&E participates with status comparable to a PTO.

3. Citizens Rates.

3.1. Regulation of Citizens' Rates: Citizens shall file or cause to be filed with FERC, a transmission service tariff for recovery of its costs associated with its Transfer Capability in the Project. Citizens' Transfer Capability on the Project shall be 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.

3.2. Citizens' Cost Recovery Methodology: Citizens shall seek from FERC a cost recovery methodology that provides cost recovery to Citizens limited to the recovery of the following transmission costs:

3.2.1. Operating Costs: Citizens shall seek recovery of all reasonably and prudently incurred costs for operation and maintenance on an annual formulaic basis, including administrative and general activities (and any sales, use or excise tax), directly attributable to Citizens' Transfer Capability on the Project as recorded in FERC accounts 560-573, and 920-935 under the FERC Uniform System of Accounts.

3.2.2. Capital Requirements: Citizens shall seek recovery for all other costs associated with its Transfer Capability on the Project at a fixed rate that is no higher than the rate SDG&E could recover at the time of COD if SDG&E held Citizens' Transfer Capability. This rate is intended to cover all costs associated with Citizens' Transfer Capability (other than Operating Costs described above) including prepaid rent and other costs of Transfer Capability, debt service, capitalized interest, liquidity reserves, taxes (other than sales, use, or excise taxes which are addressed in Section 3.2.1 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 Citizens' Transfer Capability, the Parties agree to use the model attached hereto as Exhibit 2.2A.

3.2.2.1. 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 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 actual SDG&E AFUDC. The phrase "Costs of Transfer Capability" shall mean 101% of the sum of the prepaid rent of Citizens' Transfer Capability as determined in the DCA 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 allocated to its Transfer Capability. The phrase "Financing Costs" shall mean (a) with respect to any bridge financing that Citizens may consummate prior to the term financing that Citizens will consummate for the final acquisition of its Transfer Capability, all reasonable and customary financing costs, including without limitation, lenders' fees, consultants' fees (for Citizens and its lenders), lawyers' fees (for Citizens and its lenders), and interest associated with such bridge financing, and (b) with respect to the term financing that Citizens will consummate for the final acquisition of its Transfer Capability, all reasonable and customary consultants' fees (for Citizens and its lenders), lawyers' fees (for Citizens 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 Citizens' Transfer Capability.

3.2.2.2. 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 return on equity fixed at 11.35%, (2) SDG&E capital structure fixed at 50% equity and 50% debt, (3) SDG&E property tax rate fixed at 1.246%, and (4) SDG&E composite state and federal income tax rate fixed at 40.75%. For purposes of explanation, the model also calculates the following parameters, among others, in determining the SDG&E Representative Rate: (1) SDG&E estimated debt rate for 30 years which is the five-day average Moody's Aa 30-year Utility Bond Index less 38 basis points, (2) SDG&E weighted average cost of capital which is the weighted average (based on the SDG&E fixed capital structure) of the SDG&E return on equity and the SDG&E estimated debt rate, and (3) SDG&E discount rate which is equal to the SDG&E weighted average cost of capital. The example attached hereto as Exhibit 2.2B sets forth the SDG&E Representative Rate for a five-day average Moody's Aa 30-year Utility Bond Index equal to 6.00% and a Cost of Transfer Capability equal to $1,000,000.

3.2.2.3. At the time Citizens files an application seeking FERC approval of its annual fixed rate methodology for recovery of the costs described in this Section 3.2.2, Citizens shall demonstrate that its proposed rate methodology results in an annual fixed rate that is no greater than the SDG&E Representative Rate.

3.2.2.4. For purposes of determining whether Citizens has a fixed rate that is no higher than the rate SDG&E could recover at the time of COD if SDG&E held Citizens' Transfer Capability in compliance with this Section 3.2.2, the Parties shall compare the SDG&E Representative Rate against Citizens' FERC-approved annual fixed rate for recovery of the costs described in this Section 3.2.2 at such time as Citizens consummates the debt financing transaction for its Transfer Capability in the Project and at such time as Citizens' submits its compliance filing to FERC showing its actual rates based on the FERC-approved annual fixed rate methodology.

3.2.2.5. In the event Citizens is able to demonstrate a rate to the FERC that is higher than the SDG&E Representative Rate, then Citizens agrees to limit or cap its rate request before the FERC to be the SDG&E Representative Rate.

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, 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 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 3.2.2 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 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' rates, Citizens' recovery and implementation of rates conforming to the provisions of this DCA in accordance with Section 205 of the Federal Power Act and orders issued by FERC thereunder in order that Citizens may acquire, finance, operate and maintain its leasehold interest in the Project. SDG&E acknowledges that among other things, Citizens will seek recovery of and SDG&E will support Citizens as a PTO seeking to recover from CAISO Eligible Customers in its transmission revenue requirement for the Project (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' control, and (c) all capital requirements as described in Section 3.2.2 above. SDG&E's support shall include providing FERC with assurances that all costs sought to be recovered by Citizens through its rates that were originally incurred by SDG&E were prudently incurred.

3.4. Credits. Citizens shall be required to credit to CAISO Eligible Customers any revenues that are derived from, or associated with, Citizens' lease of Transfer Capability on the Project that are in addition to its cost-of-service recovery described above.

3.5. SDG&E. If SDG&E is no longer part of a regional transmission entity that has Operational Control over SDG&E's transmission system during the term in which Citizens leases Transfer Capability on the Project, SDG&E shall ensure that Citizens can recover any and all of the costs specified above as if Citizens were still recovering these costs under its FERC-filed and accepted transmission service tariff. While SDG&E is part of a regional transmission entity that has Operational Control over SDG&E's transmission system, SDG&E shall not be responsible to guarantee or financially support Citizens' cost recovery.

4. Low Income Energy Programs: Among any other contributions Citizens may elect to make, Citizens agrees that it shall make a contribution each year equal to 50% of Citizens' profits attributable to assets located in Imperial County to programs assisting low income families of Imperial County.

5. Operation, Maintenance, Upgrades, Interconnection.

5.1. Operation and Maintenance. The Parties agree that SDG&E shall be responsible for operations and maintenance services for the Project. SDG&E shall charge Citizens the actual costs incurred for the operations and maintenance associated with Citizens' proportionate share of the Project, plus applicable overheads, and shall perform its services in accordance with all regulations and Good Utility Practice, including CAISO standards.

5.2. Future Increases in Transfer Capability. To the extent of their proportionate share of Transfer Capability, SDG&E and Citizens will share pro rata any increases in the Transfer Capability on the Project resulting from changes to the configuration of adjoining systems or upgrades to adjoining systems, including the systems of SDG&E and IID beyond the Project.

5.3. Future Upgrades in Transfer Capability. SDG&E shall be solely entitled to develop, design, engineer, procure, construct, commission, own, operate, maintain and finance any upgrades to the Project after the Commercial Operation Date for purposes of increasing the Transfer Capability of the Project. SDG&E shall be solely responsible to pay the costs of such upgrades and will be entitled to all increases in Transfer Capability resulting from such upgrades. For example, if the Border-East Line were rated at 1000MW and a $10 million upgrade to the Border-East Line would cause the rating to increase by 200MW, and at the time of the upgrade, Citizens and SDG&E each hold a 50% share of the Transfer Capability on the Border-East Line, then SDG&E would be responsible for funding the $10 million and Citizens would not have any funding obligation for such upgrade. As a result of the upgrade, SDG&E's proportionate share of Transfer Capability on the Border-East Line would increase from 50% (500 MW) to 58.33% (700 MW), and Citizens proportionate share would be reduced from 50% (500 MW) to 41.67% (500 MW).

5.4. Future Replacement and Renewal. To the extent that during the Useful Life of the Project additional capital investment is needed for replacement or renewal of facilities of the Project, SDG&E shall be responsible for all costs of such replacement or renewal. As a result, each Party's proportionate share of Transfer Capability on that portion of the Project will be modified to an amount equal to the quotient of (a) the sum of (i) that Party's then-current percentage share of Transfer Capability on that portion of the Project multiplied by the former net book value of the relevant portion of the Project (excluding all new funding of replacements or renewals from the former net book value) plus (ii) that Party's new funding of replacements or renewals as part of the new net book value, divided by (b) the new net book value of the relevant portion of the Project (including all new funding of replacements or renewals as part of the new net book value). For the avoidance of doubt, Citizens rate recovery shall not be affected by any reduction in its Transfer Capability associated with SDG&E's funding of renewals and replacements. For example, assume that the Border-East Line has a net book value of $300 million prior to replacement or renewals and requires $10 million in replacement or renewal (and thus would have a net book value of $310 million subsequent to such replacement or renewal). If Citizens and SDG&E then hold a 50% interest in Transfer Capability on the Border-East Line and Citizens does not provide any funding for such replacement or renewal, while SDG&E provides this $10 million, then Citizens'

proportionate share of Transfer Capability on the Border-East Line would be reduced from 50% to 48.39%, and SDG&E's proportionate share of Transfer Capability on the Border-East Line would be increased from 50% to 51.61%. In the case where both (i) replacements and renewals and (ii) upgrades occur to the same components of the Project, the resulting Transfer Capability and cost allocation shall be determined as the Parties may reasonably agree in the Transfer Capability Lease.

5.5. Interconnection Facilities. Subject to the CAISO Tariff and rules governing interconnection, as between SDG&E and Citizens, SDG&E will be the interconnection agent for the Project. 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 initially fund 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.

6. Section 467 Rental Agreement. It is the intention of the Parties that (i) the Transfer Capacity Lease constitute a "Section 467 rental agreement" within the meaning of Section 467(d)(1) of the U.S. Internal Revenue Code and (ii) the 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 DCA and the Transfer Capacity Lease shall to the fullest extent feasible be construed consistent with such intention. The Parties agree to attach a schedule to the Transfer Capacity Lease developed based on the form attached hereto as Exhibit 2.2C allocating the prepaid rent over the lease term and shall report the rent as accruing for tax purposes quarterly in arrears according to the schedule. The Parties shall treat the prepayment to the extent it exceeds the rent that has accrued as a loan by Citizens to SDG&E that bears interest at a rate equal to 110% of the "applicable federal rate" as required by Section 467 of the U.S. Internal Revenue Code.

Exhibit 2.2A

Model for SDG&E Representative Rate

(See attached CD entitled "Exhibit 2.2A; Development and Coordination Agreement; May 11, 2009 v.2" containing the model in XLS worksheet file)

Exhibit 2.2B

Example of SDG&E Representative Rate

Model Inputs

The Moody's Aa Utility Bond Index	6.00%
Cost of Transfer Capability	1,000,000
AFUDC	100,000

Calculation of Debt Cost as Input to Model

The Moody's Aa Utility Bond Index	6.00%	
Less: 38 basis points	0.38%	**remains fixed "do not change"**
Total Debt Cost per Model	5.62%	

Calculation of WACC

	Capital Ratio	Cost	WACC	
Debt	50.00%	5.62%	2.81%	
Preferred Equity	0.00%	0.00%	0.00%	**remains fixed "do not change"**
Common Equity	50.00%	11.35%	5.68%	**remains fixed "do not change"**
			8.49%	

		1	2	3	4	5	6	7	8	9	10	11-30
Revenue Requirement	**Total**	**Year-1**	**Year-2**	**Year-3**	**Year-4**	**Year-5**	**Year-6**	**Year-7**	**Year-8**	**Year-9**	**Year-10**	**Year-11-58**
Depreciation Expense	1,000,000	17,241	17,241	17,241	17,241	17,241	17,241	17,241	17,241	17,241	17,241	827,586
Return on Common Equity	1,160,179	55,927	53,755	51,184	48,804	46,595	44,542	42,601	40,706	38,825	36,957	700,284
Return on Preferred Equity	-	-	-	-	-	-	-	-	-	-	-	-
Return on Debt	574,467	27,692	26,617	25,344	24,165	23,072	22,055	21,094	20,156	19,224	18,299	346,749
Federal Income Taxes	702,238	36,791	29,792	28,696	27,414	26,239	25,146	24,110	23,093	22,081	21,076	437,800
State Income Taxes	235,452	9,937	9,047	8,692	8,337	8,009	7,703	7,415	7,132	6,852	6,573	155,755
Property Taxes	265,754	12,112	11,575	11,078	10,616	10,186	9,784	9,396	9,008	8,620	8,232	165,147
Total Revenue Requirement	3,938,090	159,700	148,028	142,235.0	136,577.3	131,342.0	126,471.8	121,856.6	117,335.9	112,843.1	108,379.0	2,633,321.2
Net Present Value (58 yrs)	1,322,303	153,328	131,006	116,033	102,703	91,042	80,809	71,771	63,703	56,472	49,996	405,441.3
Levelized Annual Amount (30 yrs)	$122,872											

SDG&E Representative Rate	$122,872

Exhibit 2.2C

Accrual of Prepaid Rent

Project: Sunrise
Lessor: SDG&E
Lessee: Citizens
Interest Rate: 0.97% 110% LT AFR 10/07

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)
		$83,000,000						$83,000,000	
1	$1,173,600	-	$1,173,600	1.000000	$1,173,600	805,100	($1,173,600)	82,631,500	($368,500)
2	$1,173,600	-	$1,173,600	1.000000	$1,173,600	801,526	($1,173,600)	82,259,426	(372,074)
3	$1,173,600	-	$1,173,600	1.000000	$1,173,600	797,916	($1,173,600)	81,883,743	(375,683)
4	$1,173,600	-	$1,173,600	1.000000	$1,173,600	794,272	($1,173,600)	81,504,415	(379,328)
5	$1,173,600	-	$1,173,600	1.000000	$1,173,600	790,593	($1,173,600)	81,121,408	(383,007)
6	$1,173,600	-	$1,173,600	1.000000	$1,173,600	786,878	($1,173,600)	80,734,686	(386,722)
7	$1,173,600	-	$1,173,600	1.000000	$1,173,600	783,126	($1,173,600)	80,344,213	(390,473)
8	$1,173,600	-	$1,173,600	1.000000	$1,173,600	779,339	($1,173,600)	79,949,952	(394,261)
9	$1,173,600	-	$1,173,600	1.000000	$1,173,600	775,515	($1,173,600)	79,551,866	(398,085)
10	$1,173,600	-	$1,173,600	1.000000	$1,173,600	771,653	($1,173,600)	79,149,920	(401,947)
11	$1,173,600	-	$1,173,600	1.000000	$1,173,600	767,754	($1,173,600)	78,744,074	(405,846)
12	$1,173,600	-	$1,173,600	1.000000	$1,173,600	763,818	($1,173,600)	78,334,292	(409,782)
13	$1,173,600	-	$1,173,600	1.000000	$1,173,600	759,843	($1,173,600)	77,920,534	(413,757)
14	$1,173,600	-	$1,173,600	1.000000	$1,173,600	755,829	($1,173,600)	77,502,764	(417,771)
15	$1,173,600	-	$1,173,600	1.000000	$1,173,600	751,777	($1,173,600)	77,080,941	(421,823)
16	$1,173,600	-	$1,173,600	1.000000	$1,173,600	747,685	($1,173,600)	76,655,026	(425,915)
17	$1,173,600	-	$1,173,600	1.000000	$1,173,600	743,554	($1,173,600)	76,224,980	(430,046)
18	$1,173,600	-	$1,173,600	1.000000	$1,173,600	739,382	($1,173,600)	75,790,763	(434,218)
19	$1,173,600	-	$1,173,600	1.000000	$1,173,600	735,170	($1,173,600)	75,352,333	(438,429)
20	$1,173,600	-	$1,173,600	1.000000	$1,173,600	730,918	($1,173,600)	74,909,651	(442,682)
21	$1,173,600	-	$1,173,600	1.000000	$1,173,600	726,624	($1,173,600)	74,462,675	(446,976)
22	$1,173,600	-	$1,173,600	1.000000	$1,173,600	722,288	($1,173,600)	74,011,363	(451,312)
23	$1,173,600	-	$1,173,600	1.000000	$1,173,600	717,910	($1,173,600)	73,555,673	(455,690)
24	$1,173,600	-	$1,173,600	1.000000	$1,173,600	713,490	($1,173,600)	73,095,563	(460,110)

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)
25	$1,173,600	-	$1,173,600	1.000000	$1,173,600	709,027	($1,173,600)	72,630,991	(464,573)
26	$1,173,600	-	$1,173,600	1.000000	$1,173,600	704,521	($1,173,600)	72,161,911	(469,079)
27	$1,173,600	-	$1,173,600	1.000000	$1,173,600	699,971	($1,173,600)	71,688,282	(473,629)
28	$1,173,600	-	$1,173,600	1.000000	$1,173,600	695,376	($1,173,600)	71,210,059	(478,223)
29	$1,173,600	-	$1,173,600	1.000000	$1,173,600	690,738	($1,173,600)	70,727,196	(482,862)
30	$1,173,600	-	$1,173,600	1.000000	$1,173,600	686,054	($1,173,600)	70,239,650	(487,546)
31	$1,173,600	-	$1,173,600	1.000000	$1,173,600	681,325	($1,173,600)	69,747,375	(492,275)
32	$1,173,600	-	$1,173,600	1.000000	$1,173,600	676,550	($1,173,600)	69,250,325	(497,050)
33	$1,173,600	-	$1,173,600	1.000000	$1,173,600	671,728	($1,173,600)	68,748,453	(501,872)
34	$1,173,600	-	$1,173,600	1.000000	$1,173,600	666,860	($1,173,600)	68,241,713	(506,740)
35	$1,173,600	-	$1,173,600	1.000000	$1,173,600	661,945	($1,173,600)	67,730,058	(511,655)
36	$1,173,600	-	$1,173,600	1.000000	$1,173,600	656,982	($1,173,600)	67,213,440	(516,618)
37	$1,173,600	-	$1,173,600	1.000000	$1,173,600	651,970	($1,173,600)	66,691,810	(521,629)
38	$1,173,600	-	$1,173,600	1.000000	$1,173,600	646,911	($1,173,600)	66,165,121	(526,689)
39	$1,173,600	-	$1,173,600	1.000000	$1,173,600	641,802	($1,173,600)	65,633,323	(531,798)
40	$1,173,600	-	$1,173,600	1.000000	$1,173,600	636,643	($1,173,600)	65,096,366	(536,957)
41	$1,173,600	-	$1,173,600	1.000000	$1,173,600	631,435	($1,173,600)	64,554,201	(542,165)
42	$1,173,600	-	$1,173,600	1.000000	$1,173,600	626,176	($1,173,600)	64,006,777	(547,424)
43	$1,173,600	-	$1,173,600	1.000000	$1,173,600	620,866	($1,173,600)	63,454,043	(552,734)
44	$1,173,600	-	$1,173,600	1.000000	$1,173,600	615,504	($1,173,600)	62,895,947	(558,096)
45	$1,173,600	-	$1,173,600	1.000000	$1,173,600	610,091	($1,173,600)	62,332,438	(563,509)
46	$1,173,600	-	$1,173,600	1.000000	$1,173,600	604,625	($1,173,600)	61,763,463	(568,975)
47	$1,173,600	-	$1,173,600	1.000000	$1,173,600	599,106	($1,173,600)	61,188,969	(574,494)
48	$1,173,600	-	$1,173,600	1.000000	$1,173,600	593,533	($1,173,600)	60,608,902	(580,067)
49	$1,173,600	-	$1,173,600	1.000000	$1,173,600	587,906	($1,173,600)	60,023,209	(585,693)
50	$1,173,600	-	$1,173,600	1.000000	$1,173,600	582,225	($1,173,600)	59,431,834	(591,375)
51	$1,173,600	-	$1,173,600	1.000000	$1,173,600	576,489	($1,173,600)	58,834,723	(597,111)
52	$1,173,600	-	$1,173,600	1.000000	$1,173,600	570,697	($1,173,600)	58,231,820	(602,903)
53	$1,173,600	-	$1,173,600	1.000000	$1,173,600	564,849	($1,173,600)	57,623,069	(608,751)
54	$1,173,600	-	$1,173,600	1.000000	$1,173,600	558,944	($1,173,600)	57,008,413	(614,656)
55	$1,173,600	-	$1,173,600	1.000000	$1,173,600	552,982	($1,173,600)	56,387,794	(620,618)
56	$1,173,600	-	$1,173,600	1.000000	$1,173,600	546,962	($1,173,600)	55,761,156	(626,638)
57	$1,173,600	-	$1,173,600	1.000000	$1,173,600	540,883	($1,173,600)	55,128,440	(632,717)
58	$1,173,600	-	$1,173,600	1.000000	$1,173,600	534,746	($1,173,600)	54,489,586	(638,854)
59	$1,173,600	-	$1,173,600	1.000000	$1,173,600	528,549	($1,173,600)	53,844,535	(645,051)
60	$1,173,600	-	$1,173,600	1.000000	$1,173,600	522,292	($1,173,600)	53,193,227	(651,308)
61	$1,173,600	-	$1,173,600	1.000000	$1,173,600	515,974	($1,173,600)	52,535,601	(657,626)

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)
62	$1,173,600	-	$1,173,600	1.000000	$1,173,600	509,595	($1,173,600)	51,871,597	(664,004)
63	$1,173,600	-	$1,173,600	1.000000	$1,173,600	503,154	($1,173,600)	51,201,152	(670,445)
64	$1,173,600	-	$1,173,600	1.000000	$1,173,600	496,651	($1,173,600)	50,524,203	(676,949)
65	$1,173,600	-	$1,173,600	1.000000	$1,173,600	490,085	($1,173,600)	49,840,688	(683,515)
66	$1,173,600	-	$1,173,600	1.000000	$1,173,600	483,455	($1,173,600)	49,150,543	(690,145)
67	$1,173,600	-	$1,173,600	1.000000	$1,173,600	476,760	($1,173,600)	48,453,703	(696,840)
68	$1,173,600	-	$1,173,600	1.000000	$1,173,600	470,001	($1,173,600)	47,750,104	(703,599)
69	$1,173,600	-	$1,173,600	1.000000	$1,173,600	463,176	($1,173,600)	47,039,680	(710,424)
70	$1,173,600	-	$1,173,600	1.000000	$1,173,600	456,285	($1,173,600)	46,322,366	(717,315)
71	$1,173,600	-	$1,173,600	1.000000	$1,173,600	449,327	($1,173,600)	45,598,093	(724,273)
72	$1,173,600	-	$1,173,600	1.000000	$1,173,600	442,301	($1,173,600)	44,866,794	(731,298)
73	$1,173,600	-	$1,173,600	1.000000	$1,173,600	435,208	($1,173,600)	44,128,402	(738,392)
74	$1,173,600	-	$1,173,600	1.000000	$1,173,600	428,046	($1,173,600)	43,382,848	(745,554)
75	$1,173,600	-	$1,173,600	1.000000	$1,173,600	420,814	($1,173,600)	42,630,062	(752,786)
76	$1,173,600	-	$1,173,600	1.000000	$1,173,600	413,512	($1,173,600)	41,869,974	(760,088)
77	$1,173,600	-	$1,173,600	1.000000	$1,173,600	406,139	($1,173,600)	41,102,513	(767,461)
78	$1,173,600	-	$1,173,600	1.000000	$1,173,600	398,694	($1,173,600)	40,327,607	(774,905)
79	$1,173,600	-	$1,173,600	1.000000	$1,173,600	391,178	($1,173,600)	39,545,185	(782,422)
80	$1,173,600	-	$1,173,600	1.000000	$1,173,600	383,588	($1,173,600)	38,755,174	(790,012)
81	$1,173,600	-	$1,173,600	1.000000	$1,173,600	375,925	($1,173,600)	37,957,499	(797,675)
82	$1,173,600	-	$1,173,600	1.000000	$1,173,600	368,188	($1,173,600)	37,152,087	(805,412)
83	$1,173,600	-	$1,173,600	1.000000	$1,173,600	360,375	($1,173,600)	36,338,862	(813,225)
84	$1,173,600	-	$1,173,600	1.000000	$1,173,600	352,487	($1,173,600)	35,517,749	(821,113)
85	$1,173,600	-	$1,173,600	1.000000	$1,173,600	344,522	($1,173,600)	34,688,672	(829,078)
86	$1,173,600	-	$1,173,600	1.000000	$1,173,600	336,480	($1,173,600)	33,851,552	(837,120)
87	$1,173,600	-	$1,173,600	1.000000	$1,173,600	328,360	($1,173,600)	33,006,312	(845,240)
88	$1,173,600	-	$1,173,600	1.000000	$1,173,600	320,161	($1,173,600)	32,152,874	(853,439)
89	$1,173,600	-	$1,173,600	1.000000	$1,173,600	311,883	($1,173,600)	31,291,157	(861,717)
90	$1,173,600	-	$1,173,600	1.000000	$1,173,600	303,524	($1,173,600)	30,421,081	(870,076)
91	$1,173,600	-	$1,173,600	1.000000	$1,173,600	295,084	($1,173,600)	29,542,566	(878,515)
92	$1,173,600	-	$1,173,600	1.000000	$1,173,600	286,563	($1,173,600)	28,655,529	(887,037)
93	$1,173,600	-	$1,173,600	1.000000	$1,173,600	277,959	($1,173,600)	27,759,888	(895,641)
94	$1,173,600	-	$1,173,600	1.000000	$1,173,600	269,271	($1,173,600)	26,855,559	(904,329)
95	$1,173,600	-	$1,173,600	1.000000	$1,173,600	260,499	($1,173,600)	25,942,458	(913,101)
96	$1,173,600	-	$1,173,600	1.000000	$1,173,600	251,642	($1,173,600)	25,020,500	(921,958)
97	$1,173,600	-	$1,173,600	1.000000	$1,173,600	242,699	($1,173,600)	24,089,599	(930,901)
98	$1,173,600	-	$1,173,600	1.000000	$1,173,600	233,669	($1,173,600)	23,149,668	(939,931)

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)
99	$1,173,600	-	$1,173,600	1.000000	$1,173,600	224,552	($1,173,600)	22,200,620	(949,048)
100	$1,173,600	-	$1,173,600	1.000000	$1,173,600	215,346	($1,173,600)	21,242,366	(958,254)
101	$1,173,600	-	$1,173,600	1.000000	$1,173,600	206,051	($1,173,600)	20,274,817	(967,549)
102	$1,173,600	-	$1,173,600	1.000000	$1,173,600	196,666	($1,173,600)	19,297,883	(976,934)
103	$1,173,600	-	$1,173,600	1.000000	$1,173,600	187,189	($1,173,600)	18,311,473	(986,410)
104	$1,173,600	-	$1,173,600	1.000000	$1,173,600	177,621	($1,173,600)	17,315,494	(995,979)
105	$1,173,600	-	$1,173,600	1.000000	$1,173,600	167,960	($1,173,600)	16,309,855	(1,005,640)
106	$1,173,600	-	$1,173,600	1.000000	$1,173,600	158,206	($1,173,600)	15,294,461	(1,015,394)
107	$1,173,600	-	$1,173,600	1.000000	$1,173,600	148,356	($1,173,600)	14,269,217	(1,025,244)
108	$1,173,600	-	$1,173,600	1.000000	$1,173,600	138,411	($1,173,600)	13,234,029	(1,035,188)
109	$1,173,600	-	$1,173,600	1.000000	$1,173,600	128,370	($1,173,600)	12,188,799	(1,045,230)
110	$1,173,600	-	$1,173,600	1.000000	$1,173,600	118,231	($1,173,600)	11,133,430	(1,055,368)
111	$1,173,600	-	$1,173,600	1.000000	$1,173,600	107,994	($1,173,600)	10,067,825	(1,065,606)
112	$1,173,600	-	$1,173,600	1.000000	$1,173,600	97,658	($1,173,600)	8,991,883	(1,075,942)
113	$1,173,600	-	$1,173,600	1.000000	$1,173,600	87,221	($1,173,600)	7,905,504	(1,086,379)
114	$1,173,600	-	$1,173,600	1.000000	$1,173,600	76,683	($1,173,600)	6,808,588	(1,096,916)
115	$1,173,600	-	$1,173,600	1.000000	$1,173,600	66,043	($1,173,600)	5,701,032	(1,107,557)
116	$1,173,600	-	$1,173,600	1.000000	$1,173,600	55,300	($1,173,600)	4,582,732	(1,118,300)
117	$1,173,600	-	$1,173,600	1.000000	$1,173,600	44,452	($1,173,600)	3,453,584	(1,129,147)
118	$1,173,600	-	$1,173,600	1.000000	$1,173,600	33,500	($1,173,600)	2,313,484	(1,140,100)
119	$1,173,600	-	$1,173,600	1.000000	$1,173,600	22,441	($1,173,600)	1,162,325	(1,151,159)
120	$1,173,600	-	$1,173,600	1.000000	$1,173,600	11,275	($1,173,600)	(0)	(1,162,325)
Totals	**$140,831,979**	**$83,000,000**	**$140,831,979**		**$140,831,979**	**57,831,979**	**($140,831,979)**		**($83,000,000)**

	A	*B*
Present Value	**$83,000,000**	**$83,000,000**
		*See Fraction Computation Above **

Rent Allocation	**$1,173,600**

Attachment 2

Duncan
& Allen
COUNSELLORS AT LAW

1575 Eye Street, Northwest
Washington, D.C. 20005-1175
Telephone (202) 289-8400
FAX (202) 289-8450

October 9, 2009

VIA ELECTRONIC FILING

Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NW
Washington, DC 20426

Re: Citizens Energy Corporation, Docket No. EL10-___-000

Dear Secretary Bose:

Pursuant to Rule 207 of the Commission's rules of Practice and Procedure, 18 CFR § 385.207 (2008), Section 219 of the Federal Power Act ("FPA"), 16 U.S.C. § 824s (2000 & Supp. V. 2005), and Order No. 679, Citizens Energy Corporation ("Citizens") respectfully submits for filing a Petition For Declaratory Order to Authorize Rate Treatments for the Sunrise Powerlink Transmission Project ("Petition").

This filing consists of the following:

1. Transmittal Letter;
2. Petition;
3. Verification of Citizens Energy Corporation by Peter F. Smith;
4. Exhibit CEC-1: Affidavit of Peter F. Smith;
5. Exhibit CEC-2: Affidavit of William R. Mayben and accompanying attachments;
6. Exhibit CEC-3: Affidavit of David T. Helsby and accompanying attachments;
7. Form of notice suitable for publication in the Federal Register; and
8. Certificate of Service.

Payment has been made automatically at time of e-filing, in the amount of **$22,550.00** for the filing fee as required by 18 CFR 381.302(a).

Correspondence and other communications concerning the Petition should be sent to the undersigned counsel for Citizens, and to the following individuals, each of whom should be placed on the Commission's official service list in this proceeding:

Donald R. Allen
Paul M. Breakman
Duncan & Allen
1575 I Street, N.W.
Suite 300
Washington, D.C. 20005
(202) 289-8400

Email:
dra@duncanallen.com
pmb@duncanallen.com

Peter F. Smith
Chief Operating Officer
Citizens Energy Corporation
88 Black Falcon Ave. Suite 342
Boston, MA 02210
(617) 338-6300, X581

Email:
peter_smith@citizensenergy.com

Thank you for your attention to this matter.

Very truly yours,

/s/ Paul M. Breakman

Paul M. Breakman
Counsel for Citizens Energy Corp.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

	)	
	)	
Citizens Energy Corporation	)	
	)	
Petitioner	)	Docket No. EL10-_____
	)	
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PETITION FOR DECLARATORY ORDER OF CITIZENS ENERGY CORPORATION TO AUTHORIZE RATE TREATMENTS FOR THE SUNRISE POWERLINK TRANSMISSION PROJECT

Donald R. Allen
Paul M. Breakman
Duncan & Allen
1575 I Street, N.W.
Suite 300
Washington, D.C. 20005
(202) 289-8400
(202) 289-8450 (facsimile)

Counsel for Citizens Energy Corporation

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* * * *

1) **Verification:** Verification of Citizens Energy Corp. by Peter F. Smith

2) **Attachment A**: Map depicting the Sunrise Powerlink Project

3) **Attachment B**: Proposed Notice of Filing

4) **Exhibit CEC-1**: Affidavit of Peter F. Smith

5) **Exhibit CEC-2**: Affidavit and Exhibits of William R. Mayben

   - **Attachment A to Exhibit CEC-2**: May, 11, 2009 Development Agreement between Citizens and SDG&E

   - **Attachment B to Exhibit CEC-2**: CAISO Board Resolution (as adopted on August 3, 2006) and accompanying press release

6) **Exhibit CEC-3**: Affidavit and Exhibits of David T. Helsby

   - **Attachment A to Exhibit CEC-3**: Example of the SDG&E Representative Rate

   - **Attachment B to Exhibit CEC-3:** Preliminary representation of the Citizens' rate model

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

	)	
	)	
Citizens Energy Corporation	)	
	)	
Petitioner	)	Docket No. EL10-_____
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PETITION FOR DECLARATORY ORDER OF CITIZENS ENERGY CORPORATION TO AUTHORIZE RATE TREATMENTS FOR THE SUNRISE POWERLINK TRANSMISSION PROJECT

Citizens Energy Corporation ("Citizens" or "Citizens Energy") hereby requests the Commission to issue a declaratory order approving two rate treatments, in connection with a new high voltage transmission project that Citizens is financing, pursuant to Rule 207 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.207 (2006), Section 219 of the Federal Power Act ("FPA")),[1/] and Order No. 679[2/]. Citizens has entered into an agreement with San Diego Gas & Electric Company ("SDG&E") in which it will finance one half of the cost of a portion of the Sunrise Powerlink Project (hereinafter, "Project" or "Sunrise Powerlink Project") located in Imperial Valley, California, in exchange for an entitlement in the transfer capability associated with the facilities it finances.

1/ 16 U.S.C. §§ 791a - 828c, § 824s.

2/ *Promoting Transmission Investment Through Pricing Reform*, Order No. 679, 116 FERC ¶ 61,057, *order on reh'g*, 117 FERC ¶ 61,345 (2006) (Order No. 679-A) (Incentive Pricing Rule).

Citizens will use a wholly owned subsidiary 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 Sunrise Powerlink Project stems from its desire to help resolve transmission bottlenecks and reduce energy costs to low income consumers in Southern California.

In this filing, Citizens asks the Commission to authorize two rate treatments:

(1) Citizens' capital cost recovery methodology pertaining to its entitlement interest in the Sunrise Powerlink Project, under a formula rate[3/]; and

(2) Citizens' qualification under Commission Order No. 679[4/] to seek recovery of 100% of all prudently incurred development and construction costs in the event the Sunrise Powerlink Project is abandoned as a result of factors beyond Citizens' control.

[3/] 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.

[4/] 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, FERC Stats. & Regs. ¶ 31,222 at P 165-66). .

The rate treatments will ultimately be implemented through a subsequent Section 205 filing to put in place a just and reasonable formulaic rate mechanism. A subsequent filing pursuant to the approved formula will result in just and reasonable rates.

Authorization of the requested capital cost recovery methodology is required by Citizens' lenders and the capital markets. Authorization to seek recovery of all abandoned facilities expenditures incurred by Citizens is necessary because Citizens is unprepared to commit to an outlay of such significant sums for construction without an advance determination that it is qualified to seek such recovery, subject to later Section 205 filings.

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 abandoned plant costs under Order 679 – Citizens does not believe that it will be able to obtain the necessary financing to participate in development of the Sunrise Powerlink Project. Citizens' participation in the development of the Sunrise Powerlink Project is non-routine, and through this filing, Citizens demonstrates how there is the required nexus between each of the above-referenced rate treatments sought and the investment Citizens will make.

I. STATEMENT OF ISSUES

(1) Whether the Commission should declare that Citizens shall have the right to recover its operating costs and capital requirements through a formula rate for its entitlement interest in Sunrise Powerlink Project? Yes. Relevant authorities: EPAct 2005 §§ 1223 and 1241; Orders No. 679 and 679-A; *Maine Public Utilities Commission v. FERC,* 454 F.3d 278, 288 (D.C. Cir. 2006); *Permian Basin Area Rate Cases*, 390 U.S. 747 (1968); *City of Vernon City of Vernon, California*, 93 FERC ¶ 61,103 (2000), *order on reh'g, California Independent System Operator Corp*., 94 FERC ¶ 61,148 (2001*); City of Vernon, California*, 94 FERC ¶ 61,344, *order on reh'g,* 95 FERC ¶ 61,274 (2001); *City of Vernon, California*, 109 FERC ¶ 63,057 (2004); *City of Vernon, California,* Order No. 479, 111 FERC ¶61,092 (2005); *City of Vernon, California*, Order No. 479-A, 112 FERC ¶ 61,207 (2005); City *of Vernon, California*, Order No. 479-B, 115 FERC ¶ 61,297 (2006).

(2) Whether the Commission should declare that Citizens is qualified to recover all prudently incurred transmission-related development and construction costs, subject to a future FPA Section 205 filing, if the Sunrise Powerlink Project is canceled or abandoned, in whole or in part, as a result of factors beyond Citizens' control? Yes. Relevant authorities: EPAct 2005 §§ 1223 and 1241; Orders No. 679 and 679-A; *American Electric Power Service Corporation*, 116 FERC ¶ 61,059;

Allegheny Energy, Inc., 116 FERC ¶ 61,058 (2006); *Duquesne Light Company* ,118 FERC ¶ 61,087 (2007); *Southern California Edison Company,* 112 FERC ¶ 61,014, at PP 58-61, *reh'g denied*, 113 FERC ¶ 61,143 (2005).

II. BACKGROUND

By almost any measure, the nation is running short of transmission capacity, and the existing volume of investment cannot long continue to reliably accommodate retail load growth and larger wholesale volumes. Factors like environmental opposition have also caused declines and delays in transmission investment.

Responding to "severe energy electricity shortages facing California and other areas of the West," the Commission offered transmission rate incentives to encourage construction of new transmission infrastructure as far back as 2001.[5/] Although the rate incentive program was slated to expire on April 30, 2002,[6/] the Commission continued to allow incentives on a project-by-project basis.[7/] This project-by-project approach, however, provided only limited encouragement to

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[5/] *Order Removing Obstacles to Increased Electric Generation and Natural Gas Supply in the Western United States*, 94 FERC ¶ 61,272, 61,967 (2001) ("Removing Obstacles Order"); *see also Further Order on Removing Obstacles to Increased Electric Generation and Natural Gas Supply in the Western United States*, 95 FERC ¶ 61,225 (2001) ("Further Removing Obstacles Order").

[6/] *Further Removing Obstacles Order* at 61,761.

[7/] *Western Area Power Administration,* 99 FERC ¶ 61,306 (2002); *Trans Bay Cable LLC,* 112 FERC ¶ 61,095 (2005).

transmission development[8/] as incentives were not guaranteed. As a result, the Commission did not provide an adequate encouragement to developers to expend funds and take the considerable financial risk inherent in project development.

Subsequently, the Energy Policy Act of 2005[9/] codified an incentive program on a national scale. Congress confirmed not only the wisdom but also the need for strong and certain rate incentives to stimulate transmission development. Congress implicitly recognized that the Commission's case-by-case approach – which failed to assure incentives would be available – inadequately stimulated transmission development. Congress directed the Commission to: (1) allow recovery of "all prudently incurred costs; and (2) provide a return on equity that promotes investment."[10/] Congress also required the Commission to formalize a rate incentive program by adoption of formal administrative regulations.[11/] The rate incentive

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8/ *See, e.g.*, *Western Area Power Administration,* 99 FERC ¶ 61,306 (2002) (In granting requested rate treatment similar to incentives offered in Removing Obstacles Order, the Commission explained that "the need for additional transmission facilities in California . . . has not abated since the issuance of the Removing Obstacles Order, which sought among other things, to promote just this result – the timely construction of additional facilities.").

9/ Energy Policy Act of 2005 ("EPAct 2005"), Pub L. No. 109-58, § 1241, 119 Stat 594, 961 (2005) (to be codified at 16 U.S.C. § 824s) (section 219).

10/ EPAct 2005 at §1241(b)(4).

11/ *Promoting Transmission Investment Through Pricing Reform*, 116 FERC ¶ 61,057 (2006). In response, the Commission issued a Notice of Proposed Rulemaking in Docket No. RM06-4, seeking comment and a Final Rule, issued on July 20, 2006.

program was formalized through the Commission's Pricing Incentives Rule (Order No. 679).[12]

Indeed, the Commission's incentive policy is also supported by a growing chorus of experts and leaders from across the political spectrum, ranging from President Barack Obama to former Vice President Al Gore to economist Paul Joskow. There has been a consistent message about the need for new transmission investment out of concern that the current grid will present an obstacle to the deployment and integration of low-carbon energy technologies.

When asked in the first Presidential debate what policy priorities he would keep despite mounting fiscal pressures, then-candidate Barack Obama listed "making sure that we have a new electricity grid to get the alternative energy to population centers" as one of his top priorities.[13] President Obama expanded on this thought in an interview on MSNBC just before the election, noting that:

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[12] In addition to the express directive of Congress in EPAct 2005 and the Commission's prompt follow-through in Order Nos. 679 and 679-A, the Commission has a long tradition of awarding pricing incentives for the purpose of furthering public policy objectives, such as increasing reliability and reducing congestion. For example more than thirty years ago the Commission's predecessor agency was upheld for taking such action in *Consumers Union of United States, Inc. v. FPC*, 510 F.2d 656, 660 (D.C. Cir. 1974), wherein the Court explained that, "Reliance on non-cost factors has been endorsed by the courts primarily in recognition of the need to stimulate new supplies." The Commission has expressly endorsed the use of pricing incentives as a valid, non-cost consideration in setting rates and been affirmed in doing so countless times. *See*, *e.g., Public Util. Comm'n of Cal. v. FERC*, 367 F.3d 925, 929 (D.C. Cir. 2004), *Farmers Union Cent. Exch., Inc. v. FERC*, 734 F.2d 1486, 1503 (D.C. Cir. 1984); and *Interstate Natural Gas Ass'n of Am. v. FERC*, 285 F.3d 18, 33-34 (D.C. Cir. 2002).

[13] New York Times, "The First Presidential Debate" (September 26, 2008), http://elections.nytimes.com/2008/president/debates/transcripts/first-presidential-debate.html.

> One of … the most important infrastructure projects that we need is a whole new electricity grid. Because if we're going to be serious about renewable energy, I want to be able to get wind power from North Dakota to population centers like Chicago.[14]

Former Vice President Al Gore, speaking in Washington, DC, on July 17, 2008, also articulated the vision of a more robust grid:

> We do not have a unified national grid that is sufficiently advanced to link the areas where the sun shines and the wind blows to the cities in the East and the West that need the electricity. Our national electric grid is critical infrastructure, as vital to the health and security of our economy as our highways and telecommunication networks. Today, our grids are antiquated, fragile, and vulnerable to cascading failure. Power outages and defects in the current grid system cost U.S. businesses more than $120 billion dollars a year. It has to be upgraded anyway.[15]

MIT economist Paul Joskow, an expert on electricity markets, recently stated that transmission policy reforms are essential to achieving cost-effective reductions in CO2 emissions:

> The organizational and regulatory framework that presently governs much of the U.S. electric power sector is not conducive to supporting these transmission investments. If remote sources of renewable energy are not available to meet state or potential future federal renewable energy portfolio standards or to respond to the incentives provided by CO2 emissions prices, CO2 mitigation goals will be even more costly to achieve.[16]

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[14] MSNBC, "The Rachel Maddow Show for October 30, 2008," http://www.msnbc.msn.com/id/27474011/.

[15] Al Gore, "A Generational Challenge to Repower America" (July 17, 2008), http://blog.algore.com/2008/07/a_generational_challenge_to_re.html.

[16] Paul L. Joskaw, "Challenges for Creating a Comprehensive National Electricity Policy" (September 26, 2008), http://econ-www.mit.edu/files/3236.

Richard Sergel, President and CEO of the North American Electric Reliability Corporation ("NERC") expressed similar concerns:

> We're sitting on the precipice of climate change legislation...It is in that context that we believe that the grid will be threatened unless we build the transmission infrastructure that is necessary to support renewable resources like wind, that will enable us to locate new clean coal facilities — or even the gas facilities — to locate them in places in which the grid will be able to withstand that so that we can meet the load requirements as they grow and have a reliable system for the operators to deal with… It doesn't matter if it's going to be the clean coal plant or the nuclear plant or the wind project or the solar project. The common denominator is that they are going to require transmission to move [electricity] from where it is [generated] toward the load centers.

In November 2008, NERC released a report that reached similar conclusions, noting that "The ability to reduce the carbon emissions of the electric sector hinges on having a robust transmission system." The report went on to endorse changes to planning and cost allocation procedures very much in line with the policy proposals outlined above, arguing that "Ensuring a suitable transmission system will require a two-pronged approach: building new infrastructure and changing current planning mechanisms to focus more heavily on interregional and continent-wide planning and operation. For example, cost allocation issues need to be resolved in order to develop meaningful, continent-wide planning processes as this influences how planning is conducted."[17/]

This kind of policy has and continues to drive FERC policy and Congressional lawmaking. It has also caused the State of California to introduce a specific agenda

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17/ North American Electric Reliability Corporation, "Electric Industry Concerns on the Reliability Impacts of Climate Change Initiatives" (November 2008), http://www.nerc.com/files/2008-Climate-Initiatives-Report.pdf.

for expanding transmission and encouraging the development of renewable generation. Current California law and policies presently encourage utilities and other electricity retailers to purchase thirty-three percent of their electricity from renewable sources deliverable to the California Independent System Operator ("CAISO") control area by 2020.[18/]

The concept of the Sunrise Powerlink Project was precipitated as a result of SDG&E's 2003 Grid Assessment Study where SDG&E found that a 500 kV line would provide a sufficient increase in San Diego area import capability to meet projected load requirements. This study sparked additional studies to evaluate 500 kV transmission alternatives. SDG&E included the Sunrise Powerlink Project in its 2004 Long Term Resource Plan filing with the CPUC. At the CPUC's direction, SDG&E performed a Transmission Comparison Study to select a preferred transmission alternative. In October 2004, the Southwest Transmission Expansion Plan ("STEP")[19/] undertook a comprehensive screening study which reviewed 18 transmission alternatives, including the Sunrise Powerlink Project for which

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18/ 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/).

19/ *See* CAISO South Regional Transmission Plan for 2006 – Findings and Recommendation (Determining that "[t]he proposed [expansion project] is expected to increase California's ability to import additional energy including energy from renewable resources from the Salton Sea (geothermal generation) and southern Imperial County (solar thermal generation) area by at least 1000 MW without curbing economy power imports into California"). The complete report and findings are posted on the CAISO website, available at http://www.caiso.com/1841/1841b1925a320.pdf

SDG&E requested CAISO approval in January, 2005. The California Energy Commission's ("Energy Commission") 2005 Strategic Investment Plan specifically found that the Sunrise Powerlink Project would provide significant benefits to the state. The Imperial Valley Study Group ("IVSG") was formed in conjunction and at the direction of the Energy Commission.[20] The IVSG issued a report in January 2005 which identified the need for enhancements to the Imperial Valley transmission system to collect new geothermal power generation and the need for new high voltage transmission facilities in the Imperial Valley. (Mayben Affidavit (Exhibit CEC-2) at P. 19). .

III. IDENTIFICATION AND DESCRIPTION OF CITIZENS

A. Overview

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 is a FERC-jurisdictional public utility (*Citizens Energy Corp.,* 35 FERC ¶ 61,198 (1986)),

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[20] *See*, Report of the Imperial Valley Study Group (September 30, 2005), filed by SDG&E with the California Public Utilities Commission on October 4, 2005. The IVSG was formed in response to D.04-06-010 (2004). It adopted the mission of specifying a phased development plan for the construction of transmission upgrades capable of exporting 2,200 MW of renewable power from the Imperial Valley. The IVSG was a voluntary planning collaborative made up of regional stakeholders. Participants include the Commission, all regional Transmission Owners, the CAISO, California Energy Commission, generation developers, local, state and federal agencies, environmental and consumer groups and other interested parties. Its work was led by the Imperial Irrigation District, SDG&E and Southern California Edison Company, and was fully supported by the Los Angeles Department of Water Power.

whose successful commercial subsidiaries support 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, mail-order service pharmaceuticals, and environmental business consulting. (*See,* generally, Affidavit of Peter F. Smith (Exhibit CEC-1) at PP. 7-52). 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. (*Id.* at P. 18) Citizens devoted its profits from independent electricity marketing to assist low-income electricity consumers of the participating utilities to pay their energy bills.

Citizens 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, including Citizens Business Enterprises. Citizens Energy Corporation will utilize a limited liability company, which will be a subsidiary of Citizens Business Enterprises, to effectuate the ultimate lease transaction with SDG&E. Citizens Energy Corporation relies on profits from the businesses it owns and operates to generate revenues for charitable and social programs.

Citizens Energy Corporation 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 Power & Light: The pioneering electricity trading company in the pre-deregulated market, becoming the first non-utility to win a federal license to trade power between utilities and achieving over $10.5 million in sales.

- 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 has made $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 Wind: Citizens Wind is Citizens Energy's wind development division. Its portfolio of wind projects under development in the U.S. and Canada has the potential to generate more than 2,000 megawatts of energy. 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.

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 Energy established an experimental farm in Nigeria, where it developed and distributed high-yield, pest-resistant hybrid seeds to Nigerian

farmers; innovated the use of solar energy in Venezuelan and Jamaican hospitals; and helped create the Catholic University of Angola, the country's first private institution of higher education.

The Citizens Energy Oil Heat Program, created in response to the oil crisis of the late 1970's, has delivered millions of gallons of discount home heating oil to poor and elderly households in Massachusetts and the Northeast since 1979. This unique program helps protect needy families from volatile heating oil prices, which often leave households having to choose between heating the home and paying for other life essentials, such as food, health care, or clothing.

Since 2006, in partnership with CITGO Petroleum, the Oil Heat Program has more than doubled in size, expanding to reach hundreds of thousands of the neediest households in 23 states. Eligible families receive a one-time delivery of 100 gallons of home heating oil at no cost. Since forming this partnership, Citizens has distributed over $200 million of assistance to more than 500,000 households.

While continuing to provide low-cost heating oil to the poor and elderly of Massachusetts, Citizens Energy covers all the winter heating costs for over 150 homeless shelters in Massachusetts and Rhode Island; subsidizes the gas bills of utility customers in four other states; supports efforts to provide health care to the homeless and other hard-to-reach populations, and provides access to discounted healthcare and pharmaceutical drugs through the CitizensHealth discount program.

Citizens Energy is currently working with private corporations and government entities to lower the cost of prescription drugs to uninsured senior citizens and working families. By using the buying power of large numbers of people pooled together in a single purchasing group, Citizens aims to deliver discounts of 40% off the cost of prescription drugs to the millions of uninsured Americans who currently pay full retail price for their prescription needs.

B. Operations in Electricity Industry

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. To initiate its program, Citizens obtained a landmark decision foreshadowing eventual industry deregulation from the FERC, which approved the company's innovative petition to allow Citizens to buy and sell inter-utility electricity without restrictive rate regulation.[21/] Citizens' first arrangement was with the Utah Municipal Power Agency ("UMPA"), whereby Citizens Energy made UMPA's surplus generating capacity available to third-party buyers in the Southwest, including customers of the Los Angeles Department of Water and Power. Citizens then used the margins it earned to benefit low-income households served by the utilities with whom it transacted business. Within two years, the program was buying and selling over 3.2

[21/] *Citizens Energy Corp.,* 35 FERC ¶ 61,198 (1986).

million kilowatt hours of electricity and delivering direct assistance to needy customers of three California and Utah utility companies.

Building on its experience, Citizens Energy formed the nation's first independent electric power marketer in 1988 with the creation of Citizens Power & Light Corporation. The new company's mission was to acquire, exchange, and market electric power under contracts extending from several months to several decades. The pioneering Citizens Power & Light then closed more than 30 major power sale contracts within a few years, becoming the nationally recognized leader in the field of electric power marketing.

Citizens Power & Light's customers ranged from major electric utilities throughout North America as well as the fast-growing independent power development industry. The company increased the timeliness and cost-effectiveness of selling power in the hugely fragmented electricity market by providing services to reduce risks, lower generating costs, and add value.

Citizens Power & Light's marketing, acquisition, and advisory services included innovative structuring of electric power transactions; accessing new markets and supply sources; brokering inter-utility power exchanges; developing competitive bid submissions; acquiring low-cost, reliable power; and developing and implementing effective demand-side management programs. In 1995, Citizens Power & Light formed a partnership with Lehman Brothers Holdings, Inc. and was renamed Citizens Lehman Power LP. Citizens Energy eventually sold its interest in the partnership.

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.

C. 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. Following up on that examination, in 2004 Citizens embarked on two efforts which led to ongoing transmission activities in the Southwest – (1) participation in a project involving the Los Angeles Department of Water and Power ("LADWP") and several cooperating utilities, called Green Path North; and (2) participation in a project involving a cooperative relationship to further the development of San Diego Gas & Electric's ("SDG&E") Sunrise Powerlink Project.[22/]

[22/] The original relationship involved the Imperial Irrigation District and was called the Green Path Southwest project, which denoted the Imperial Valley portion of the Sunrise Powerlink Project (now called the "Border-East Line").

The Green Path North project was eventually downsized to the point where it no longer offered Citizens a viable participation opportunity. However, Citizens maintains a business relationship with LADWP and a right to participate further in that project should it be expanded (Exhibit CEC-2 at P. 7).

Citizens' involvement in the Sunrise Powerlink Project commenced with exploratory discussions with the Imperial Irrigation District ("IID") and SDG&E in 2005, which led to a March 2006 Memorandum of Understanding among Citizens, the Imperial Irrigation District ("IID") and SDG&E; and the culmination of the Green Path Southwest Project. IID subsequently withdrew from participation in the project, but Citizens continued to pursue a relationship with SDG&E as a partner in the Sunrise Powerlink Project. The relationship was formalized on May 11, 2009 by a Development and Coordination Agreement (the "DCA"), which provides for Citizens' engagement in the development of a portion of SDG&E's Sunrise Powerlink Project.

The DCA provides Citizens with an option to finance fifty percent of the cost of the 500 kV transmission line in Imperial County (the "Border-East Line"). In so doing, Citizens will obtain a long-term entitlement through a leasehold interest to the transfer capability of the Border-East Line.[23/] Citizens will file a transmission owner tariff with this Commission for its entitlement interest in the facilities and will become a CAISO participating transmission owner ("PTO"). Citizens'

[23/] 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 a wholly-owned subsidiary of Citizens Energy Corporation. Title to the facilities will remain in SDG&E and the transfer capability will revert to SDG&E upon expiration of the lease term.

entitlement to the transfer capability in the Sunrise Powerlink shall be provided for the benefit of and made available to CAISO eligible customers at just and reasonable rates and terms.

Citizens intends to securitize the financing of its participation cost with a pledge of the revenues it will receive from the CAISO. This approach is similar to the manner in which Trans-Elect, LLC recovered the costs of its entitlement in Path 15 which is owned by the Western Area Power Administration. Trans-Elect placed all of the capacity related to its entitlement to a portion of the Path 15 Project under the operational control of the CAISO, as will Citizens with its entitlement to the Sunrise Powerlink Project. (Exhibit CEC-2 at P. 32).

In contrast to Trans-Elect's equity financing, however, Citizens will use an all debt financing, not unlike that used by public power. (Exhibit CEC-3 at P. 15). Citizens is proposing to recover its operating and maintenance costs, and applicable overhead costs, on a formulaic basis (Exhibit CEC-3 at P. 18). Its capital costs will be recovered under a fixed rate that is no higher than the SDG&E Representative Rate, as defined below. (*Id.* at P. 10). Mr. Helsby explains that 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. (*Id.* at PP. 20-26). Mr. Helsby further explains how Citizens' will use a levelized rate which will benefit consumers. (*Id.* at PP. 25, 27).

Citizens will ultimately effectuate its participation in the Sunrise Powerlink Project through a yet-to-be formed Citizens' wholly-owned subsidiary company. The company will be an independent transmission developer.[24/] Citizens subsidiary will not hold title, *per se*, to any of the facilities it finances and helps construct. Citizens does not intend for its subsidiary to engage in any business outside the business of possessing entitlement rights to transmission capacity on the Sunrise Powerlink Project and making that transmission capability available to the CAISO by turning over operational control of its interest in Sunrise to the CAISO.

IV. DESCRIPTION OF THE SUNRISE POWERLINK PROJECT

Mr. William R. Mayben explains in his Affidavit that the SDG&E Sunrise Powerlink Transmission Project is comprised of a new electric transmission line between the existing Imperial Valley and Sycamore Canyon Substations, a proposed new Suncrest Substation, and other system modifications in order to reliably operate the new line. The segment from Imperial Valley Substation in Imperial Valley, California to the new Suncrest Substation in San Diego County will be a 500 kV line and the segment from Suncrest Substation to Sycamore Canyon Substation will be a double circuit 230 kV line. The entire Project will traverse approximately 120 miles between the El Centro area of Imperial County and southwestern San Diego County, in southern California. For clarity, the Project is described in three

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24/ Concurrently with the closing of financing by Citizens for its share of the Border East Line, SDG&E and Citizens will enter a lease of transfer capability for the Border East Line. That lease shall also provide for interconnection, operation and maintenance of the project.

separate segments or "links" according to geographical location: (1) the Imperial County 500 kV Link (denominated as the "Border-East Line" herein, to which this Petition pertains); (2) the San Diego 500 kV Link; and (3) the San Diego County 230 kV Link. In addition, three system upgrades (reconductors from Sycamore Canyon Substation to Pomerado, Scripps and Elliott substations) will be required. In order to provide a frame of reference, the route has been assigned mileposts (MP), which range from the Imperial Valley Substation (MP 0) to the Sycamore Canyon Substation (MP 118).[25/]

The Sunrise Powerlink Project will provide up to 1,000 MW of new transfer capacity into the San Diego area under contingency conditions which the CAISO uses to establish local reliability requirements. (Exhibit CEC-2 at P. 11). Under normal operating conditions the Sunrise Powerlink will increase import capability into the San Diego area by as much as 1350 MW. 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 consumers within the CAISO control area that will be paying for the costs of the line. According to the CPUC's December 18, 2008 Decision granting SDG&E a Certificate of Public Convenience and Necessity (the "CPUC Decision"), the Sunrise Powerlink will allow California utilities to meet the

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[25/] A map depicting the Sunrise Powerlink Project is shown on Attachment C to Exhibit CEC-2. The full Project is expected to be placed into service by 2012, and will be under the operational control of the CAISO.

33% Renewable Portfolio Standard ("RPS") goal by 2020[26/] at a lower cost than other alternatives which were evaluated. When completed, the Sunrise Powerlink Project will:

- effect another point of interconnection between the load frequency control areas of the California Independent System Operator ("CAISO") and the Imperial Valley for reliability improvements and enable additional transmission access and load transfers;
- provide other utilities in Southern California access to the renewable energy resources to be developed within the Imperial Valley; and
- provide relief from congestion in the interconnected electric transmission facilities in Southern California as well as improve the reliability of the transmission system in the SDG&E service area under the control of the CAISO.

The purpose of the aforementioned interconnection will be two fold. First, the interconnection will significantly enhance the reliability of electric systems in Southern California. Whereas the San Diego area is currently served by only one 500 kV line, the construction of the Sunrise Powerlink will add a second 500 kV connection between the San Diego load center and the Imperial Valley. The need for additional transmission capacity into the San Diego area is well documented.[27/]

26/ Governor Schwarzenegger has set the RPS target to be 33% by 2020. *See* Executive Order S-14-08 (available at http://gov.ca.gov/executive-order/11072/).

California lawmakers are currently developing legislation to meet Governor Schwarzenegger's target of 33% by 2020. The California Public Utilities Commission and California Energy Commission have endorsed this change and it is a key greenhouse gas reduction strategy in the California Air Resources Board's Assembly Bill (AB) 32 Scoping Plan. (*See* http://www.cpuc.ca.gov/PUC/energy/Renewables/hot/33implementation.htm).

27/ In 2007, the U.S. Department of Energy ("DOE"), in accordance with section 216(a) of the Federal Power Act, designated two regions as National Interest Electric Transmission Corridors. The DOE based its designations on data and analysis showing that persistent transmission congestion exists in these two areas. One of the two corridors (the Southwest Area National Corridor) includes all of San Diego County. (*See* http://nietc.anl.gov/nationalcorridor/index.cfm).

Second, the interconnection will permit the development and export of additional resources (*e.g.*, 2,000 MW of geothermal potential which is proven but undeveloped in the Imperial Valley) to major load centers for use by California electric consumers.[28] SDG&E and other electric utilities within California are committed to meeting state-mandated renewable resource goals which will require them to acquire, among other resources, substantial amounts of geothermal generating resources in the Imperial Valley.

This Petition pertains only to the proposed cost recovery by Citizens of 50% of the cost of development of the Border-East Line of the Sunrise Powerlink. (Exhibit CEC-1 at P. 61). That development will be coordinated as part of the development of the entire Sunrise Powerlink Project and pursuant to the DCA. The total estimated cost of development and construction of the facilities comprising the Border-East Line of the Sunrise Powerlink Project is approximately $166 million. Citizens' proposed cost recovery reflects transmission operation and maintenance costs, applicable overhead costs, and fixed capital requirements costs, which is no different from those same costs in the revenue requirements of FERC jurisdictional investor owned utilities. (Exhibit CEC-3 at P. 19).

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[28] The CAISO has assumed that other transmission additions could provide for development of up to 600MW of additional geothermal capacity within the IID area, the Sunrise Powerlink Project would facilitate the remainder. *See, e.g.,* CAISO Initial Testimony (December 20 , 2007) filed in *In the Matter of the Application of San Diego Gas & Electric Company (U-902) for a Certificate of Public Convenience and Necessity for the Sunrise Powerlink Transmission Project* (CPUC, Application No. 06-08-010), (http://www.caiso.com/1bcb/1bcb9b234ec90.pdf).

A. Project Ownership and Options

Citizens and SDG&E have agreed, under the DCA, that in exchange for financing one half of the cost of construction of the Border-East Line (the 500 kV facilities of the Sunrise Powerlink Project located in Imperial County), Citizens will acquire one half of the transfer capability of the Border-East Line for a period of 30 years. 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 a wholly-owned subsidiary of Citizens Energy Corporation. Title to the facilities will remain in SDG&E and the transfer capability will revert to SDG&E upon expiration of the lease term. The funding, ownership, and transfer capability of the various segments of the Project after Citizens' exercise of its Option are outlined below. Citizens will fund its share of the costs shown below as prepaid rent for use of the transfer capability.

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

Citizens' option under the DCA shall be effective until no later than 10 days prior to the targeted commercial operation date for the Sunrise Powerlink Project. Further, if Citizens fails to exercise its Option within the defined period prior to the Commercial Operation Date for the Project, such unexercised option shall expire. The prepaid leasehold rent (Citizens' capital contribution to the Project) owed by

Citizens to SDG&E for the entitlement to its transfer capability in the Border-East Line shall be the proportionate share of the actual cost incurred by SDG&E to develop, design, permit, engineer and construct the line (including overheads and AFUDC and payments still due under pending construction contracts for work to be completed after closing of Citizens' option). The rent will be paid in a lump sum at the closing of the transaction after Citizens exercises its option and shall be allocated over the lease term. 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 at a rate equal to 110% of the "applicable federal rate" as required by Section 467 of the US tax code.

B. Project Management, Construction and Operation/Maintenance of Sunrise Powerlink Project

SDG&E is responsible for the development, design, permitting, engineering, procurement and construction of the entire Sunrise Powerlink Project. SDG&E shall bear its costs for development and construction of the Border-East Line, until such time as Citizens has exercised and closed its certain lease option set forth in the DCA. SDG&E's activities and responsibilities for the Border-East Line includes the acquisition of permits and land rights necessary to construct the Border-East Line, which shall be done at SDG&E's expense.

Under the terms of the DCA, SDG&E shall be solely entitled to own, operate, design, engineer, procure, construct, maintain and finance any upgrades to the

Project after the commercial operation date for purposes of increasing the transfer capability of the Project. SDG&E shall be solely responsible for the costs of such upgrades and will be entitled to all increases in transfer capability resulting from any such upgrades. If additional capital investment is needed for replacement or renewal of facilities of the Border-East Line, SDG&E shall be responsible for all costs of such replacement or renewal. As a result, each Party's proportionate interests in the transfer capability on that portion of the Border-East Line will be modified by a proportionate amount.

C. Citizens Involvement

Citizens has been closely involved in negotiations, meetings and deliberations with SDG&E, which activities are developmental in nature. In addition, Citizens will incur significant ongoing development costs associated with regulatory approvals, coordination and financing, even though SDG&E has the responsibility for development of the Sunrise Powerlink Project, including the Border-East Line.

D. Schedule of Development and Construction of the Sunrise Powerlink Project

The Sunrise Powerlink Project, which is now in the final stages of siting, environmental and engineering processes, is expected to be completed and ready for commercial service by June of 2012. A schedule of the major milestones of that schedule is shown on the following chart:

MILESTONE	TARGET DATE
Complete WECC Rating and Reliability Assessment	December 2009
Complete Environmental studies/Permitting/Approval	May 2010
Start Construction	June 2010
Complete Construction	March 2012
Commission and Operation	June 2012

E. Overview of Project Benefits

The Sunrise Powerlink Project, including the Border-East Line, will be located within one of two critical congestion areas, as designated by the U.S. Department of Energy in its National Electric Transmission Congestion Study of August 2006. Moreover, as explained above, the Sunrise Powerlink, including the Border-East Line, has been the subject of reliability and need studies, starting with the work performed by the in conjunction with the California Energy Commission. In the summer of 2006, CAISO initiated the CAISO South Regional Transmission Plan - 2006 (CSRTP-2006) which included three projects, including the Sunrise Powerlink Project. The CAISO initiated CSRTP-2006 "to assess the need and value of these three projects while accounting for their interactions and interdependencies."

The CSRTP-2006 studies were concluded in late July and a report was presented to the CAISO Board of Governors thereafter on July 28, 2006. At its August 3, 2006 meeting, the Board unanimously approved the Sunrise Powerlink Project. In authorizing Citizens' participation in the development of the project, the CAISO Board specifically determined that the Sunrise Powerlink Project is:

> . . . a necessary and cost effective upgrade to the CAISO Controlled Grid that will also facilitate compliance with California renewable energy purchase requirements and directs San Diego Gas and Electric Company and Citizens Energy (Project Sponsors) to proceed with the permitting and construction of the transmission project by the summer of 2010 . . . [29]

As explained by Mr. Mayben, by adding a second 500 kV line between the Imperial Valley and the San Diego load center, the Sunrise Powerlink Project will improve the interconnected system reliability in the Southern California region (Exhibit CEC-2 at P. 19). SDG&E, as the developer of the entire Sunrise Powerlink Project, will use existing transmission line easements and right-of-way wherever possible, reducing environmental disturbance, providing quicker permitting and project completion, while minimizing the cost of the overall project.

As explained in greater detail in the Affidavit of Mr. Mayben, the objectives of the Sunrise Powerlink Project can be summarized as follows:

1. Increase the Southern California interconnected system transfer capability and reliability: By increasing transfer capability between the Imperial Valley and the San Diego area, the economic

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[29] *See* General Session Minutes Board of Governor Meeting, August 3, 2006 (http://www.caiso.com/1847/1847bb8a57f70.pdf)

consequences of grid congestion which may otherwise exist are alleviated and more efficient grid operation (lower consumer costs in the major California load centers/increased value of generation located in the Imperial Valley) is permitted.

2. Ensure that local San Diego area reliability requirements are met beginning in year 2014 (or earlier depending on load growth and retirement scenarios for local generation).
3. Beginning with the in-service date of the Sunrise Powerlink, reduce the cost of mitigating the ability of local generators to exercise undue local market power.
4. Provide a solution (through Citizens' participation) to the reliability problems facing the CAISO in the SDG&E control area;
5. Facilitate the development of, and provide market access for 1900 MW of renewable resources. According to the CPUC Decision, these resources include "1,000 MW of geothermal and 900 MW of solar thermal" in the Imperial Valley region (*Id.*, at 132) at the southern end of the Salton Sea.[30/] ;
6. Create an electrically strong platform for the interconnection of diverse sources of generation along and near the path of the project.

[30/] The CPUC Decision observes that the CAISO has assumed that "approximately 600 MW of geothermal resources would be developed in the Imperial Valley and delivered over the existing Path 42 between the Imperial Irrigation District and Edison." (*Id.*, at 66)

7. Create opportunities to interconnect new generation in the southeastern portions of San Diego County at a lower cost (by avoiding major upgrades to the local transmission system) than would be possible if the transfer capability between the Imperial Valley and San Diego load center were not increased.
8. Cause the cost of enhancing the local transmission system to permit the interconnection of new generation development to be reduced; and
9. Add bulk power transmission that supports the CAISO's vision for long-term transmission enhancements.

Beyond the benefits Citizens' transmission investment will bring to the regional grid, there is a further benefit – the achievement of Citizens' overall goal of helping vulnerable electric consumers meet their energy needs. Citizens has committed in the DCA to dedicate one half of any margin it earns over its costs to low income assistance programs in the Imperial Valley. The remainder will support Citizens' programs elsewhere in the country. As the nation's only non-profit energy company, Citizens pursues its overall goal in many ways, but always within the free enterprise system and its market-based energy industry. This is important when it comes to facilitating the delivery of renewable resources which, by their nature, are often more expensive than the resources they replace. By determining that Citizens is eligible for the rate treatments sought in this Petition, the Commission will be signaling not only to Citizens, but to others that it truly wants to encourage new

kinds of ways to improve the nation's electric infrastructure while achieving the goal of energy affordability.

V. PURPOSE FOR THIS FILING

The purpose in making the instant filing is to obtain Commission approval of Citizens' eligibility for two rate treatments:

(1) Authorization for Citizens to recover its capital requirements, pertaining to its entitlement interest in the Sunrise Powerlink Project, under a formula rate.[31]; and

(2) Qualification of Citizens to seek recovery of its prudently incurred, transmission-related development and construction costs pertaining to its entitlement interest in the Sunrise Powerlink 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 Congress' directive to the Commission to enhance transmission investment and the Commission's Order No. 679;[32]

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[31] 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.

[32] Citizens is not asking the Commission to determine the justness and reasonableness of Citizens' abandoned plant 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.

The requested rate treatments are consistent with what the Commission has allowed for companies that make investments in new transmission infrastructure to benefit the public. Citizens' non-routine involvement in development of the Sunrise Powerlink Project represents precisely the kind of transmission expansion project Citizens understands that the Commission intends to promote. This project is being proposed as a major enhancement to the CAISO regional grid that will demonstrably further the integration of the CAISO market, increase competitive opportunities, reduce congestion costs and losses, improve system reliability, and provide a platform for further efficient expansion of the transmission grid and the interconnection of new generation.

In order for the offer of certain rate treatments to achieve the desired results, the Commission has affirmed that entities like Citizens that are proposing to take on significant risks and burdens and to begin incurring significant costs in order to get major new transmission facilities approved and constructed, should be 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 amounts of capital and effort are made – is critical to creating the level of transmission investment effects that the Commission is hoping to stimulate.

For the last several years, the Commission has consistently recognized the need to provide early approval of rate treatments for new transmission projects.

For instance, in *TransBay Cable*,[33] the Commission approved incentive rates for a newly-established entity that proposed to design, finance and construct an underwater transmission line to serve the City of San Francisco. The Commission approved the incentive rates before that project was approved for inclusion in the California ISO's regional transmission plan in order to assist TransBay in moving forward with the project.[34] The Commission's trend of pre-approving rate incentives, such as recovery of abandoned facilities costs sought by Citizens, has continued for numerous proposed projects over the last several years.[35]

Pre-approval of Citizens' proposed capital cost recovery under a formula rate is also 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 Sunrise Project's capital requirements. This recovery is also consistent with the

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[33] 112 FERC ¶ 61,095 (2005).

[34] *See also Western Area Power Administration*, 99 FERC ¶ 61,306, *reh'g denied*, 100 FERC ¶ 61,331 (2002), *aff'd*, *Public Utilities Commission of the State of California v. FERC*, 367 F.3d 925 (D.C. Cir. 2004); *Allegheny Energy, Inc.*, 116 FERC ¶ 61,058 (2006); *American Electric Power Service Corp.*, 116 FERC ¶ 61,059 (2006); *Duquesne Light Company* ,118 FERC ¶ 61,087 (2007).

[35] *See, e.g., 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); *See also 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).

Commission's goal of encouraging new transmission market entrants and increasing transmission import capability into southern California generally (and into the transmission constrained San Diego metropolitan area in particular).

VI. CAPITAL COST RECOVERY THROUGH A FORMULA RATE

A. Allowing a Capital Cost Recovery through a Formula Rate is Necessary to Effectuate a Secured Financing of the Border-East Line

Citizens intends to finance its participation in the development of the Sunrise Powerlink Project's Border-East Line using 100% debt. Without pre-approval of Citizens' formula rate approach, Citizens will be unable to obtain the necessary financing to participate in development of the Sunrise Powerlink Project.

The financing Citizens will obtain for this project will be similar to that commonly used by public power and cooperative utilities. (Exhibit CEC-3 at P. 15). 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.[36/] Citizens, however, is an entity without any end-use utility customers or a service territory in California, and therefore recovery of Citizens' revenue requirement through the CAISO's TAC mechanism is necessary. Citizens will not be charging its costs directly to end-use "customers" *per se*, but the liability which it will be incurring in the expenditure of borrowed funds is virtually identical to charging its

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[36/] *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).

costs through to a customer on a current basis. Citizens proposes to finance its participation in the development of the Sunrise Powerlink 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. [37]

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

The ultimate rate for capital cost recovery under Citizens' proposed formulaic cost recovery mechanism is intended to be no higher than the SDG&E Representative Rate. (Exhibit CEC-3 at PP. 9-13). With respect to operating costs, Citizens shall seek recovery of all reasonably and prudently incurred costs for operation and maintenance on an annual formulaic basis, including administrative and general activities (and any sales, use or excise tax), directly attributable to Citizens' transfer capability on the Border-East Line. (*Id.* at P. 10). With respect to capital requirements, Citizens shall seek recovery for all capital costs other than operating costs associated with its transfer capability on the Border-East Line under a capital cost recovery formula reflecting a hypothetical capital structure (i.e., 50% debt and 50% equity) and a proxy cost of equity capital (*i.e.*, SDG&E's allowed ROE). The ultimate rate for recovery of its capital cost that Citizens is authorized

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[37] 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 electricity consumers in the Imperial Valley in need of low income assistance. (Exhibit CEC-1 at P. 64). The remaining margin will be transferred through a wholly-owned holding company, Citizens Enterprises, to the not-for-profit Citizens Energy Corporation which will use the margin earned by Citizens to further the charitable corporate purposes of Citizens. (*Id.*).

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 Border-East Line. Citizens' fixed rate is intended to cover all costs associated with Citizens' transfer capability (other than operating costs). 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 Model").[38/]

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

As described by Mr. Helsby, Citizens proposes to charge a formula rate that: (1) recovers actual Transmission O&M expenses and applicable overhead costs, (2) recovers Capital Requirements on a levelized fixed basis for 30 years; wherein 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. Citizens

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[38/] As described by Mr. Helsby, the SDG&E Representative Rate Model calculates a theoretical annual rate (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 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 only variable parameters that are 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 actual SDG&E AFUDC. Indeed, the transaction is structured in such way that results in a onetime snapshot of the SDG&E rate (as currently set by the Offer of Settlement in ER07-284). When ownership of the Citizens interest reverts to SDG&E after 30 years, it will do so at a zero rate base value and SDG&E will recover no further capital-related costs on this interest over its remaining life. (Exhibit CEC-3 at P. 9-13).

proposes to use an after the fact true-up mechanism for operating costs such that the revenue requirements will reflect actual operating costs. 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 for Citizens participation in the Sunrise Powerlink Project. As explained by Mr. Helsby, Citizens revenue requirements will generally contain the following elements: (1) Transmission O&M Expenses; (2) Applicable Overhead Costs; and (3) Capital Requirements.

As explained further by Mr. Helsby, Citizens' proposed hypothetical capital structure approximates the SDG&E capital structure. (Exhibit CEC-3 at P. 20). The cost of debt would be Citizens' cost of debt in obtaining the permanent financing for the project. For cost of equity, Citizens proposes to use SDG&E's currently authorized cost of equity of 11.35% as a proxy for Citizens' cost of equity. Thus, Citizens overall proposed rate of return on rate base (assuming 6.0% debt cost) is as follows:

	Ratio	Cost	Weighted Cost
Debt	50.00%	6.00%	3.00%
Equity	50.00%	11.35%	5.68%
Total	100.00%		8.68%

Mr. Helsby explains that it is reasonable to use the SDG&E currently authorized return on equity of 11.35% as a proxy for Citizens' cost of equity. (*Id.*) The SDG&E return on equity has been established by a settlement in FERC Docket ER07-284-000 approved by the Commission, and is fixed under the terms of that settlement through August 2013. To an investor, Citizens is no less risky than SDG&E, and Citizens is likely a higher risk investment. Citizens' 50% funding of

the Border-East Line represents a major capital commitment for a company the size of Citizens. The Border-East Line is Citizens' first entry into the transmission business and Citizens' all debt financing will be far in excess of Citizens' current net asset value. Citizens' proposed investment represents an unprecedented capital commitment for Citizens, as it would for any company the size of Citizens.

Citizens' rate base will be the capitalized lease cost (now estimated to be $83,064,000) plus development costs (now estimated to be $5,000,000), 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 bond 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. As explained by Mr. Helsby, the operating cost component of Citizens' proposed revenue requirement consists of transmission O&M expenses and applicable overhead costs. Mr. Helsby describes how the Operating Expense component is essentially no different from the operating expense component of a traditional Inventor Owned Utility regulated by FERC. (Exhibit CEC-3 at P. 27). Citizens' formula rate will also provide for adjustments to reflect actual operating

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 is used in the SDG&E Representative Rate Model, as previously described. SDG&E's currently authorized capital structure is Long Term Debt of 42.33%, Preferred Equity of 1.76%, and Common Equity of 55.91%. Thus, a hypothetical capital structure of 50% debt and 50% equity incorporates a lower equity ratio than SDG&E's currently authorized equity ratio..

Citizens' actual cost of debt will be used, along with the authorized SDG&E cost of equity capital as a proxy. The Commission has approved the use of a hypothetical capital structure and a proxy rate of return for public power Participating Transmission Owners in the CAISO.[39/] Citizens' formula rate methodology, including the fixed rate Capital Requirements recovery approach, is cost-based and just and reasonable. (Exhibit CEC-3 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. As Mr. Helsby discusses,

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[39/] *City of Vernon, California* Order 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 New England Power Pool,* 92 FERC ¶ 61,020 at 61,041 (2000) (accepting use of proxy by non-utility generator). .

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. (Exhibit CEC-1 at ¶28).

Mr. Helsby notes that 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. 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. (*Id.*)

VII. ABANDONED FACILITIES COST RECOVERY

Citizens requests a determination that it is qualified to seek recovery of 100% of its prudently incurred development and construction costs in the event the Border-East Line 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.

Through Section 219 of the FPA, Congress sought to encourage investment in transmission infrastructure to improve reliability and reduce the economic costs of transmission congestion.[40/] Among other things, Section 219 requires the Commission to adopt 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 . . . "[41/] In enacting this new statute, "Congress determined that there is a need for rate incentives to encourage

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[40/] EPAct 2005 § 1241 [codified at 16 U.S.C. § 219].

[41/] *American Electric Power Service Corp.*, 116 FERC ¶ 61,059, at P 2.

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 transmission congestion."[42]

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. Order No. 679 provides that a public utility may file under the FPA a petition for declaratory order or 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.[43] 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."[44] 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

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[42] *Id.*

[43] *See* 18 C.F.R. § 35.35(i).

[44] *See Id.*; Order No. 679-A, 117 FERC ¶ 61,345 at P 47.

(*i.e.*, a regional planning process, a state commission, or siting authority) must, in fact, consider whether the project ensures reliability or reduces the cost of delivered power by reducing congestion.[45/]

Citizens' investment in the Border-East Line, is entitled to a rebuttable presumption that it satisfies the requirements of Section 219, *i.e.*, whether projects (1) ensure reliability or (2) reduce the cost of delivered power by reducing transmission congestion. The Sunrise Powerlink has been approved by the CAISO's transmission development process and by the CPUC in regards to SDG&E's application to the CPUC for a Certificate of Public Convenience and Necessity ("CPCN") to build the Sunrise Powerlink. Citizens therefore satisfies the rebuttable presumption applicable to its section 219 burden. While SDG&E has forgone any request for incentive rate treatment, and Citizens' rates cannot exceed the SDG&E Representative Rate, Citizens requires favorable action on this Petition in order to participate in the project.

In addition to satisfying this Section 219 requirement, a proposed incentive rate must also be shown to have a nexus between the incentive 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

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[45/] Order No. 679-A, 117 FERC ¶ 61,345 at P 49.

by the project.[46] Applicants must provide sufficient explanation and support to allow the Commission to evaluate the incentives. In addition, the Commission has clarified that it retains the discretion to grant incentives that promote particular policy objectives, unrelated to whether or not a project presents specific economic risks or challenges.[47]

As discussed below and described in the Exhibit CEC-1 at ¶33, there is a close nexus between the one incentive rate treatment that Citizens is requesting – qualification to seek recovery of abandoned plant – and its transmission investment. It is a substantial financial undertaking to develop new high voltage transmission lines in Southern California to ensure reliable electric service by expanding capacity and providing access to new generation supply alternatives. As explained by Mr. Mayben, Citizens is totally at risk that its expenditures herein will be investments in a project that fails solely because of actions beyond its control. Here, Citizens desires to involve itself in a non-routine manner and has proposed a cost recovery and rate proposal which is just and reasonable. This proposed cost recovery and rate proposal will help Citizens balance risks attributable to its involvement in the Project and aid in its financing of its entitlement in the transfer capability of the Border-East Line.

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[46] 18 C.F.R. § 35.35(d); Order No. 679, 116 FERC ¶ 61,057 at P 26. *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.").

[47] *Id.* at fn 38.

A. The Commission's Nexus Requirement Is Met: The Proposed Rate Treatment Will Balance Risks Attributable to the Development of the Border-East Line and Aid In the Acquisition of Financing

Citizens' proposed cost recovery and rate proposal satisfies the Commission's requirement that some nexus exist between the incentives being requested and the investment to be made.[48] Providing assurance to Citizens for the recovery of its potential abandoned facilities costs for the Border-East Line of the Sunrise Powerlink Project will help it balance risks attributable to its entitlement, aid in the financing of its entitlement, and facilitate the completion of the project. (Exhibit CEC-1 at ¶¶31-36).

FERC has stated that to encourage the development of new transmission investment, it will evaluate each proposal on a case-by-case basis. The nexus for Citizens is its need to obtain financing and its objective to get involved in transmission development, which is something FERC Order No. 679 seeks to encourage. Moreover, Citizens' investment is by no means routine and thus the nexus test is met (*See* Baltimore Gas and Elec. Co., 120 FERC ¶ 61,084 (2007)). In the *Baltimore Gas &Electric* Order, the Commission clarified that when an applicant has adequately demonstrated that the project for which it requests an incentive is not routine, that applicant has, for purposes of the nexus test, shown

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[48] *See 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 (2007) (the Commission spelled out in greater detail than in previous rulings the application of its criteria for transmission incentive rates).

that the project faces risks and challenges that merit an incentive. Specifically, the Commission determined:

> 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.

Baltimore Gas and Electric Company, 120 FERC ¶ 61,084 at P 54 (2007).

Involvement in the development of the Sunrise Powerlink Project represents a major capital commitment for a company the size of Citizens. Certainly, the Border-East Line of the Sunrise Powerlink Project is not routine in terms of the investment it will require and the type of arrangement between Citizens and SDG&E. In fact, Citizens' proposal presents financing challenges not faced by an ordinary transmission investment. This project is Citizens' first entry into the transmission business and will require raising substantial amounts in the capital markets.[49/] Such amount will likely exceed Citizens' net asset value of $50 million and represents an unprecedented capital commitment for Citizens and, indeed, for

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[49/] The total estimated cost of development and construction of the facilities comprising the Border-East Line of the Sunrise Powerlink Project is approximately $166 million. As explained herein, Citizens is proposing to finance 50% of the cost of development of the Border-East Line. Citizens' proposed cost recovery reflects transmission operation and maintenance costs, administrative and general costs, and fixed capital requirements costs, which is no different from those same elements in the revenue requirements of FERC jurisdictional investor owned utilities. (Affidavit of David Helsby at P. 19).

any company the size of Citizens. Citizens' entry into 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 be called routine.

Moreover, unlike the ordinary transmission project, 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 and reduce the cost of delivered power to customers by reducing transmission congestion. This project will also significantly increase the ability to import power into the San Diego area under critical contingency conditions that the CAISO uses to establish reliability requirements for the local San Diego area. In light of the cutting edge precedent Citizens' financing will set, given its not-for-profit status, its undertakings will be required to compete for capital relative to other new electric energy industry investments in generation, distribution, and, equally if not more important, unrelated, non-regulated ventures in other industries.

Furthermore, the Sunrise Powerlink Project entails significant regulatory and technological risks. Specifically, the project involves the construction of high voltage transmission lines through difficult areas in one of the two DOE designated Critical Congestion Corridors, which have already proven to be highly controversial, and requires certain approvals that have yet to be obtained. SDG&E's efforts in

obtaining these approvals for the Border-East Line may impose on Citizens additional costs and uncertainty.

The rate treatment sought herein is appropriately tailored to the unique challenges facing the Project. Citizens' request for recovery of abandoned facilities, including development costs, will encourage transmission development by reducing the risk of non-recovery of Citizens' prudently incurred costs associated with abandoned transmission facilities, if such abandonment is outside of Citizens' control.. Notably, Citizens is merely seeking eligibility for this incentive rate treatment. Order 679 still specifically requires Citizens to submit a Section 205 filing prior to be being granted permission to include abandoned plant costs in an actual rate. Any protesters that may be concerned about their potential exposure to abandoned plant costs, etc. will have an opportunity to comment on any proposal to recover such costs if and when Citizens makes the required Section 205 filing. Similarly, arguments about whether it was prudent for Citizens to incur specific costs can be raised and will be heard at that time. In short, if any transmission project can be said to meet the nexus requirement, the Sunrise Powerlink Project should be at the top of the list.

B. CAISO's Approval of the Sunrise Powerlink Project Creates a Rebuttable Presumption for Incentive Rate Treatment under Section 219

As indicated above, Order No. 679 provides that a public utility may file under the FPA a petition for declaratory order or 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] Order No. 679-A also 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 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 Sunrise Powerlink Project has been approved by the Board of Governors of the CAISO as a necessary and cost effective upgrade to the CAISO controlled grid, that will facilitate compliance with the California's renewable portfolio standard goals, and will pay for itself through reduced energy costs, reduced costs of meeting local San Diego area reliability requirements and the reduced cost of complying with California's 33% renewable portfolio standard goals.[53] Indeed, the

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[50] *See* 18 C.F.R. § 35.35(i).

[51] *See Id.*; Order No. 679-A, 117 FERC ¶ 61,345 at P 47.

[52] Order No. 679-A, 117 FERC ¶ 61,345 at P 49.

[53] *See* General Session Minutes Board of Governor Meeting, August 3, 2006 (http://www.caiso.com/1847/1847bb8a57f70.pdf). *See* also CAISO South Regional

CAISO Board went so far as to "direct" SDG&E and Citizens to proceed with development of the project:

> MOVED, That the ISO Board of Governors approves the Sun Path (Sunrise Powerlink/Green Path) transmission project as a necessary and cost effective upgrade to the CAISO Controlled Grid that will also facilitate compliance with California renewable energy purchase requirements and directs San Diego Gas and Electric Company and Citizens Energy (Project Sponsors) to proceed with the permitting and construction of the transmission project by the summer of 2010, as detailed in the memorandum to the CAISO Governing Board dated July 26, 2006.

Accordingly, as the product of a CAISO-approved expansion process, and recognizing the CPUC Decision that approves a CPCN to construct the new line, the Sunrise Powerlink Project, and – more relevantly for purposes of this Petition – the Border-East Line, presumptively qualifies for the transmission incentive rate treatment set forth in Order No. 679.[54]

Transmission Plan for 2006 – Findings and Recommendation (Determining that "[t]he proposed [expansion project] is expected to increase California's ability to import additional energy including energy from renewable resources from the Salton Sea (geothermal generation) and southern Imperial County (solar thermal generation) area by at least 1000 MW without curbing economy power imports into California"). The complete report and findings are posted on the CAISO website, available at http://www.caiso.com/1841/1841b1925a320.pdf

[54] The Commission's rebuttable presumption may be supported either by a showing that the project has resulted from a fair and open regional planning process that considers and evaluates projects for reliability and/or congestion, or that the project has received construction approval from an appropriate state commission or state siting authority. *See Duquesne Light Company* ,118 FERC ¶ 61,087 (2007) and *American Transmission Company, LLC,* 105 FERC ¶ 61,388 (2003), *order approving settlement,* 107 FERC ¶ 61,117 (2004).

C. Assuring Recovery of Abandoned Facilities Costs Will Encourage Completion of the Border-East Line, and Is Necessary to Mitigate the Risk to Citizens that the Sunrise Powerlink Project May Need to be Cancelled for Reasons Beyond its Control

Citizens seeks authorization to recover 100% of prudently-incurred costs associated with any possible abandonment of the development of the Border-East Line of the Sunrise Powerlink Project, if the abandonment is outside of the control of the utility's management.[55/] Authorization to recover such abandonment costs is necessary to mitigate the risk to Citizens that the Border-East Line of the Sunrise Powerlink Project is cancelled, or that portions of it may be supplanted for reasons beyond its control. This incentive will be an effective means to encourage the completion of Citizens' projects. For example, the CAISO planning process could permit it to cancel a project that has already been accepted by the CAISO should it conclude that the conditions that originally supported the construction of the expansion have changed. Alternatively, opposition to the project as manifested in ongoing legal challenges could also force a delay or even termination of the Sunrise Powerlink. Citizens has no ongoing public utility operations of a magnitude which would allow it to, over time, absorb the cost of the CAISO or other approval

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[55/] 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 plant 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 plant costs. *Allegheny,* 116 FERC ¶ 61,058, at P 122. *Allegheny,* 116 FERC ¶ 61,058, at P 127.

authorities changing their decisions. This "introduces an element of risk that is not faced by a utility proposing to build transmission outside of an RTO planning context."[56] Thus, as in *Duquesne*, there is an element of risk that is not faced by a utility proposing to build transmission outside of an ISO planning context which utility is entirely dependent on the ISO for its ability to repay abandoned project costs. Further, neither Citizens nor SDG&E have obtained all of the needed permits and local approvals to proceed with all phases of the project. Significant portions of the Sunrise Powerlink will be constructed through heavily urban areas. Although the CAISO, CPUC and Bureau of Land Management have already approved the project, SDG&E still faces local opposition the Sunrise Powerlink Project as manifested in several pending legal challenges. Subject to the outcome of these legal challenges, SDG&E could and be forced to alter or cancel all of portions of the Sunrise Powerlink project. 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.[57]

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[56] *Allegheny*, 116 FERC ¶ 61,058, at P 127.

[57] As explained herein and in the Mayben Affidavit, Citizens is developing new transmission which has been deemed "necessary and cost effective upgrades to the CAISO Controlled Grid."

D. Citizens' Requested Rate Treatment Is Appropriate and Not Inconsistent With The Terms of SDG&E'S Offer of Settlement in FERC Docket No. ER07-284-000

On December 1, 2006, SDG&E filed in Docket No. ER07-284-000 under section 205 of the Federal Power Act tariff sheets to implement a new Transmission Owner formula rate mechanism (TO3) to replace its then effective TO2 formula rate. Several parties intervened in the proceeding and it was eventually settled through an uncontested Offer of Settlement filed by SDG&E on March 28, 2007; and certified to the Commission on April 23, 2007 (the "SDG&E Settlement") and approved by the Commission in a published letter order, dated May 18, 2007,[58] and unpublished letter order, dated July 11, 2007. Among other things, the SDG&E Settlement requires that SDG&E not file for any transmission incentives, including but not limited to those identified in Order Nos. 679, *et seq*., for the Sunrise Powerlink Project.

Citizens' request for incentive rate treatment for its portion of the Border-East Line is appropriate and not inconsistent with the terms of the SDG&E Settlement. Citizens was not a party to the SDG&E Settlement and, therefore, should not be precluded from requesting 100% recovery of prudently incurred abandoned project costs related to Citizens' portion of the Border-East Line if it is abandoned for reasons beyond Citizens control.

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[58] 119 FERC ¶ 61,169.

Moreover, in view of its all debt financing, its lack of any ongoing, end-user customer base and equity investors available to SDG&E to ease the burden of absorbing the risk in deferred recovery of abandoned plant costs, Citizens must seek a determination that it is qualified to recover abandoned facilities costs, subject to a future FPA Section 205 filing, should the need arise. Without a determination now of its qualification to seek abandoned plant cost recovery, Citizens does not believe it can successfully pursue its all debt financing of its investment in Sunrise.

A Commission determination now of Citizens' qualification to seek abandoned cost recovery later does not, however, guarantee such recovery. Like any utility, including SDG&E, Citizens will first have to file its rate providing for recovery of abandoned costs in an FPA Section 205 proceeding. If the need ever arose to seek recovery, Citizens would have to file evidence with the Commission to establish that the costs it sought to recover were prudently incurred, abandonment of the Project occurred due to events beyond the control of Citizens' management, and, ultimately, that such recovery would be just and reasonable. If anything, Citizens' request now for a determination that its project-like, all debt financing subsidiary is qualified to seek abandoned plant costs in the future only puts it on an equal footing with SDG&E which, in bearing the risk of deferred abandoned cost recovery, has the advantage of being a large, load serving utility serving hundreds of thousands of end user customers and possessing an equity investor-based capital structure.

Notwithstanding the foregoing, if one were nevertheless to assume that there exists an inconsistency between the SDG&E Settlement and the relief sought in this Petition for Declaratory Order, there are at least three considerations which, when taken into account, offer consumers more benefits with the requested relief than would otherwise be available only through the SDG&E Settlement. These considerations should override any conclusion of inconsistency which might prevent the Commission from granting the relief requested herein.

First, Citizens' participation in Sunrise will equate to more rate stability for Citizens' portion of the Sunrise Powerlink Project (the Border-East Line) for 30 years, than would otherwise be the case without Citizens' participation. This rate stability will benefit consumers. More specifically, consumers will benefit from Citizens' levelized rate methodology during Citizens' participation in the Project because as described in greater detail in Section VI D *supra*, Citizens' capital recovery rate will not be subject to modification (compared to SDG&E's capital cost recovery rate for which SDG&E may seek to modify its rate of return after expiration of the SDG&E Settlement in 2013). Of course, rates of return ebb and flow, but a 30 year fixed return such as that proposed by Citizens would, in all likelihood, prove to be a very valuable consumer benefit. Moreover, Citizens' participation will ease SDG&E's financing burden to the extent that its financial capabilities can be directed at other investments because Citizens will supply the financing for its interest in Sunrise.

Second, while Citizens will incur its own administrative and general costs, and development costs relative to the Project, electric consumers in California benefit directly from Citizens' obligation to spend 50% of its after tax profit (related to its participation in the Sunrise Powerlink Project) in activities beneficial to low income electricity consumers in the Imperial Valley.[59/] This obligation, based on the after-tax profit of the project computed on a stand-alone basis, could be tens of millions of dollars over the life of the Project.

Third, facilitating Citizens' participation in the Sunrise Powerlink Project signals the entry of a new investor into the California transmission industry. The benefits from a new entrant into the development of California's transmission system are already tangible. As evidenced by a June 25, 2009 letter that the California Public Utilities Commission ("CPUC") filed in a Startrans, IO, LLC proceeding in Docket No. ER08-413-002, the CPUC recognizes the value of bringing new entrants into transmission development. It is important to bring such diverse participating interests not only into the development of Sunrise, but also into other feasible projects that result in benefits for the CAISO customers and the development of new transmission. The fact that the value of Citizens' participation goes beyond the Border-East Line portion of Sunrise is reflected in Citizens' expressed interest in facilitating the development of new transmission resources beyond the Border-East Line. For instance, Citizens facilitated a degree of joint planning in the Green Path Southwest Project effort (which, as discussed above,

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[59/] The Imperial County, in which the Boarder-East Line is located, is one of the poorest counties in California.

was a precursor to the current Sunrise Powerlink Project). Citizens also played a significant role in boosting early activity on the Green Path North Project.

Most recently, in July of 2009, Citizens entered into a Memorandum of Understanding with the Western Area Power Administration ("WAPA") ("Citizens-WAPA MOU"), with WAPA acting under its new American Recovery and Reinvestment Act of 2009 ("Recovery Act"), Public Law No. 111-5, which directed WAPA to facilitate the delivery of renewable resources. Citizens, in conjunction with WAPA, intends to study the feasibility of Citizens' Imperial Valley Renewables Transmission Project ("IVRTP"). As described in Peter Smith's affidavit, the proposed IVRTP would interconnect the transmission systems of major utilities in Arizona and California with new 500 kV transmission lines. This project could enhance the transfer capacity between Arizona and California by up to several thousand megawatts. In addition, the IVRTP could unlock additional renewables that would remain undevelopable, even with the completion of the Sunrise Powerlink. The IVRTP would increase the transfer capability of the west-of-river and east-of-river transmission systems to provide renewable developers with greater opportunities to reach both the California and Arizona transmission grids.

Citizens' efforts under its Citizens-WAPA MOU to develop the IVRTP have already triggered a broader discussion among WAPA, Citizens, the Imperial Irrigation District and other regional utilities examining the feasibility of pursuing the IVRTP in conjunction with extensive transmission additions in western Arizona which would even further strengthen the transmission system needed to deliver

renewable resources in southern California and the Desert Southwest. While these discussions are in their early stages, it is expected that WAPA, Citizens, SDG&E and other utilities will be undertaking a feasibility study in the fall of 2009 of several projects on a combined basis. As explained by Mr. Smith, Citizens has been a leader in spearheading the discussion which have led to these developments so far. (Exhibit CEC-1 at P. 27).

The CPUC's urging of this Commission to take note of the value to Californians of new entrants into transmission development in its support of the Startrans acquisition (which involves the sale of certain transmission assets of the City of Vernon, a California municipal electric system) is particularly significant.[60] The Commission should accord similar merit to the fact that Citizens has not only conceptualized the IVRTP as a joint transmission infrastructure development

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[60] The CPUC's June 25, 2009 letter filed with this Commission in Docket No. ER08-413-002, noting its support of the acquisition adjustment that is the subject of Startrans' pending Request for Rehearing. The acquisition adjustment is based on a theoretical calculation of deferred federal income taxes and has a transmission revenue requirement of approximately $683,000. The CPUC's June 25 letter states its support based on the following:

- Startrans is a transmission-only company and, as such, is significantly different from a traditional utility, both in structure and in its exposure to regulatory risk;
- Startrans is a new competitor in an industry that is traditionally absent of competition;
- The nature of the industry is such that a new competitor cannot fully recover its cost of purchasing existing infrastructure when the market value is substantially higher than book value;
- The acquisition adjustment represents roughly a 15% difference between the purchase price and the remaining un-depreciated value of the assets; and
- As the CPUC understands it, this small acquisition adjustment will make the project financially viable as opposed to a losing proposition for Startrans.

opportunity available to virtually all of the major transmission system operators in Southern California and Arizona, but has also been willing to invest considerable effort and resources to pursue the actual development of IVRTP, employing its unique perspective and resources to address critical transmission infrastructure constraints and opportunities to resolve them.

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.[61/]

Citizens' utility partners have considered advanced transmission technologies in connection with the Border-East Line, as evidenced by SDG&E's consideration of several design options in order to minimize environmental impacts while maintaining reliability. These options included various transmission structure configurations, types of overhead conductors, and advanced technology involving underground structure configurations. These configurations and advanced technologies involved hybrid horizontal configurations, including making these configurations a narrower width than standard. A horizontal configuration with a narrow width designed to fit into a 100 feet right of way was designed. This lattice tower configuration also had a 69 kV underbuild, which is unusual in the utility

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[61/] Order No. 679 at P 302.

industry. These configurations and advanced technologies were not utilized because the CPCN Decision adopted a preferred corridor route that made their use not necessary.

SDG&E also considered advanced technologies involving high-temperature-low-sag (HTLS) and composite core conductors. SDG&E undertook a study to evaluate the conductor physical properties, electrical performance, susceptibility to wildfire damage, and short term and long term costs. After an extensive analysis, SDG&E concluded these conductor types did not provide the project benefits that offset high initial cost, increased losses, and increased noise. These advanced technologies also had very limited operating experience that discouraged their deployment. Ultimately, the CPUC approved SDG&E 's use of a conventional 1033.5 kcmil ACSR/AW Ortolan bundle of three conductors for the 500kV portion of the project.

Thus, Citizens, through the efforts of SDG&E as part of its licensing activities, has factored in advanced transmission technologies as appropriate in the configuration of the Border-East Line.

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

Donald R. Allen
Paul M. Breakman
Duncan & Allen
1575 I Street, N.W.
Suite 300
Washington, D.C. 20005
(202) 289-8400

Email:
dra@duncanallen.com
pmb@duncanallen.com

Peter F. Smith
Chief Operating Officer
Citizens Energy Corporation
88 Black Falcon Ave. Suite 342
Boston, MA 02210
(617) 338-6300, X581

Email:
peter_smith@citizensenergy.com

A copy of this Petition has been served on the California Public Utilities Commission and on CAISO. Attachment B to this filing includes a notice of filing suitable for publication *in the Federal Register*.

X. MATERIALS SUBMITTED HEREWITH

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

1. **Verification:** Verification of Citizens Energy Corporation by Peter F. Smith, Chief Operating Officer

2. **Attachment A**: Map depicting the Sunrise Powerlink Project

3. **Attachment B**: Notice of Filing suitable for publication *in the Federal Register*

4. **Exhibit CEC-1**: Affidavit of Peter F. Smith describing Citizens Energy and the company's investment rational

5. **Exhibit CEC-2**: Affidavit and Exhibits of William R. Mayben describing the project and project benefits

    - Attachment A to Exhibit CEC-2: May, 11, 2009 Development Agreement between Citizens and SDG&E

    - Attachment B to Exhibit CEC-2: CAISO Board Resolution (as adopted on August 3, 2006) and accompanying press release

6. **Exhibit CEC-3**: Affidavit and Exhibits of David T. Helsby addressing the proposed capital cost recovery and revenue requirement concepts

    - Attachment A to Exhibit CEC-3: Example of the SDG&E Representative Rate

    - Attachment B to Exhibit CEC-3: Preliminary representation of the Citizens' rate model

XI. CONCLUSION

WHEREFORE, for the foregoing reasons, Citizens respectfully requests that the Commission declare that Citizens transmission expansion plan, described more fully above, is eligible for the rate incentives and rate treatment requested herein, as follows:

1. Authorization for Citizens to recover its capital requirements, pertaining to its entitlement interest in the Sunrise Powerlink Project, under a formula rate;
2. Qualification of Citizens to seek recovery of its prudently incurred, transmission-related development and construction costs pertaining to its

entitlement interest in the Sunrise Powerlink 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 Congress' directive to the Commission to enhance transmission investment and the Commission's Order No. 679; and

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

Respectfully submitted,

/s/ Paul M. Breakman

Donald R. Allen
Paul M. Breakman
Duncan & Allen
1575 I Street, N.W.
Suite 300
Washington, D.C. 20005
(202) 289-8400
(202) 289-8450 (facsimile)

Counsel for Citizens Energy Corporation

October 9, 2009

Verification of
Citizens Energy Corporation
by Peter F. Smith, Chief Operating Officer

VERIFICATION

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

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

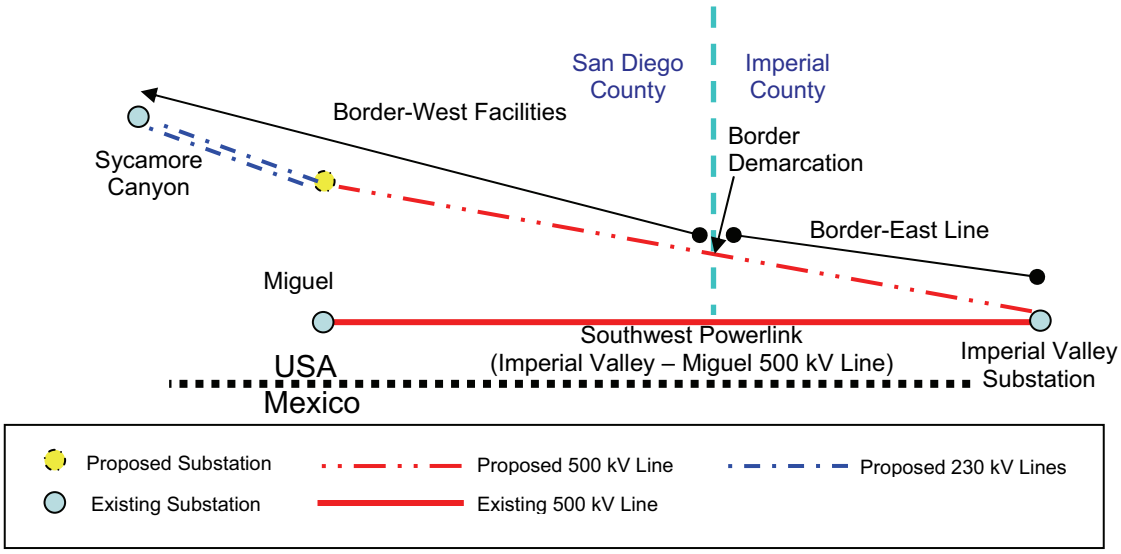
Executed this 9th day of October, 2009, at Boston, Massachusetts.

Peter F. Smith
Chief Operating Officer
CITIZENS ENERGY CORPORATION
88 Black Falcon Avenue
Center Lobby, Suite #342
Boston, Massachusetts, 02210.

ATTACHMENT A

Map Depicting the Sunrise Powerlink Project

SUNRISE POWERLINK
PROJECT MAP



ATTACHMENT B

Proposed Notice of Filing

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

	)	
	)	
Citizens Energy Corporation	)	
	)	
Petitioner	)	Docket No. EL10-_____
	)	
	)	
	)	
	)	

NOTICE OF FILING

(October __, 2009)

Take notice that on October 9, 2009, Citizens Energy Corporation filed a petition for declaratory order under Rule 207 of the Federal Energy Regulatory Commission's ("Commission") Rules of Practice and Procedure, 18 CFR § 385.207, requesting two rate treatments in connection with its participation in the Sunrise Powerlink Project.

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

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

This filing is accessible on-line at http://www.ferc.gov, using the "eLibrary" link and is available for review in the Commission's Public Reference Room in Washington, D.C. There is an "eSubscription" link on the web site that enables

subscribers to receive email notification when a document is added to a subscribed docket(s). For assistance with any FERC Online service, please email FERCOnlineSupport@ferc.gov, or call (866) 208-3676 (toll free). For TTY, call (202) 502-8659.

Comment Date: 5:00 pm Eastern Time on (_____).

Kimberly D. Bose
Secretary

EXHIBIT CEC-1

Affidavit of Peter F. Smith

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Citizens Energy Corporation	)	
	)	Docket No. EL10-_____
Petitioner	)	

DECLARATION OF PETER F. SMITH

State of Massachusetts
: ss
County of Suffolk

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

I. INTRODUCTION AND QUALIFICATIONS

1. I am Chief Operating 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. In this role, I report directly to the Chairman and President 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 Southern California to unlock vast renewable energy sources. Additionally, I work actively on establishing and expanding Citizens' strategic relationship with CITGO Petroleum to provide discounted heating oil

to hundreds of thousands of low-income families across 23 states, directly oversee Citizens' wind division, which works in partnership with other wind development companies and landowners to develop utility-scale wind farms, and the energy services/conservation division which provides state-of-the art efficiency measures to commercial, residential, and municipal customers to help reduce their energy usage.

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 obtain an eligibility determination for a capital cost recovery methodology and certain rate treatments for a high voltage transmission project.

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

Sunrise Powerlink Project, and more particularly in the financing of the Imperial Valley 500 kV portion of the Project (called the "Border-East Line").

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 up on 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 Energy Corporation has launched a number of innovative businesses, 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 Power & Light: The pioneering electricity trading company in the pre-deregulated market, becoming the first non-utility to win a federal license to trade power between utilities and achieving over $10.5 million in sales.

- 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 has made $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 Wind: Citizens Wind is Citizens Energy's wind development division. Its portfolio of wind projects under development in the U.S. and Canada has the potential to generate more than 2,000 megawatts of energy. 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.

11. 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.

12. Citizens Energy established an experimental farm in Nigeria, where it developed and distributed high-yield, pest-resistant hybrid seeds to Nigerian farmers; innovated the use of solar energy in Venezuelan and

Jamaican hospitals; and helped create the Catholic University of Angola, the country's first private institution of higher education.

13. The Citizens Energy Oil Heat Program, created in response to the oil crisis of the late 1970's, has delivered millions of gallons of discount home heating oil to poor and elderly households in Massachusetts and the Northeast since 1979. This unique program helps protect needy families from volatile heating oil prices, which often leave households having to choose between heating the home and paying for other life essentials, such as food, health care, or clothing.

14. Since 2006, in partnership with CITGO Petroleum, the Oil Heat Program is more than doubling in size, expanding to reach hundreds of thousands of the neediest households in 23 states. Eligible families receive a one-time delivery of 100 gallons of home heating oil at no cost. Since forming this partnership, Citizens has distributed over $200 million of assistance to more than 500,000 households.

15. While continuing to provide low-cost heating oil to the poor and elderly of Massachusetts, Citizens Energy covers all the winter heating costs for over 150 homeless shelters in Massachusetts and Rhode Island; subsidizes the gas bills of utility customers in four other states; supports efforts to provide health care to the homeless and other hard-to-reach populations, and provides access to discounted healthcare and pharmaceutical drugs through the CitizensHealth discount program. .

16. Citizens Energy is currently working with private corporations and government entities to lower the cost of prescription drugs to uninsured senior citizens and working families. By using the buying power of large numbers of people pooled together in a single purchasing group, Citizens aims to deliver discounts of 40% off the cost of prescription drugs to the millions of uninsured Americans who currently pay full retail price for their prescription needs.

III. CITIZENS ENERGY - OPERATIONS IN ELECTRICITY INDUSTRY

17. 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. To initiate its program, Citizens obtained a landmark decision foreshadowing eventual industry deregulation from the FERC, which approved the company's innovative petition to allow Citizens to buy and sell inter-utility electricity without restrictive rate regulation.[1/] Citizens' first arrangement was with the Utah Municipal Power Agency, whereby Citizens Energy made UMPA's surplus generating capacity available to third-party buyers in the Southwest, including customers of the Los Angeles Department of Water and Power. Citizens then used the margins it earned to benefit low-income households served by the utilities with whom it transacted business. Within two years, the program was

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[1/] *Citizens Energy Corp.,* 35 FERC ¶ 61,198 (1986).

buying and selling over 3.2 million kilowatt hours of electricity and delivering direct assistance to needy customers of three California and Utah utility companies.

18. Building on its experience, Citizens Energy formed the nation's first independent electric power marketer in 1988 with the creation of Citizens Power & Light Corporation. The new company's mission was to acquire, exchange, and market electric power under contracts extending from several months to several decades. The pioneering Citizens Power & Light then closed more than 30 major power sale contracts within a few years, becoming the nationally recognized leader in the field of electric power marketing.

19. Citizens Power & Light's customers ranged from major electric utilities throughout North America as well as the fast-growing independent power development industry. The company increased the timeliness and cost-effectiveness of selling power in the hugely fragmented electricity market by providing services to reduce risks, lower generating costs, and add value..

20. Citizens Power & Light's marketing, acquisition, and advisory services included innovative structuring of electric power transactions; accessing new markets and supply sources; brokering inter-utility power; developing competitive bid submissions; acquiring low-cost, reliable power; and developing and implementing effective demand-side management programs. In 1995, Citizens Power & Light formed a partnership with Lehman Brothers Holdings,

Inc. and was renamed Citizens Lehman Power LP. Citizens Energy eventually sold its interest in the partnership.

21. 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.

IV. CITIZENS CONSERVATION CORPORATION

22. Citizens Conservation Corporation was incorporated in 1981 to augment Citizens Energy's fuel assistance efforts. Recognizing that the least expensive form of energy is the energy saved through conservation, Citizens Energy saw that the home heating oil subsidized by the company was often wasted in poorly weatherized apartments with inefficient heating systems. By providing design, engineering, and construction management services, Citizens Conservation aimed at reducing energy waste and making rental housing more livable and affordable.

23. State and federally funded programs existed at the time to provide energy conservation services to the poor, but Citizens tried another approach. By appealing to the business concerns of building owners, Citizens sought to provide conservation savings based on the performance of the improvements rather than as a giveaway. Citizens Conservation's strategy – to invest against projected

savings – led to the new subsidiary helping to reduce energy demand in thousands of housing units throughout the country.

24. While many engineering and energy services firms undertook conservation retrofits in single-family homes or in commercial and industrial properties, Citizens Conservation concentrated on the most challenging segment of the energy conservation market – multi-family rental housing for low and moderate-income residents.

25. Citizens Conservation worked with building owners, real estate management companies, and utility companies to provide the maximum level of investment possible in a given property on the basis of energy savings and to design improvements that generate long-term energy, replacement, and maintenance cost savings.

26. By conducting building-specific energy studies, creating state-of-the-art engineering designs, arranging financing, managing construction, and implementing educational programs for managers and residents, Citizens Conservation delivered documented energy savings for heating and hot water by 40% on average, with some energy reductions as high as 75%. Tens of thousands of apartments received Citizens Conservation retrofits, reducing energy demand and delivering millions of dollars in energy savings to taxpayers and residents.

27. A related company, Citizens Heat and Power Corporation, was formed in 1983 to provide similar energy conservation services to major industrial and commercial properties. The company built a client base of 170

separate buildings in four states, including hospitals, nursing homes, school departments, and municipal, county, and state government offices.

28. Citizens Heat and Power was sold to a major utility in 1986, while Citizens Conservation was sold in 1995 to Eastern Utility Corporation.

V. CITIZENS GAS SUPPLY CORPORATION

29. After making a successful start in the oil industry, Citizens Energy Corporation set its sights in the early 1980's on another essential energy commodity – natural gas.

30. Citizens Energy's entry into the natural gas industry ran into a major roadblock in the form of monopoly control of gas pipelines that excluded independent operators seeking to deliver cheaper gas to customers around the country. As a result, Citizens Energy mounted a landmark federal regulatory challenge, which successfully sought to allow non-producers to ship gas purchased from the wellhead through the regulated pipeline network.

31. Citizens' efforts succeeded in lifting barriers that artificially increase gas prices while paving the way for a successful commercial venture, Citizens Gas Supply Corporation, which began operations in 1983. By 1987, Citizens Gas Supply was buying and selling an average of 270 million cubic feet of natural gas per day and distributing more than $160 million worth of gas per day to 17 states. Its capacity eventually rose to 2 billion cubic feet per day.

32. Through agreements with 38 pipeline operators throughout the United States, Citizens Gas Supply could buy natural gas at any available

location – the Gulf Coast, the Southwest, Canada, and Appalachia -- and transport it or exchange it for sale in nearly every domestic geographic market. The company's sophisticated transportation network provided multiple routings across and around pipeline bottlenecks, including deliveries to new electricity generators using natural gas as their primary feedstock. Citizens Gas Supply's clients grew to include not just local distribution companies but municipalities and industrial users as well.

33. Citizens' success was based in part on offering flexibility in its contracts, allowing clients to choose from a traditional fixed-priced format, a "best efforts" month-to-month purchase and sales agreement in which price terms are decided as a result of price discussions, and a pricing format based on a published market basket of fuels, natural gas spot market prices, the futures market, or options.

34. In addition to trading activities, Citizens Gas Supply made significant investments in gathering systems, strategic pipeline interconnects, storage facilities, firm transportation, and downstream facilities. Many of those activities were pursued through joint ventures with such established industry leaders as the National Fuel Gas Company and the Victoria Gas Corporation.

35. Citizens Gas Supply's successful commercial ventures financed millions of dollars of direct fuel assistance to hundreds of thousands of low-income gas consumers in six states. Because the assistance reduces debt write-offs from the gas companies, additional millions of dollars in savings have been

achieved for all gas users in some 22 states. In 1993, Citizens Gas Supply was sold to Western Gas Resources.

VI. CITIZENS MEDICAL CORPORATION

36. Citizens Energy began working with the pharmaceutical industry in 1985, when it coordinated the donation of medical relief supplies to drought-stricken areas of Africa. The company's experience led to an innovative venture to provide prescription drugs more cheaply and effectively to families in the United States.

37. Citizens Health Corporation, later renamed Citizens Medical, was established as a joint venture with Medco Containment Services, Inc., the largest mail-order pharmacy in the world and a pioneer in cost-containment programs for prescription drugs. Citizens Medical eventually became the largest broker of mail-service pharmaceuticals in the country, providing low-cost prescriptions to millions of workers and retirees.

38. Medical cost containment through volume purchasing, centralized dispensing services, and an emphasis on the use of generic drugs enabled the Citizens-Medco's mail-service pharmacies to pass on significant savings to consumers, insurance carriers, corporate and union health plans, health maintenance organizations, and federal and state employee benefit programs. Average savings of over 40% over conventional drug delivery were achieved while facilitating sales of over $3 billion.

39. While offering integrated mail service, prescription card and drug reimbursement programs, Citizens tailored each prescription benefit plan to meet its client's cost-management goals. In addition, Citizens Medical offered improved professional and personalized services, including a 24-hour toll-free number for participants, specially trained customer service pharmacists to answer specific questions regarding medications, and drug education material to acquaint users with their medications, and counseling programs to assist the elderly.

40. Citizens Medical's pioneering role in the industry was built on a customer base that included several of the largest employee and retiree groups in the country – among them Blue Cross Blue Shield of Massachusetts, the Government Employee Hospital Association, NYNEX, the National Association of Letter Carriers, and the American Postal Workers Union.

41. The Citizens Medical model paved the way for the creation of a new industry of pharmacy benefit managers to negotiate discounts for buying groups from drug manufacturers and pharmacies.

42. Medco Containment Services was acquired by the pharmaceutical manufacturer Merck Co. in 1993. Merck-Medco's marketing agreement was taken over by another Citizens Energy subsidiary, Citizens Enterprises, in 1999. Meanwhile, Citizens Energy continues to explore innovative ways to deliver deep savings on prescription drugs to the nation's uninsured senior citizens and working families.

VII. CITIZENS ENERGY: OIL TRADING, EXPLORATION, AND PRODUCTION

43. Citizens Energy Corporation has a 20-year history of working with oil-producing nations around the world in trading, exploration, and production ventures.

44. Two companies have managed its for-profit ventures in the oil industry. Citizens Resources Corporation was formed in 1983 to manage Citizens Energy's oil-trading activities, with a particular emphasis on the development of stable, long-term sources of supply with oil-producing nations. A related subsidiary, Citizens Energy International, Inc., was formed in 1987 to handle the company's oil exploration and production ventures.

45. Citizens Resources grew out of Citizens Energy's first oil-supply contracts with such nations as Venezuela, Ecuador, and Nigeria, from which Citizens purchased crude oil at official prices, processed it, and used the net profits from the sale of refined products to subsidize the cost of home heating oil for the poor. The company eventually became one of the largest independent lifters of crude oil from Nigeria, Angola, the North Sea, and Venezuela, with sales exceeding $6 billion and average daily trading volumes of over 250,000 barrels a day.

46. In some instances, Citizens Resources operated as an independent trading company working directly with national oil companies or equity-producers under long-term contracts. Citizens Resources typically participated

in limited-risk transactions, using the full range of specialized commodity trading vehicles to minimize risk.

47. In other instances, Citizens Resources established successful working partnerships in which its strength in project planning and development was complemented by the resources and expertise of another company. In one such venture, Citizens worked with the Irish National Petroleum Corporation to provide the company with a low-risk source of supply and international contacts in the oil industry. In another venture, Citizens worked with Global Petroleum involving the shipment of Latin American supplies and marketing its petroleum products to New England.

48. Citizens Energy International, Inc. took Citizens Energy "upstream" to oil exploration and production through joint ventures with some of the most respected firms in the petroleum industry, including Conoco, Unocal, and ARCO. Citizens and its partners eventually held exploration and production rights to three off-shore oil blocks in Angola, two off-shore blocks in the Republic of Congo, and one off-shore block in Aruba.

49. As part of a company re-organization in 1996, Citizens Resources and Citizens Energy International were sold.

VIII. CITIZENS WIND

50. Established in 2003, Citizens Wind is Citizens Energy's wind development division. Citizens Wind works in partnership with other wind development companies and landowners where projects are located to develop

utility-scale wind farms. It is a leading developer of wind projects with Native American Tribes in the U.S. and Canadian First Nations. Citizens Wind's portfolio of wind projects under development in the U.S. and Canada has the potential to generate more than 2,000 MW of energy.

51. Citizens Wind has developed successful projects in a variety of environments. Current and recent projects include:

- Munnsville, New York: The Munnsville Project, a joint venture between Citizens Energy and Airtricity, a wind development company based in Ireland, is a 34.5 MW wind power facility located in Madison County, New York. Working with local landowners and environmental consultants, Citizens Wind and Airtricity received a permit for the project in less than one year. The project received its environmental permit in June 2005 and entered commercial operation in the fall of 2007.
- Wolfe Island, Ontario: The Wolfe Island Wind Project, a 198 MW project located at the eastern end of Lake Erie in Ontario, Canada, marked Citizens Energy's entry into the Canadian market and allowed Citizens Energy to expand its horizons by forming development partnerships with other wind developers, such as Skypower Corp. and Gaia Power. The project currently is under construction and will begin operations in late 2009.

- Cree Nation of Mistissini: Citizens Wind formed a partnership with the Cree Nation of Mistissini and Skypower Corporation to identify and develop wind power projects on Mistissini lands. Mistissini lands cover millions of acres in northern Quebec, and our partnership has identified a number of prime opportunities. As part of Citizens Wind's commitment to working with the community during the development process, we have hired 15 Mistissini workers. Our first project will be a large scale wind farm within the traditional trapping lands of the Mistissini Cree.
- Navajo Nation: Citizens Wind and the Dine Power Authority ("DPA"), an authorized energy development enterprise of the Navajo Nation, are working together to develop wind power projects on Navajo Nation lands. In addition to identifying potential projects, Citizens and DPA are working closely with the local communities to provide public education and involve community members during the development process.
- Parry Island, Ontario: Citizens Wind and Skypower formed a partnership with the Wasauksing, a band of the Ojibwe residing on Parry Island in Ontario to pursue wind development on the island. Citizens, Skypower, and the Wasauksing are studying the wind resource on the island and are planning for a series of small projects to be bid into the Ontario Power Authority's Standard Offer Program for

renewable power. Throughout the development process, Citizens has committed to working closely with the First Nation and other local residents and stakeholders to design and build wind projects that respect tribal cultural concerns, identify and address environmental impacts, and provide local economic benefit. Environmental reviews are underway, as are studies regarding the integration of wind power onto the local electric grid.

- Penobscot Indian Nation, Maine: Citizens Wind has formed a partnership with the Penobscot Indian Nation to study the feasibility of building utility-scale wind projects on tribal trust land in western Maine. These projects would help the Penobscot Tribe develop economically while also helping the State of Maine fulfill its ambitious renewable energy goals. Citizens is working closely with the tribe and local communities to ensure that wind development respects tribal culture and history, has minimal environmental impact, and maximizes local economic benefits. Citizens hopes to begin the permitting process in the near future.
- Sioux Projects: Citizens Wind and the Sioux are working together to explore the feasibility of utility-scale wind development on tribal lands in South Dakota. We are developing projects on three Sioux reservations -- Rosebud, Cheyenne River, and Lake Traverse. In each location, the tribe is a partner in the venture and is involved in all of

the project's decisions. Tribal wind development is a unique opportunity for the Sioux to achieve sustainable economic development, realize energy independence, and empower themselves to chart their own future. Citizens is looking forward to helping its Sioux partners to take advantage of their plentiful wind resources.

52. Profits from Citizens Wind fund Citizens Energy's assistance programs. It operates with the social mission of Citizens Energy in mind. Our development activities are conducted in a socially responsible manner, with particular focus on environmental sensitivity and respect for the local communities where we operate. We manage all aspects of the wind development process, including landowner relations, wind assessments, environmental permitting, engineering, financing, and construction.

IX. CITIZENS' ROLE IN INDEPENDENT TRANSMISSION

53. As described above, Citizens Energy has made a practice of solving energy industry problems in unique ways while dedicating its profits to helping disadvantaged energy consumers pay their energy bills. I have already described how, in the 1980s when it confronted the problem of high cost utilities operating in proximity to low cost utilities without an effective mechanism to broker energy among themselves, Citizens created the first FERC-approved, independent electric energy marketing entity. As a power marketer without its own system, Citizens could nevertheless broker energy among utilities and help

create a new kind of market for surplus and deficit utilities as well as lower energy prices for disadvantaged electricity consumers. In the 21st century, Citizens is confronting another industry problem - congestion on transmission systems - and pursuing innovative ways to solve it.

54. 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 independent transmission projects to resolve transmission bottlenecks, promote the development of renewable electric resources and improve the performance of newly emerging electricity markets.

55. 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, first, by proceeding with its participation in the Sunrise Powerlink Project, as described immediately below. Second, as further described below, Citizens has already taken significant steps beyond its participation in the Sunrise Powerlink Project to develop a new project – the Imperial Valley Renewable Transmission Project ("IVRTP"). If constructed, Citizens' engineers estimate that the IVRTP would allow for between 4000 to 5000 MW of renewable power injection in Imperial County for deliveries into the CAISO under normal system operations. Citizens has not studied the expected counter flow potential of renewable power injection in Imperial County for delivery into Arizona, however Citizens' engineers estimate that those deliveries could be as high as 3000 MW.

X. DEVELOPMENT OF THE SUNRISE POWERLINK PROJECT

56. By late 2004, Citizens had examined 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.

57. As explained further by Citizens' Managing Director of Independent Transmission Projects, William R. Mayben (Exhibit CEC-2 at PP. 6-7, 18-19), beginning in 2004, Citizens embarked on two efforts which led to successful, ongoing transmission activities in the Southwest – (1) participation in a project

involving the Los Angeles Department of Water and Power ("LADWP") and several cooperating utilities, called Green Path North; and (2) participation in a project involving a cooperative relationship to further the development of San Diego Gas & Electric's ("SDG&E") Sunrise Powerlink Project.[2/]

58. The Green Path North project was eventually downsized to the point where it no longer offered Citizens a viable opportunity. Citizens maintains a business relationship with LADWP and a right to participate further in that project should it be expanded (Exhibit CEC-2 at P. 7).

59. Citizens' involvement in the Sunrise Powerlink Project commenced with exploratory discussions with the Imperial Irrigation District ("IID") and SDG&E in 2005, which led to a March 2006 Memorandum of Understanding among Citizens, the Imperial Irrigation District ("IID") and SDG&E. IID subsequently withdrew from participation in the project, but Citizens continued to pursue a relationship with SDG&E as a partner in the Sunrise Powerlink Project. Once built, the Sunrise Powerlink Project will consist of a new 500/230 kV transmission line running approximately 150 miles from the El Centro area of Imperial County to northwestern San Diego County. Mr. Mayben explains that the Sunrise Powerlink will provide up to 1,000 MW of new transfer capacity into the San Diego area (Exhibit CEC-2 at P. 11). In its December 18, 2008

[2/] The original relationship involved the Imperial Irrigation District and was called the Green Path Southwest project, which denoted the Imperial Valley portion of the Sunrise Powerlink Project (now called the "Border-East Line").

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 recently approved 33% Renewable Portfolio Standard ("RPS") requirement by 2020. Citizens involvement will contribute to the export capacity for otherwise trapped renewable resources in the Imperial Valley in California and significantly enhance the reliability of Southern California's transmission system.

60. In its relationship with SDG&E, Citizens has committed to fund fifty percent of the cost of the 500 kV transmission line in Imperial County (the Border-East Line), and to become a participating transmission owner within the CAISO. Citizens will not, per se, own any of the actual facilities themselves, but will have long-term lease rights to the transfer capability of the Border-East Line. Citizens will become a CAISO participating transmission owner and will file with the FERC a transmission service tariff to cover its interest in the facilities. Citizens' entitlement to the transfer capability in the Sunrise Powerlink shall be provided for the benefit of and made available to CAISO eligible customers at just and reasonable rates and terms.

61. The current, proposed Sunrise Powerlink Project is comprised of three components: (1) The Border-East Line (formerly called the "Green Path Southwest project"), (2) the Border-West facilities, and (3) substation facilities

and any lower voltage transmission facilities associated with the Border-East Line. As explained in Mr. Mayben's Affidavit, the second and third of these components will be financed by SDG&E, which will also finance 50% of the cost of the Border-East Line (Exhibit CEC-2 at P. 21). Citizens' Petition pertains to its proposed cost recovery of 50% of the cost of the Border-East Line. The Border-East Line is the portion of the proposed 500 kV Sunrise Powerlink transmission line extending east of the border between San Diego County and Imperial County, California to the Imperial Valley substation. It includes only the 500 kV transmission line and does not include any transmission facilities that may operate at lower voltage or any Imperial Valley substation facilities.

62. Citizens intends to securitize the financing of its participation cost with a pledge of its CAISO revenues, similar to the manner in which Trans-Elect, LLC did with the CAISO in the Western Area Power Administration's comparable arrangement for resolving the Path 15 transmission roadblock several years ago (Exhibit CEC-2 at32).

63. In contrast to Trans-Elect's equity financing model, Citizens will use an all debt financing model, similar to a "public power" model (Exhibit CEC-3 at P. 15). The methodology Citizens proposes to use to recover its transmission revenue requirements is fully set forth in Mr. Helsby's Affidavit.

64. With Citizens' participation, the Sunrise Powerlink Project will achieve greater public benefits. Citizens is required under the terms of the Sunrise Powerlink Project to spend 50% of its after-tax profit from the project,

computed on a standalone basis, on programs assisting low income families of Imperial County.

65. To pursue its involvement in the Sunrise Powerlink, Citizens will use a wholly-owned for-profit subsidiary. Citizens Energy Corporation does not intend for that subsidiary to engage in any business outside the business of financing and facilitating the lease of transmission capability and making transmission service available from that capability by turning operational control over to the CAISO. The Sunrise Powerlink Project (including Citizens' leasehold interest in the Border-East Line) is intended to be a utility project, subject to traditional rate regulation. Again, Citizens will not own any of the facilities it finances and helps to plan and develop. Rather, it will have long-term leasehold rights to the transfer capability of those facilities and turn over those rights - those entitlements - to others to operate.

XI. CITIZENS' IMPERIAL VALLEY RENEWABLE TRANSMISSION PROJECT

66. Citizens recognizes that while critically important in facilitating the delivery of renewable resources, the Sunrise Powerlink Project is only one step to addressing the region's need for new transmission infrastructure to achieve the renewable energy portfolio requirements which are being required of the region's load serving entities. For several years, Citizens has been pursuing its Imperial Valley Renewable Transmission Delivery Project ("IVRTP"), a project which is aimed at facilitating delivery of renewable resources into the

Southwest region. If constructed, Citizens believes that the IVRTP would allow for between 4000 to 5000 MW of renewable power injection in Imperial County for deliveries into the CAISO under normal system operations.

67. While still in the early project investigation phase, Citizens' work has included preliminary load flow analyses of the project's performance assuming it achieved an interconnection linking the Imperial Valley, North Gila and Devers Substations at 500 kV. Citizens has not studied the expected counter flow potential of renewable power injection in Imperial County for delivery into Arizona, however Citizens' engineers estimate that those deliveries could be as high as 3000 MW.

68. Citizens and Western Area Power Administration ("Western") entered into a Memorandum of Understanding on July 13, 2009 to further investigate IVRTP's potential under Western's new renewable transmission construction authority contained in the American Recovery and Reinvestment Act of 2009 (the "Citizens-WAPA MOU").

69. The proposed IVRTP would interconnect the transmission systems of major utilities in Arizona and California with new 500 kV transmission lines. This project could enhance the transfer capacity between Arizona and California by up to several thousand megawatts. In addition, the IVRTP could unlock additional renewables that would remain undevelopable, even with the completion of the Sunrise Powerlink. The IVRTP would increase the transfer capability of the west-of-river and east-of-river transmission systems to provide

renewable developers with greater opportunities to reach both the California and Arizona transmission grids.

70. Citizens' efforts under the Citizens-WAPA MOU to develop the IVRTP have already triggered a broader discussion among WAPA, Citizens, the Imperial Irrigation District and other regional utilities examining the feasibility of pursuing the IVRTP in conjunction with extensive transmission additions in western Arizona which would even further strengthen the transmission system needed to deliver renewable resources in southern California and the Desert Southwest. While these discussions are in their early stages, it is expected that WAPA, Citizens, SDG&E and other utilities will be undertaking a feasibility study in the fall of 2009 of several projects on a combined basis. Citizens has been a leader in spearheading the discussion which have led to these developments so far.

71. Citizens' conceptualization of IVRTP as a joint transmission infrastructure development opportunity available to virtually all of the major transmission system operators in Southern California and Arizona, together with its willingness to invest considerable effort and resources to pursue development of the project, is indicative of Citizens' commitment to employ its unique perspective and resources to address critical transmission infrastructure constraints and opportunities in the nation.

Executed Subject to the Penalties of Perjury at
Suffolk County, Massachusetts
This 9th day of October, 2009.

Peter F. Smith

EXHIBIT CEC-2

Affidavit and Attachments of William R. Mayben

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Citizens Energy Corporation	)	
	)	Docket No. EL10-_____
Petitioner	)	

DECLARATION OF WILLIAM R. MAYBEN

State of Arizona
: ss
County of Maricopa

William R. Mayben, being subject to the penalties of perjury, hereby deposes and says:

1. I am responsible for directing and managing electric transmission projects for Citizens Energy Corporation (Citizens). My office address is 4714 N Greenview Circle W, Litchfield Park, AZ 85430. I have been a management and engineering consultant to Citizens Energy Corporation off and on since 1983.

I. EXPERIENCE AND QUALIFICATIONS

2. From November 1, 1995 until February 1, 2002, I was the President and CEO of Nebraska Public Power District, a political subdivision and a vertically integrated electric utility serving customers at wholesale and retail in 91 of the 93 counties in Nebraska. Prior to joining NPPD, I was employed by R. W. Beck and Associates for over 33 years, a nationally recognized engineering and management consultant primarily to public power

electric utilities in the US. During my last fifteen years as an owner and executive of R. W. Beck, I held senior management positions in the company, including serving as the managing partner and CEO for the final seven years of my engagement. My professional practice was focused on power resource planning, mergers and acquisitions, joint ownership of planned generation and major transmission projects, project finance, regulatory matters, and various other aspects of utility management and planning.

3. I have been involved in the activities of the American Public Power Association and served on the Board of Directors from 1996 through 2001 and the Executive Committee for three years. Also, while at NPPD, I served on the Steering Committee of the Large Public Power Council and as the CEO Sponsor of the LPPC Competition Task Force.

4. I am currently a member of the Board of Managers of PJM Interconnections, LLC.

5. I received a Bachelor of Science degree in electrical engineering from the University of Colorado in 1962.

6. I have previously testified before state and federal regulatory agencies including the Federal Energy Regulatory Commission and the Atomic Energy Commission (now the Nuclear Regulatory Commission). I have appeared as an expert witness in proceedings in state and federal courts and have testified on behalf of the Large Public Power Council before two committees of the US Congress regarding federal energy policy.

II. BACKGROUND

7. Since February of 2005, I have been closely involved in discussions, studies and negotiations on behalf of Citizens regarding its efforts to deploy the emerging concepts of an independent transmission company responding to FERC Order 679 which seeks, among other things, non-routine developments beyond traditional investors to spur construction of new transmission lines and alleviate transmission bottlenecks in Southern California. Specifically, I have assisted Citizens in embarking on two efforts which led to ongoing transmission activities in the Southwest – (1) a project involving the Los Angeles Department of Water and Power ("LADWP") and several cooperating utilities, called Green Path North; and (2) a project involving a cooperative relationship to further the development of San Diego Gas & Electric Company's ("SDG&E") Sunrise Powerlink Project (a portion of which was originally called the Green Path Southwest project, which denoted the Imperial Valley portion of the Sunrise Powerlink Project, and now referred to as the Border-East portion of the Sunrise Powerlink Project).

8. The Green Path North project was eventually downsized to the point where it no longer offered Citizens a viable opportunity to participate. However, Citizens maintains a business relationship with LADWP and a right to participate further in that project should it be expanded to a level of transmission capacity which is shown to be of value to the CAISO.

9. Citizens' involvement in the Sunrise Powerlink Project commenced with a March 2006 Memorandum of Understanding among Citizens, the Imperial Irrigation District ("IID") and SDG&E. IID subsequently withdrew its participation, but Citizens continued to pursue a relationship with SDG&E. Once built, the Sunrise Powerlink Project will consist of (1) a new 500 kV transmission line running approximately 120 miles from a substation located south of El Centro in Imperial County to a new substation in southeastern San Diego County, and (2) two new 230 kV lines running from the new substation in southeastern San Diego County to an existing substation in southwestern San Diego County. The Project will initially increase import capability into the San Diego area by as much as 1,000 MW under contingency conditions which the CAISO uses to establish local reliability requirements for the San Diego area. Under normal operating conditions the Sunrise Powerlink will increase import capability into the San Diego area by as much as 1350 MW. Citizens' involvement in the Sunrise Power link Project is limited to financing one half of the costs of construction associated with that portion of the project to be constructed within Imperial County (except for switching facilities within Imperial Valley substation) denoted here in as the "Border-East Line."

10. Citizens and SDG&E formalized their partnership on May 11, 2009, through finalization and execution of a Development and Coordination Agreement (DCA), which provides for Citizens' engagement in the development of the Border-East Line of the Sunrise Powerlink. A copy of the DCA is

attached to this Affidavit as Attachment 1. As explained in detail below, the Agreement grants Citizens an option to participate in the financing of the Sunrise Powerlink Project through the long-term lease of 50% of the transfer capability of the Border-East Line. The Border-East Line will consist of a new 500 kV transmission line and associated facilities in the Imperial County. SDG&E will retain 100% ownership in the entire Sunrise Powerlink Project, including the Border-East Line (regardless of whether Citizens' exercises its lease option under the Agreement). Upon exercise of its option, Citizens will become a participating transmission owner within the CAISO and will turn over its acquired transfer capability entitlements to the CAISO to utilize them in CAISO operations.

11. The Sunrise Powerlink's 500 kV transmission line will run from a 500 kV substation owned jointly by SDG&E and IID located south of the City of El Centro near the US Mexican border north and west to the southeast portion of SDG&E's service territory in San Diego County.

12. SDG&E has applied for, and the Western Electricity Coordinating Council ("WECC") is expected to accept, a 1000 MW path rating of the Sunrise Powerlink. By increasing import capability into the San Diego area, the Sunrise Powerlink will enable load serving entities in the San Diego area to meet their growing customer demands, to meet most if not all of their Renewable Portfolio Standard ("RPS") obligations under California law and to ensure continued reliability of electric service in the San Diego area.

13. SDG&E is a regulated public utility that provides retail electric service within and in the vicinity of San Diego, California.

14. This Affidavit was prepared in support of the Petition for a Declaratory Order of Citizens Energy Corporation to obtain an eligibility determination by FERC pertaining to Citizens' involvement in the financing, planning and development of the Border-East Line portion of the Sunrise Powerlink. Citizens seeks pre-approval of (1) recovery of all prudently incurred transmission-related development and construction costs if the Sunrise Powerlink Project is canceled or abandoned, in whole or in part, as a result of factors beyond Citizens' control; and (2) recovery of Citizens' revenue requirements as set forth in some detail in the Affidavit of Citizens' rate consultant, David T. Helsby.

15. This Affidavit provides a description of the Sunrise Powerlink (and, more particularly, the Border-East Line portion of the Sunrise Powerlink), including a narrative of the approximate preferred transmission path, interconnection points, project costs and schedule, and project benefits.

III. GENERAL DESCRIPTION OF THE SUNRISE POWERLINK PROJECT

16. The SDG&E Sunrise Powerlink Transmission Project is a new electric transmission line between the existing 500 kV Imperial Valley and 230 kV Sycamore Canyon Substations. The Project will also include a new 500 kV to 230 kV Suncrest Substation that will be located in San Diego County, along with other system modifications, in order to reliably operate the new line. The segment from Imperial Valley Substation to the new Suncrest Substation will be a 500 kV line and the segment from Suncrest Substation to Sycamore Canyon Substation will be a double circuit 230 kV line. The entire Project will traverse approximately 120 miles between the El Centro area of Imperial County and southwestern San Diego County, in southern California. For clarity, the Project is described in five separate segments or "links" according to geographical location: (1) the 500 kV Link 1 (which includes the approximate 30 mile "Border-East Line" located in Imperial County that is the subject of the lease to Citizens and 21 miles of transmission line in San Diego County (located primarily on Bureau of Land Management lands); (2) the San Diego 500 kV Link 2 (located primarily on United States Forest Service lands); (3) the Suncrest Substation Link 3; (4) the San Diego County 230 Overhead kV Link 4; and (5) the San Diego County 230 kV Underground Link. In addition, three system upgrades (reconductors from Sycamore Canyon Substation to Pomerado, Scripps and Elliott substations) will be required.

17. The Border-East Line will parallel the existing Southwest Power Link (SWPL) right-of-way beginning at the Imperial Valley Substation, located just west of the intersection of Mandrapa Road and Lyons Road in Imperial County, four miles southwest of El Centro and ending at the Imperial County-San Diego County border (MP 30), just a few miles north of the Mexican border. From the Imperial Valley substation the line would head northwest for approximately 11 miles through BLM land with a very small number of private parcels interspersed then crossing San Diego and Arizona Eastern Railroad followed by a crossing at Interstate 8 and County Highway S80 (Evan Hewes Highway) where it would turn west one mile west of Plaster City (MP 11). The route would follow the SWPL west on BLM land for approximately 3.5 miles, then west-southwest for approximately 5 miles. It would turn southwest for approximately 10 miles, passing through more BLM and private land, crossing County Route S2 and the San Diego and Arizona Eastern Railroad (MP 22.5) all the while paralleling the existing SWPL. Just past the railroad crossing, the transmission line would enter an area known as Mountain Springs Grade (MP 22.5) where Interstate 8 north and south lanes split to create an area known as the I-8 Island. This route crosses BLM and State Lands and is adjacent to the congressionally delegated Jacumba Federal Wilderness Area. This area is best characterized as rugged and remote terrain. Much of this area will require construction by helicopter.

18. A map depicting the Sunrise Powerlink Project is attached to the Petition for Declaratory Order, as Attachment A thereto.

IV. CITIZENS INVOLVEMENT IN THE SUNRISE POWERLINK PROJECT

19. As explained by Citizens' Chief Operating Officer, Peter F. Smith, Citizens, in and around 2004, 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 Southern California (Exhibit CEC-1 at P. 54). In so doing, Citizens sought to facilitate the delivery of renewable energy, while mitigating the cost of that relatively expensive renewable generation to economically vulnerable customers such as the poor and the elderly. This kind of initiative is consistent with Citizens' public interest purpose. Thus, in late 2004, Citizens embarked on a project involving a cooperative relationship to further the development of SDG&E's Sunrise Powerlink Project.[1/] That effort was commenced by a March 2006 Memorandum of Understanding among Citizens, the Imperial Irrigation District ("IID") and SDG&E. IID subsequently withdrew from participation in the project, but Citizens continued to pursue a relationship with SDG&E as a partner in the

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[1/] The original relationship involved the Imperial Irrigation District and was called the Green Path Southwest Project, which denoted the Imperial Valley portion of the Sunrise Powerlink Project (now called the "Border-East Line").

Sunrise Powerlink Project, and more particularly in the financing of the Border-East Line of the Sunrise Powerlink Project.

20. The concept of the Border-East Line was precipitated as a result of SDG&E's 2003 Grid Assessment Study where SDG&E found that a 500 kV line would provide a sufficient increase in San Diego area import capability to meet projected load requirements. This study sparked additional studies to evaluate 500 kV transmission alternatives. SDG&E included the Sunrise Powerlink Project in its 2004 Long Term Resource Plan filing with the CPUC. At the CPUC's direction, SDG&E performed a Transmission Comparison Study to select a preferred transmission alternative. In October 2004, the Southwest Transmission Expansion Plan ("STEP") undertook a comprehensive screening study which reviewed 18 transmission alternatives, including the Sunrise Powerlink Project for which SDG&E requested CAISO approval in January, 2005. The California Energy Commission's ("Energy Commission") 2005 Strategic Investment Plan specifically found that the Sunrise Powerlink Project would provide significant benefits to the state. The Imperial Valley Study Group ("IVSG") was formed at the direction of the Energy Commission. The IVSG issued a report in January 2005 which concluded that the Sunrise Powerlink Project, in conjunction with upgrades of the Imperial Irrigation District transmission system, could collect and transport significant amounts of potential renewable power resources in the Imperial Valley – consisting of geothermal, wind and solar – to load serving entities in the San Diego area.

21. After many months of planning, negotiation and preparation, Citizens and SDG&E executed a Development and Coordination Agreement on May 11, 2009 (the "DCA"), which specifically provides for Citizens' involvement in the Sunrise Powerlink Project. In particular, Citizens now has an option to "lease" 50% of the transfer capability on the 500kV facilities comprising the Border-East Line. The DCA provides that Citizens' 50% entitlement to the Border-East Line reverts to SDG&E after 30 years. Citizens' option to lease transfer capability expires if it fails to exercise its option prior to commercial operation of the Project. Citizens will obtain its own financing in order to close the transaction. The "rent" for the 50% entitlement in the transfer capability of the Border-East Line will be 50% of SDG&E's actual development and construction costs for that portion of the Project, which shall be pre-paid in a lump sum at the closing of the transaction after Citizens exercises its option. To the extent Citizens exercises and closes its lease option, Citizens and SDG&E have agreed to cooperate by executing any necessary documents necessary to effectuate the conveyance of the entitlement in the transfer capability to Citizens, including entering into a lease agreement and other subsequent agreements to provide for the interconnection, operation and maintenance of the Sunrise Powerlink Project.

22. SDG&E will finance the Border-West facilities, and substation facilities and any lower voltage transmission facilities associated with the Border-West Line. Although SDG&E will initially finance 100% of the cost of

the Border-East Line, upon its signature of the lease, Citizens will finance its leasehold entitlement, including the portion of the actual allowance for funds used during construction that SDG&E has accrued to closing.

V. PROJECT OWNERSHIP AND OPTIONS

23. Citizens has an option to lease for a thirty year term 50% of the transfer capability on the Border-East Line (the 500kV facilities of the Sunrise Powerlink Project located in Imperial County). Such transfer capability shall revert to SDG&E upon expiration of the thirty year term or upon earlier termination of Citizens' participation by reason of a material breach. The funding, ownership, and transfer capability of the various segments of the Project after Citizens' exercise of its Option are outlined below. Citizens will fund its share of the costs shown below as prepaid rent for use of the transfer capability.

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

24. Citizens' option under the DCA shall be effective until no later than 10 days prior to the targeted commercial operation date for the Sunrise Powerlink Project. Further, if Citizens fails to exercise its Option within the

defined period prior to the targeted commercial operation date, such unexercised option shall expire.

25. As set forth in the DCA, the prepaid rent owed by Citizens to SDG&E for an entitlement to a portion of the transfer capability in the Border-East Line shall be the proportionate share of the actual cost incurred by SDG&E to develop, design, permit, engineer and construct the line (including overheads and AFUDC and payments still due under pending construction contracts for work to be completed after closing of Citizens' option). The rent will be paid in a lump sum at the closing of the transaction after Citizens exercises its option and shall be allocated over the lease term. 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 at a rate equal to 110% of the "applicable federal rate" as required by Section 467 of the US tax code.

VI. PROJECT MANAGEMENT, CONSTRUCTION AND OPERATION/MAINTENANCE OF THE SUNRISE POWERLINK PROJECT

26. Under the terms of the DCA, SDG&E shall be solely entitled to own, operate, design, engineer, procure, construct, maintain and finance any upgrades to the Project after the commercial operation date for purposes of increasing the transfer capability of the Project. SDG&E shall be solely responsible for the costs of such upgrades and will be entitled to all increases in

transfer capability resulting from any such upgrades. If additional capital investment is needed for replacement or renewal of facilities of the Border-East Line, SDG&E shall be responsible for all costs of such replacement or renewal. As a result, each Party's proportionate interest in the transfer capability on that portion of the Border-East Line will be modified a proportionate amount.

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

28. SDG&E is responsible for the development, design, permitting, acquisition of rights-of-way, engineering, procurement and construction of the entire Sunrise Powerlink Project. SDG&E shall bear its costs for development and construction of the Border-East Line, until such time as Citizens has exercised and closed its lease option set forth in the DCA. SDG&E's activities and responsibilities for the Border-East Line include the acquisition of permits and land rights necessary to construct the Border-East Line, which shall be done at SDG&E's expense.

VII. ESTIMATED CONSTRUCTION COSTS OF THE BORDER-EAST LINE

29. As Project Manager, SDG&E has estimated the cost of development and construction of the facilities comprising the Border-East Line currently to be approximately $166 Million. Citizens' estimates that its one time lease payment will be approximately $83 Million (or 50% of $166 Million) based upon SDG&E's currently estimated cost of the Border-East Line segment.

30. Citizens will finance its leasehold interest in the transfer capability of the Border-East portion of Sunrise Powerlink Project with the issuance of long term corporate revenue bonds with a term life of 30 years. Annual debt service payments on the bonds 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 bonds 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 FERC and the CAISO.

VIII. CITIZENS' INVOLVEMENT AND DEVELOPMENT COSTS

31. In 2004, Citizens examined proposed solutions to several constrained transmission areas that exists in the United States and concluded that through partnership arrangements with electric utilities, it could deploy the emerging concepts of an independent transmission company to spur construction of new transmission lines and alleviate transmission bottlenecks. As set forth in

Mr. Smith's Affidavit, Citizens' non-traditional approach to contributing solutions to energy issues in the US was concluded to be a strategic opportunity for Citizens to pursue a role in the electric industry as an independent transmission provider.

32. In late 2004, Citizens and IID began to explore the possibility of establishing an arrangement between IID and Citizens to jointly develop certain of the transmission facilities being identified early on in the studies by the IVSG. In early 2005, it became clear to Citizens that there was potential for a transaction with IID similar to the successful "Path 15" project within the CAISO control area, which involved an independent transmission provider, Trans-Elect. Trans-Elect transferred operational control over its entitlement in this project to the CAISO. At that point Citizens moved forward with development activities on what was then known as the Green Path Southwest project. Eventually, Citizens' efforts resulted in a March 2006 Memorandum of Understanding among Citizens, IID and SDG&E. As explained above, IID subsequently withdrew from participation in the project, but Citizens continued to pursue a relationship with SDG&E as a partner in the Sunrise Powerlink Project, and more particularly in the financing of the Border-East Line of the Sunrise Powerlink Project.

33. Since January of 2005, Citizens has accounted for all expenditures incurred for its development activities pertaining to its involvement in the

development of the Sunrise Powerlink Project which were beyond Citizens' normal business affairs. Besides involvement by Citizens' officers, from time to time, most of the development activities on the Sunrise Powerlink Project have been conducted by outside consultants, me among others, and legal counsel, who charge Citizens for their services at normal hourly rates.

34. Citizens has been deeply involved in negotiations with SDG&E, which has led to the execution of a Development and Coordination Agreement, dated May 11, 2009 between the parties. Citizens will be participating in some highly technical activities in developing and financing the Border-East Line, as required under the DCA. Thus, Citizens will incur significant ongoing development costs, even though SDG&E has the responsibility for development activities for the entire Sunrise Powerlink Project.

IX. SCHEDULE OF DEVELOPMENT AND CONSTRUCTION OF THE SUNRISE POWERLINK PROJECT

35. The Sunrise Powerlink Project, which is now in the final stages of environmental compliance and permitting before various governmental agencies, such as the U.S. Bureau of Land Management and the U.S. Forest Service, and engineering processes, is currently expected to be completed and ready for commercial service by June 2012 A schedule of the major milestones of that schedule is shown on the following chart:

MILESTONE	TARGET DATE
Complete WECC Rating and Reliability Assessment	December 2009
Complete Environmental studies/Permitting/Approval	May 2010
Start Construction	June 2010
Complete Construction	March 2012
Commission and Operation	June 2012

X. BENEFITS OF THE SUNRISE POWERLINK PROJECT

36. As indicated in Section V ("CITIZENS INVOLVEMENT IN THE SUNRISE POWERLINK PROJECT") of this Affidavit, the Sunrise Powerlink Project has been the subject of studies as to its need and benefits, starting with SDG&E's 2003 Grid Assessment Study. In the summer of 2006, CAISO initiated the CAISO South Regional Transmission Plan - 2006 (CSRTP-2006), which was comprised of three projects, including the Sunrise Powerlink Project. The CAISO initiated CSRTP-2006 "to assess the need and value of these three projects while accounting for their interactions and interdependencies."

37. The CSRTP-2006 studies were concluded in late July and a report was presented to the CAISO Board of Governors thereafter on July 28, 2006. At its August 3, 2006 meeting, the Board unanimously approved the Sunrise Powerlink Project. In authorizing Citizens' participation in the development of the project, the CAISO Board specifically determined that the Sunrise Powerlink Project is:

> . . . a necessary and cost effective upgrade to the CAISO Controlled Grid that will also facilitate compliance with California renewable energy purchase requirements and directs San Diego Gas and Electric Company and Citizens Energy (Project Sponsors) to

> proceed with the permitting and construction of the transmission project by the summer of 2010 . . . [2/]

A copy of the Board resolution adopted on August 3, 2006 and an accompanying news release issued by CAISO is attached as Attachment 2 to this Affidavit.

XI. CITIZENS REGULATORY PROCESSES

38. Citizens will be involved in the initiation, managing and oversight of two major regulatory processes; namely, (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 50% of the transfer capability of the Border-East Line, and (b) recovery of costs associated with Citizens' entitlement in 50% of the transfer capability of the Border-East Line, including the negotiation of the amendments to the Transmission Control Agreements (TCA) with the other CAISO PTOs, and (2) all necessary FERC proceedings, including the current Petition for Declaratory Order.

39. Moreover, to the extent required, Citizens will be involved in cooperating with SDG&E in its application to the California Public Utilities Commission 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.

[2/] *See* General Session Minutes Board of Governor Meeting, August 3, 2006 (http://www.caiso.com/1847/1847bb8a57f70.pdf)

40. Citizens' proposed revenue requirement methodology is set forth in the Affidavit of David T. Helsby.

[SIGNATURE ON NEXT PAGE]

Subject to the Penalties of Perjury at
Maricopa County, Arizona
This 9th day of October, 2009.

William R. Mayben

ATTACHMENT A to EXHIBIT CEC-2

Development and Coordination Agreement between Citizens Energy Corporation and SDG&E

DEVELOPMENT AND COORDINATION AGREEMENT

BY AND BETWEEN

SAN DIEGO GAS & ELECTRIC COMPANY,

AND

CITIZENS ENERGY CORPORATION

DATED AS OF MAY 11, 2009

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DEVELOPMENT AND COORDINATION AGREEMENT

This DEVELOPMENT AND COORDINATION AGREEMENT ("DCA") is made and entered into as of May 11, 2009 (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 Sunrise Powerlink Project to connect the Imperial Valley Substation to its transmission system at a central location in its service territory (as more fully defined herein, the "Project");

WHEREAS, SDG&E, Citizens, and the Imperial Irrigation District, an irrigation district organized under the laws of the state of California ("IID"), executed a Memorandum of Agreement on March 16, 2006, as amended by a letter agreement executed on June 20, 2006 (as amended, supplemented, or restated from time to time, the "MOA"), to provide for the coordinated development by IID, SDG&E and Citizens of portions of the Project;

WHEREAS, in a letter from Stella Mendoza, President of the IID Board of Directors, to Michael Niggli, Chief Operating Officer of SDG&E, dated November 14, 2007, and in a letter from Stella Mendoza, President of the IID Board of Directors, to Joseph Kennedy, Chairman and President of Citizens, dated November 15, 2007, IID informed the Parties that it was terminating its participation under the MOA;

WHEREAS, subject to certain conditions specified herein, the Parties desire to continue the coordinated development of the Project in a manner consistent with the original intent of the MOA but in the absence of IID whereby SDG&E will develop, design, permit, engineer, procure, construct and own the Project, and Citizens 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 DCA, hereby agree, subject to the terms and conditions of this DCA, as follows:

ARTICLE I. DEFINITIONS; RULES OF INTERPRETATION

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

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control of such Person. For purposes of this definition, "control", when used with respect to any Person, means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

"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.

"BLM" means the Bureau of Land Management, an agency within the United States Department of the Interior.

"Border Demarcation" means a demarcation point on the Project where the Transfer Capability interests of the Parties change, which point shall be the border between San Diego County and Imperial County, as generally depicted in Schedule 1.1.

"Border-East Line" means the proposed 500 kV transmission line that extends east of the Border Demarcation up to, but not including, the Imperial Valley Substation, as generally depicted in Schedule 1.1. For the avoidance of doubt, the Border-East Line shall include only the 500 kV transmission line and shall not include any transmission facilities that may operate at a lower voltage, or any substation facilities.

"Border-West Facilities" means the proposed 500kV and 230kV transmission lines and associated facilities extending west of the Border Demarcation, including without limitation, a proposed 500/230 kV substation located in the east-central portion of SDG&E's electrical system and all down-stream 230 kV improvements to one or more existing SDG&E substations and related transmission facilities and any transmission facilities that may operate at a lower voltage, as generally depicted in Schedule 1.1.

"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.

"Coastal Commission" means the California Coastal Commission.

"Commercial Operation Date" and "COD" means the date on which the Project begins commercial operation.

"Control 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 Control 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.

"CPCN Application" means the August 4, 2006 amended 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 August 4, 2006.

"CPCN Decision" means the "Decision Granting a Certificate of Public Convenience and Necessity for the Sunrise Powerlink Transmission Project," and all attachments thereto, issued by the CPUC on December 24, 2008.

"CPUC" means the California Public Utilities Commission.

"DCA" 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/EIS" means the Final Environmental Impact Report/Environmental Impact Statement, prepared jointly by the CPUC and the BLM, 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 this DCA is 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 failure to timely seek, 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.

"IID" has the meaning set forth in the recitals hereto.

"Imperial Valley Substation" means the 500/230 kV substation, including those modifications necessary to connect the Border-East Line to the existing 500 kV bus, located southwest of El Centro, California, as generally depicted in Schedule 1.1, and currently owned by IID and SDG&E as tenants in common pursuant to, and in proportion to the allocation set out in, that certain California Transmission System Participation Agreement, dated May 1, 1983, as amended, modified, or supplemented from time to time, between SDG&E and IID.

"MOA" has the meaning set forth in the recitals hereto.

"NEPA" means the National Environmental Policy Act.

"Operational Control" means the rights of the Control Area operator to direct the operation of transmission facilities and other electric plant in the Control 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 Sunrise Powerlink Project and more specifically the "Environmentally Superior Southern Route" identified in the Final EIR/EIS and modified by the CPCN Decision, and reasonable alterations thereto, as generally depicted in Schedule 1.1. For purposes hereof, the Project is divided into the following components: the Border-West Facilities, the Border-East Line, and the Imperial Valley Substation, as generally depicted in Schedule 1.1.

"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 BLM, FERC and the 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, as of the Effective Date, May 30, 2012, subject to modification by SDG&E as provided in Section 6.3 (Project Schedule Revisions) of this DCA, but in no event on or after the Commercial Operation Date.

"Target COD" means the target Commercial Operation Date, which as of the Effective Date is June 2012, subject to modification by SDG&E as provided in Section 6.3 (Project Schedule Revisions) of this DCA.

"Target Construction Date" means, as of the Effective Date, June 2010, subject to modification by SDG&E as provided in Section 6.3 (Project Schedule Revisions) of this DCA.

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

"Transfer Capability" means the amount of power (in mega-watts) that can be transferred over part, or all, of the Project in a reliable manner while meeting all of a specific set of defined pre-contingency and post-contingency system conditions in accordance with Western Electricity Coordinating Council standards. The holder of Transfer Capability 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 of the Project as may be subsequently defined by the CAISO Agreements.

"Transfer Capability Lease" has the meaning set forth in Section 2.2 (Subsequent Agreements) hereof.

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

Section 1.2 Rules of Interpretation. Unless otherwise provided herein or the context otherwise requires, and to the extent consistent with the Parties' original intent hereunder: (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

Section 2.1 Term. The "Term" of this DCA 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 end of the thirty-year term of Citizens' lease of Transfer Capability if the Option has been exercised, (iii) in the event of mutual written agreement by all Parties that explicitly

supersedes in its entirety or otherwise terminates this DCA, or (iv) as otherwise provided for herein.

Section 2.2 Subsequent Agreements. The Parties shall develop and, to the extent Citizens exercises and closes its Option, execute further agreements as may be reasonably necessary to effectuate the purpose and intent of this DCA including, without limitation, the principal terms outlined in Articles III (Responsibility for Development, Construction and Operation of Project) and IV (Ownership and Option) and Schedule 2.2. The Parties expect that such agreements shall include, without limitation, a lease of Transfer Capability that also provides for interconnection, operation and maintenance of the Project (the "Transfer Capability Lease"), and consents, estoppels and other acknowledgements of the foregoing as a Party's lenders may reasonably request. 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 DCA. 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 DCA 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. In particular, SDG&E and Citizens shall negotiate a final form of Transfer Capability Lease that provides for the lease of Transfer Capability, interconnection, operation and maintenance of the Project reasonably acceptable to each Party, and as further described in Schedule 2.2, by no later than nine months after the Effective Date. The Parties acknowledge that negotiation of a final form of the Transfer Capability Lease no later than nine months after the Effective Date is critical to the timely completion of development and permitting activities hereunder and a material term hereof.

ARTICLE III. RESPONSIBILITY FOR DEVELOPMENT, CONSTRUCTION AND OPERATION OF PROJECT

Section 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.

Section 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 begin construction of the Project on or before the Target Construction Date;

(h) to complete construction of the Project on or before the Target COD;

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

Section 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

Section 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 50% of the Transfer Capability on the Border-East Line.

Section 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"):

Section 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, 50% of the Transfer Capability on the Border-East Line 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 DCA or a material breach of its obligations under any subsequent agreements between Citizens and SDG&E as contemplated in this DCA that is not cured in accordance with the applicable subsequent agreement.

Section 4.2.2 Exercise of Option. Citizens may exercise the Option by delivering written notice to SDG&E no later than 90 days prior to the Target Closing

Date. If Citizens fails to exercise its Option by the earlier of (i) no later than 90 days prior to the Target Closing Date and (ii) the 10th anniversary of the Effective Date, such unexercised Option shall expire.

Section 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 the Target Closing Date. SDG&E and Citizens shall execute, acknowledge and deliver any and all documents reasonably necessary to lease such Transfer Capability and otherwise carry out the terms and conditions of this DCA. 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.

Section 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 50% of the actual cost incurred by SDG&E to develop, design, permit, engineer and construct the Border-East Line, including AFUDC and payments still due under pending construction contracts for work to be completed after closing of the Option (provided that SDG&E shall provide Citizens a good faith estimate of all such costs in writing no later than 90 days prior to the date of closing on the Option). 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.

Section 4.2.5 Final Construction Activities Subsequent to Close of Option. After closing of the lease of Transfer Capability pursuant to an exercised Option, SDG&E shall provide construction management services to Citizens in order to assist Citizens in coordinating construction punch list items and all other final construction activities for the Border-East Line. Citizens will be responsible for 50% of the costs incurred in completing final construction work on the Border-East Line incurred after closing of the lease of Transfer Capability, including payments still due under pending construction contracts, and such payments shall be deemed to be additional prepaid rent.

Section 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 SDG&E's receipt of (i) a final, nonappealable order by the CPUC approving this lease under Section 851 of the California Public Utilities Code or otherwise, and (ii) 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 (i) above, SDG&E will seek any necessary approvals from the CPUC no later than 90 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 90 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 (ii) above, SDG&E will seek

any necessary approvals from FERC promptly after the Parties have agreed to substantially final forms of the subsequent transaction documents.

ARTICLE V. REGULATORY APPROVALS

Section 5.1 Mutual Cooperation.

Section 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.

Section 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

Section 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.

Section 6.2 Sharing Information.

Section 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.

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

Section 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.

Section 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 DCA (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

Section 7.1 Force Majeure. Notwithstanding anything in this DCA 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 DCA (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).

Section 7.2 Notification. A Party unable to perform under this DCA 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

Section 8.1 Withdrawal. SDG&E shall have the right to withdraw from and terminate this DCA 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.

Section 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).

Section 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 DCA under Section 8.1 (Withdrawal) ("Project Recommencement"), then such termination shall no longer be effective and this DCA shall be automatically reinstated with reasonable extensions to the dated terms of this DCA. The effect of such Project Recommencement and reinstatement of this DCA 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 DCA.

ARTICLE IX. EVENTS OF DEFAULT; REMEDIES

Section 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 DCA 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 DCA, 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 Control 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.

Section 9.2 Limitation on Damages. No Party shall be liable under this DCA 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.

Section 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 DCA.

ARTICLE X. DISPUTE RESOLUTION

Section 10.1 Intent of the Parties. The sole procedure to resolve any claim arising out of or relating to this DCA 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.

Section 10.2 Management Negotiations. The Parties will attempt in good faith to resolve any controversy or claim arising out of or relating to this DCA 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 Business 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.

Section 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).

Section 10.4 Enforcement of Award. By execution and delivery of this DCA, 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.

Section 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 DCA 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

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

Section 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.

Section 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 DCA. The execution, delivery and performance by SDG&E of this DCA, and the consummation of the transactions and activities contemplated under this DCA, have been duly authorized by all necessary corporate action required on the part of SDG&E. This DCA 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.

Section 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 DCA, 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.

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

Section 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.

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

Section 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 DCA, 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.

Section 11.2.4 No Objection to Current Design. Citizens has reviewed SDG&E's CPCN Application, the Final EIR/EIS, 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

Section 12.1 Notices. Unless otherwise specified herein, all notices shall be in writing and delivered by hand, overnight mail or facsimile (provided a copy is also sent by overnight mail) to the applicable addresses below. Notice shall be effective on the next Business Day after it is sent. 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 – Sunrise Powerlink
Fax: 858-650-6106

With a copy to:
San Diego Gas & Electric
8330 Century Park Court
San Diego, CA 92123
Attention: Vice President and Associate General Counsel
Fax: 619-696-4582

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
1575 Eye Street, N.W.
Washington, D.C., 20005
Attention: Counsel to Citizens Energy Corporation
Fax: 202-289-8450

Section 12.2 Assignment.

Section 12.2.1 General. Any time prior to COD, Citizens shall not assign this DCA, 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 DCA, 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 DCA 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. Any change of control of a Party (or of any parent entity holding directly or indirectly at least fifty percent of the equity interest in such Party if such interest constitutes more than thirty percent of the value of such parent entity) whether voluntary or by operation of law shall be deemed an assignment hereunder. Any assignment in violation of this Section 12.2 (Assignment) shall be null and void.

Section 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 DCA 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 DCA (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 DCA (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 DCA (and the Project) on the revised terms.

Section 12.3 Confidentiality. During the term of this DCA and for a period of three years after the expiration or termination of this DCA, 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.

Section 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 the Project.

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

Section 12.6 No Amendments or Modifications. This DCA 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 DCA, the Parties shall negotiate in good faith to amend or modify this DCA to effectuate the same intent and essential purpose of this DCA as of the Effective Date in light of the CAISO Agreements amendment or modification.

Section 12.7 Delay and Waiver. Except as otherwise provided in this DCA, 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 DCA 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 DCA, or any waiver of any provision or condition of this DCA, must be in writing and shall be effective only to the extent specifically set forth in such writing.

Section 12.8 Entirety. This DCA 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 DCA supersedes the MOA in its entirety.

Section 12.9 Relationship of the Parties. Except as otherwise set forth herein, this DCA 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.

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

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

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

Section 12.13 Headings. The headings contained in this DCA 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 DCA.

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

Section 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***]

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

SAN DIEGO GAS & ELECTRIC COMPANY

By: _____

Name: JAMES P AVERY

Title: SVP

Date: 5/11/09

CITIZENS ENERGY CORPORATION

By: _____

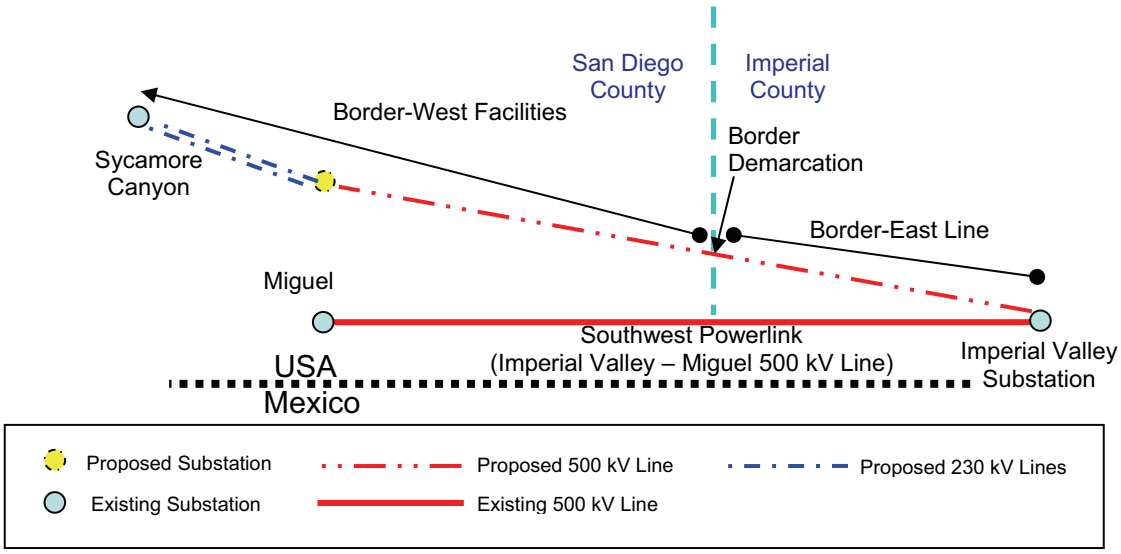
Name: Joseph P. Kennedy II

Title: Chief Executive Officer

Date: 5/11/09

SCHEDULE 1.1

Project Diagram



SCHEDULE 2.2

PRINCIPLE TERMS

A. ALLOCATION ASSUMING CLOSE OF OPTION

ELEMENTS OF PROJECTS	COST RESPONSIBILITY	OWNERSHIP	TRANSFER CAPABILITY
Imperial Valley Substation	100% SDG&E*	100% SDG&E*	100% SDG&E/CAISO*
Border-East Line	50% Citizens** 50% SDG&E**	100% SDG&E**	50% Citizens/CAISO** 50% SDG&E/CAISO**
Border-West Facilities	100% SDG&E	100% SDG&E	100% SDG&E/CAISO

* Subject to that certain California Transmission System Participation Agreement, dated May 1, 1983, as amended, modified, or supplemented from time to time, between SDG&E and IID.

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

B. Other Material Terms of Transfer Capability Lease and Other Subsequent Agreements

As provided in the Recitals and Section 2.2 (Subsequent Agreements) of this DCA, to the extent Citizens exercises and closes its Option, the Parties intend to enter into a Transfer Capability Lease and other subsequent agreements to provide for the interconnection, operation and maintenance of the Project:

1. Control Area. For the Useful Life of the Project, the Project shall remain in the Control Area of the CAISO.

2. Operational Control Over Citizens Transfer Capability. Citizens shall assign to the CAISO Operational Control of its Transfer Capability on the Project. Citizens shall obtain and maintain status comparable to that of SDG&E in any regional transmission entity in which SDG&E participates with status comparable to a PTO.

3. Citizens Rates.

3.1. Regulation of Citizens' Rates: Citizens shall file or cause to be filed with FERC, a transmission service tariff for recovery of its costs associated with its Transfer Capability in the Project. Citizens' Transfer Capability on the Project shall be 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.

3.2. Citizens' Cost Recovery Methodology: Citizens shall seek from FERC a cost recovery methodology that provides cost recovery to Citizens limited to the recovery of the following transmission costs:

3.2.1. Operating Costs: Citizens shall seek recovery of all reasonably and prudently incurred costs for operation and maintenance on an annual formulaic basis, including administrative and general activities (and any sales, use or excise tax), directly attributable to Citizens' Transfer Capability on the Project as recorded in FERC accounts 560-573, and 920-935 under the FERC Uniform System of Accounts.

3.2.2. Capital Requirements: Citizens shall seek recovery for all other costs associated with its Transfer Capability on the Project at a fixed rate that is no higher than the rate SDG&E could recover at the time of COD if SDG&E held Citizens' Transfer Capability. This rate is intended to cover all costs associated with Citizens' Transfer Capability (other than Operating Costs described above) including prepaid rent and other costs of Transfer Capability, debt service, capitalized interest, liquidity reserves, taxes (other than sales, use, or excise taxes which are addressed in Section 3.2.1 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 Citizens' Transfer Capability, the Parties agree to use the model attached hereto as Exhibit 2.2A.

3.2.2.1. 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 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 actual SDG&E AFUDC. The phrase "Costs of Transfer Capability" shall mean 101% of the sum of the prepaid rent of Citizens' Transfer Capability as determined in the DCA 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 allocated to its Transfer Capability. The phrase "Financing Costs" shall mean (a) with respect to any bridge financing that Citizens may consummate prior to the term financing that Citizens will consummate for the final acquisition of its Transfer Capability, all reasonable and customary financing costs, including without limitation, lenders' fees, consultants' fees (for Citizens and its lenders), lawyers' fees (for Citizens and its lenders), and interest associated with such bridge financing, and (b) with respect to the term financing that Citizens will consummate for the final acquisition of its Transfer Capability, all reasonable and customary consultants' fees (for Citizens and its lenders), lawyers' fees (for Citizens 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 Citizens' Transfer Capability.

3.2.2.2. 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 return on equity fixed at 11.35%, (2) SDG&E capital structure fixed at 50% equity and 50% debt, (3) SDG&E property tax rate fixed at 1.246%, and (4) SDG&E composite state and federal income tax rate fixed at 40.75%. For purposes of explanation, the model also calculates the following parameters, among others, in determining the SDG&E Representative Rate: (1) SDG&E estimated debt rate for 30 years which is the five-day average Moody's Aa 30-year Utility Bond Index less 38 basis points, (2) SDG&E weighted average cost of capital which is the weighted average (based on the SDG&E fixed capital structure) of the SDG&E return on equity and the SDG&E estimated debt rate, and (3) SDG&E discount rate which is equal to the SDG&E weighted average cost of capital. The example attached hereto as Exhibit 2.2B sets forth the SDG&E Representative Rate for a five-day average Moody's Aa 30-year Utility Bond Index equal to 6.00% and a Cost of Transfer Capability equal to $1,000,000.

3.2.2.3. At the time Citizens files an application seeking FERC approval of its annual fixed rate methodology for recovery of the costs described in this Section 3.2.2, Citizens shall demonstrate that its proposed rate methodology results in an annual fixed rate that is no greater than the SDG&E Representative Rate.

3.2.2.4. For purposes of determining whether Citizens has a fixed rate that is no higher than the rate SDG&E could recover at the time of COD if SDG&E held Citizens' Transfer Capability in compliance with this Section 3.2.2, the Parties shall compare the SDG&E Representative Rate against Citizens' FERC-approved annual fixed rate for recovery of the costs described in this Section 3.2.2 at such time as Citizens consummates the debt financing transaction for its Transfer Capability in the Project and at such time as Citizens' submits its compliance filing to FERC showing its actual rates based on the FERC-approved annual fixed rate methodology.

3.2.2.5. In the event Citizens is able to demonstrate a rate to the FERC that is higher than the SDG&E Representative Rate, then Citizens agrees to limit or cap its rate request before the FERC to be the SDG&E Representative Rate.

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, 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 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 3.2.2 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 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' rates, Citizens' recovery and implementation of rates conforming to the provisions of this DCA in accordance with Section 205 of the Federal Power Act and orders issued by FERC thereunder in order that Citizens may acquire, finance, operate and maintain its leasehold interest in the Project. SDG&E acknowledges that among other things, Citizens will seek recovery of and SDG&E will support Citizens as a PTO seeking to recover from CAISO Eligible Customers in its transmission revenue requirement for the Project (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' control, and (c) all capital requirements as described in Section 3.2.2 above. SDG&E's support shall include providing FERC with assurances that all costs sought to be recovered by Citizens through its rates that were originally incurred by SDG&E were prudently incurred.

3.4. Credits. Citizens shall be required to credit to CAISO Eligible Customers any revenues that are derived from, or associated with, Citizens' lease of Transfer Capability on the Project that are in addition to its cost-of-service recovery described above.

3.5. SDG&E. If SDG&E is no longer part of a regional transmission entity that has Operational Control over SDG&E's transmission system during the term in which Citizens leases Transfer Capability on the Project, SDG&E shall ensure that Citizens can recover any and all of the costs specified above as if Citizens were still recovering these costs under its FERC-filed and accepted transmission service tariff. While SDG&E is part of a regional transmission entity that has Operational Control over SDG&E's transmission system, SDG&E shall not be responsible to guarantee or financially support Citizens' cost recovery.

4. Low Income Energy Programs: Among any other contributions Citizens may elect to make, Citizens agrees that it shall make a contribution each year equal to 50% of Citizens' profits attributable to assets located in Imperial County to programs assisting low income families of Imperial County.

5. Operation, Maintenance, Upgrades, Interconnection.

5.1. Operation and Maintenance. The Parties agree that SDG&E shall be responsible for operations and maintenance services for the Project. SDG&E shall charge Citizens the actual costs incurred for the operations and maintenance associated with Citizens' proportionate share of the Project, plus applicable overheads, and shall perform its services in accordance with all regulations and Good Utility Practice, including CAISO standards.

5.2. Future Increases in Transfer Capability. To the extent of their proportionate share of Transfer Capability, SDG&E and Citizens will share pro rata any increases in the Transfer Capability on the Project resulting from changes to the configuration of adjoining systems or upgrades to adjoining systems, including the systems of SDG&E and IID beyond the Project.

5.3. Future Upgrades in Transfer Capability. SDG&E shall be solely entitled to develop, design, engineer, procure, construct, commission, own, operate, maintain and finance any upgrades to the Project after the Commercial Operation Date for purposes of increasing the Transfer Capability of the Project. SDG&E shall be solely responsible to pay the costs of such upgrades and will be entitled to all increases in Transfer Capability resulting from such upgrades. For example, if the Border-East Line were rated at 1000MW and a $10 million upgrade to the Border-East Line would cause the rating to increase by 200MW, and at the time of the upgrade, Citizens and SDG&E each hold a 50% share of the Transfer Capability on the Border-East Line, then SDG&E would be responsible for funding the $10 million and Citizens would not have any funding obligation for such upgrade. As a result of the upgrade, SDG&E's proportionate share of Transfer Capability on the Border-East Line would increase from 50% (500 MW) to 58.33% (700 MW), and Citizens proportionate share would be reduced from 50% (500 MW) to 41.67% (500 MW).

5.4. Future Replacement and Renewal. To the extent that during the Useful Life of the Project additional capital investment is needed for replacement or renewal of facilities of the Project, SDG&E shall be responsible for all costs of such replacement or renewal. As a result, each Party's proportionate share of Transfer Capability on that portion of the Project will be modified to an amount equal to the quotient of (a) the sum of (i) that Party's then-current percentage share of Transfer Capability on that portion of the Project multiplied by the former net book value of the relevant portion of the Project (excluding all new funding of replacements or renewals from the former net book value) plus (ii) that Party's new funding of replacements or renewals as part of the new net book value, divided by (b) the new net book value of the relevant portion of the Project (including all new funding of replacements or renewals as part of the new net book value). For the avoidance of doubt, Citizens rate recovery shall not be affected by any reduction in its Transfer Capability associated with SDG&E's funding of renewals and replacements. For example, assume that the Border-East Line has a net book value of $300 million prior to replacement or renewals and requires $10 million in replacement or renewal (and thus would have a net book value of $310 million subsequent to such replacement or renewal). If Citizens and SDG&E then hold a 50% interest in Transfer Capability on the Border-East Line and Citizens does not provide any funding for such replacement or renewal, while SDG&E provides this $10 million, then Citizens'

proportionate share of Transfer Capability on the Border-East Line would be reduced from 50% to 48.39%, and SDG&E's proportionate share of Transfer Capability on the Border-East Line would be increased from 50% to 51.61%. In the case where both (i) replacements and renewals and (ii) upgrades occur to the same components of the Project, the resulting Transfer Capability and cost allocation shall be determined as the Parties may reasonably agree in the Transfer Capability Lease.

5.5. Interconnection Facilities. Subject to the CAISO Tariff and rules governing interconnection, as between SDG&E and Citizens, SDG&E will be the interconnection agent for the Project. 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 initially fund 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.

6. Section 467 Rental Agreement. It is the intention of the Parties that (i) the Transfer Capacity Lease constitute a "Section 467 rental agreement" within the meaning of Section 467(d)(1) of the U.S. Internal Revenue Code and (ii) the 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 DCA and the Transfer Capacity Lease shall to the fullest extent feasible be construed consistent with such intention. The Parties agree to attach a schedule to the Transfer Capacity Lease developed based on the form attached hereto as Exhibit 2.2C allocating the prepaid rent over the lease term and shall report the rent as accruing for tax purposes quarterly in arrears according to the schedule. The Parties shall treat the prepayment to the extent it exceeds the rent that has accrued as a loan by Citizens to SDG&E that bears interest at a rate equal to 110% of the "applicable federal rate" as required by Section 467 of the U.S. Internal Revenue Code.

Exhibit 2.2A

Model for SDG&E Representative Rate

(See attached CD entitled "Exhibit 2.2A; Development and Coordination Agreement; May 11, 2009 v.2" containing the model in XLS worksheet file)

Exhibit 2.2B

Example of SDG&E Representative Rate

Model Inputs

The Moody's Aa Utility Bond Index	6.00%
Cost of Transfer Capability	1,000,000
AFUDC	100,000

Calculation of Debt Cost as Input to Model

The Moody's Aa Utility Bond Index	6.00%	
Less: 38 basis points	0.38%	**remains fixed "do not change"**
Total Debt Cost per Model	5.62%	

Calculation of WACC

	Capital Ratio	Cost	WACC	
Debt	50.00%	5.62%	2.81%	
Preferred Equity	0.00%	0.00%	0.00%	**remains fixed "do not change"**
Common Equity	50.00%	11.35%	5.68%	**remains fixed "do not change"**
			8.49%	

		1	2	3	4	5	6	7	8	9	10	11-30
Revenue Requirement	**Total**	**Year-1**	**Year-2**	**Year-3**	**Year-4**	**Year-5**	**Year-6**	**Year-7**	**Year-8**	**Year-9**	**Year-10**	**Year-11-58**
Depreciation Expense	1,000,000	17,241	17,241	17,241	17,241	17,241	17,241	17,241	17,241	17,241	17,241	827,586
Return on Common Equity	1,160,179	55,927	53,755	51,184	48,804	46,595	44,542	42,601	40,706	38,825	36,957	700,284
Return on Preferred Equity	-	-	-	-	-	-	-	-	-	-	-	-
Return on Debt	574,467	27,692	26,617	25,344	24,165	23,072	22,055	21,094	20,156	19,224	18,299	346,749
Federal Income Taxes	702,238	36,791	29,792	28,696	27,414	26,239	25,146	24,110	23,093	22,081	21,076	437,800
State Income Taxes	235,452	9,937	9,047	8,692	8,337	8,009	7,703	7,415	7,132	6,852	6,573	155,755
Property Taxes	265,754	12,112	11,575	11,078	10,616	10,186	9,784	9,396	9,008	8,620	8,232	165,147
Total Revenue Requirement	3,938,090	159,700	148,028	142,235.0	136,577.3	131,342.0	126,471.8	121,856.6	117,335.9	112,843.1	108,379.0	2,633,321.2
Net Present Value (58 yrs)	1,322,303	153,328	131,006	116,033	102,703	91,042	80,809	71,771	63,703	56,472	49,996	405,441.3
Levelized Annual Amount (30 yrs)	$122,872											

SDG&E Representative Rate	$122,872

Exhibit 2.2C

Accrual of Prepaid Rent

Project: Sunrise
Lessor: SDG&E
Lessee: Citizens
Interest Rate: 0.97% 110% LT AFR 10/07

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)
		$83,000,000						$83,000,000	
1	$1,173,600	-	$1,173,600	1.000000	$1,173,600	805,100	($1,173,600)	82,631,500	($368,500)
2	$1,173,600	-	$1,173,600	1.000000	$1,173,600	801,526	($1,173,600)	82,259,426	(372,074)
3	$1,173,600	-	$1,173,600	1.000000	$1,173,600	797,916	($1,173,600)	81,883,743	(375,683)
4	$1,173,600	-	$1,173,600	1.000000	$1,173,600	794,272	($1,173,600)	81,504,415	(379,328)
5	$1,173,600	-	$1,173,600	1.000000	$1,173,600	790,593	($1,173,600)	81,121,408	(383,007)
6	$1,173,600	-	$1,173,600	1.000000	$1,173,600	786,878	($1,173,600)	80,734,686	(386,722)
7	$1,173,600	-	$1,173,600	1.000000	$1,173,600	783,126	($1,173,600)	80,344,213	(390,473)
8	$1,173,600	-	$1,173,600	1.000000	$1,173,600	779,339	($1,173,600)	79,949,952	(394,261)
9	$1,173,600	-	$1,173,600	1.000000	$1,173,600	775,515	($1,173,600)	79,551,866	(398,085)
10	$1,173,600	-	$1,173,600	1.000000	$1,173,600	771,653	($1,173,600)	79,149,920	(401,947)
11	$1,173,600	-	$1,173,600	1.000000	$1,173,600	767,754	($1,173,600)	78,744,074	(405,846)
12	$1,173,600	-	$1,173,600	1.000000	$1,173,600	763,818	($1,173,600)	78,334,292	(409,782)
13	$1,173,600	-	$1,173,600	1.000000	$1,173,600	759,843	($1,173,600)	77,920,534	(413,757)
14	$1,173,600	-	$1,173,600	1.000000	$1,173,600	755,829	($1,173,600)	77,502,764	(417,771)
15	$1,173,600	-	$1,173,600	1.000000	$1,173,600	751,777	($1,173,600)	77,080,941	(421,823)
16	$1,173,600	-	$1,173,600	1.000000	$1,173,600	747,685	($1,173,600)	76,655,026	(425,915)
17	$1,173,600	-	$1,173,600	1.000000	$1,173,600	743,554	($1,173,600)	76,224,980	(430,046)
18	$1,173,600	-	$1,173,600	1.000000	$1,173,600	739,382	($1,173,600)	75,790,763	(434,218)
19	$1,173,600	-	$1,173,600	1.000000	$1,173,600	735,170	($1,173,600)	75,352,333	(438,429)
20	$1,173,600	-	$1,173,600	1.000000	$1,173,600	730,918	($1,173,600)	74,909,651	(442,682)
21	$1,173,600	-	$1,173,600	1.000000	$1,173,600	726,624	($1,173,600)	74,462,675	(446,976)
22	$1,173,600	-	$1,173,600	1.000000	$1,173,600	722,288	($1,173,600)	74,011,363	(451,312)
23	$1,173,600	-	$1,173,600	1.000000	$1,173,600	717,910	($1,173,600)	73,555,673	(455,690)
24	$1,173,600	-	$1,173,600	1.000000	$1,173,600	713,490	($1,173,600)	73,095,563	(460,110)

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)
25	$1,173,600	-	$1,173,600	1.000000	$1,173,600	709,027	($1,173,600)	72,630,991	(464,573)
26	$1,173,600	-	$1,173,600	1.000000	$1,173,600	704,521	($1,173,600)	72,161,911	(469,079)
27	$1,173,600	-	$1,173,600	1.000000	$1,173,600	699,971	($1,173,600)	71,688,282	(473,629)
28	$1,173,600	-	$1,173,600	1.000000	$1,173,600	695,376	($1,173,600)	71,210,059	(478,223)
29	$1,173,600	-	$1,173,600	1.000000	$1,173,600	690,738	($1,173,600)	70,727,196	(482,862)
30	$1,173,600	-	$1,173,600	1.000000	$1,173,600	686,054	($1,173,600)	70,239,650	(487,546)
31	$1,173,600	-	$1,173,600	1.000000	$1,173,600	681,325	($1,173,600)	69,747,375	(492,275)
32	$1,173,600	-	$1,173,600	1.000000	$1,173,600	676,550	($1,173,600)	69,250,325	(497,050)
33	$1,173,600	-	$1,173,600	1.000000	$1,173,600	671,728	($1,173,600)	68,748,453	(501,872)
34	$1,173,600	-	$1,173,600	1.000000	$1,173,600	666,860	($1,173,600)	68,241,713	(506,740)
35	$1,173,600	-	$1,173,600	1.000000	$1,173,600	661,945	($1,173,600)	67,730,058	(511,655)
36	$1,173,600	-	$1,173,600	1.000000	$1,173,600	656,982	($1,173,600)	67,213,440	(516,618)
37	$1,173,600	-	$1,173,600	1.000000	$1,173,600	651,970	($1,173,600)	66,691,810	(521,629)
38	$1,173,600	-	$1,173,600	1.000000	$1,173,600	646,911	($1,173,600)	66,165,121	(526,689)
39	$1,173,600	-	$1,173,600	1.000000	$1,173,600	641,802	($1,173,600)	65,633,323	(531,798)
40	$1,173,600	-	$1,173,600	1.000000	$1,173,600	636,643	($1,173,600)	65,096,366	(536,957)
41	$1,173,600	-	$1,173,600	1.000000	$1,173,600	631,435	($1,173,600)	64,554,201	(542,165)
42	$1,173,600	-	$1,173,600	1.000000	$1,173,600	626,176	($1,173,600)	64,006,777	(547,424)
43	$1,173,600	-	$1,173,600	1.000000	$1,173,600	620,866	($1,173,600)	63,454,043	(552,734)
44	$1,173,600	-	$1,173,600	1.000000	$1,173,600	615,504	($1,173,600)	62,895,947	(558,096)
45	$1,173,600	-	$1,173,600	1.000000	$1,173,600	610,091	($1,173,600)	62,332,438	(563,509)
46	$1,173,600	-	$1,173,600	1.000000	$1,173,600	604,625	($1,173,600)	61,763,463	(568,975)
47	$1,173,600	-	$1,173,600	1.000000	$1,173,600	599,106	($1,173,600)	61,188,969	(574,494)
48	$1,173,600	-	$1,173,600	1.000000	$1,173,600	593,533	($1,173,600)	60,608,902	(580,067)
49	$1,173,600	-	$1,173,600	1.000000	$1,173,600	587,906	($1,173,600)	60,023,209	(585,693)
50	$1,173,600	-	$1,173,600	1.000000	$1,173,600	582,225	($1,173,600)	59,431,834	(591,375)
51	$1,173,600	-	$1,173,600	1.000000	$1,173,600	576,489	($1,173,600)	58,834,723	(597,111)
52	$1,173,600	-	$1,173,600	1.000000	$1,173,600	570,697	($1,173,600)	58,231,820	(602,903)
53	$1,173,600	-	$1,173,600	1.000000	$1,173,600	564,849	($1,173,600)	57,623,069	(608,751)
54	$1,173,600	-	$1,173,600	1.000000	$1,173,600	558,944	($1,173,600)	57,008,413	(614,656)
55	$1,173,600	-	$1,173,600	1.000000	$1,173,600	552,982	($1,173,600)	56,387,794	(620,618)
56	$1,173,600	-	$1,173,600	1.000000	$1,173,600	546,962	($1,173,600)	55,761,156	(626,638)
57	$1,173,600	-	$1,173,600	1.000000	$1,173,600	540,883	($1,173,600)	55,128,440	(632,717)
58	$1,173,600	-	$1,173,600	1.000000	$1,173,600	534,746	($1,173,600)	54,489,586	(638,854)
59	$1,173,600	-	$1,173,600	1.000000	$1,173,600	528,549	($1,173,600)	53,844,535	(645,051)
60	$1,173,600	-	$1,173,600	1.000000	$1,173,600	522,292	($1,173,600)	53,193,227	(651,308)
61	$1,173,600	-	$1,173,600	1.000000	$1,173,600	515,974	($1,173,600)	52,535,601	(657,626)

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)
62	$1,173,600	-	$1,173,600	1.000000	$1,173,600	509,595	($1,173,600)	51,871,597	(664,004)
63	$1,173,600	-	$1,173,600	1.000000	$1,173,600	503,154	($1,173,600)	51,201,152	(670,445)
64	$1,173,600	-	$1,173,600	1.000000	$1,173,600	496,651	($1,173,600)	50,524,203	(676,949)
65	$1,173,600	-	$1,173,600	1.000000	$1,173,600	490,085	($1,173,600)	49,840,688	(683,515)
66	$1,173,600	-	$1,173,600	1.000000	$1,173,600	483,455	($1,173,600)	49,150,543	(690,145)
67	$1,173,600	-	$1,173,600	1.000000	$1,173,600	476,760	($1,173,600)	48,453,703	(696,840)
68	$1,173,600	-	$1,173,600	1.000000	$1,173,600	470,001	($1,173,600)	47,750,104	(703,599)
69	$1,173,600	-	$1,173,600	1.000000	$1,173,600	463,176	($1,173,600)	47,039,680	(710,424)
70	$1,173,600	-	$1,173,600	1.000000	$1,173,600	456,285	($1,173,600)	46,322,366	(717,315)
71	$1,173,600	-	$1,173,600	1.000000	$1,173,600	449,327	($1,173,600)	45,598,093	(724,273)
72	$1,173,600	-	$1,173,600	1.000000	$1,173,600	442,301	($1,173,600)	44,866,794	(731,298)
73	$1,173,600	-	$1,173,600	1.000000	$1,173,600	435,208	($1,173,600)	44,128,402	(738,392)
74	$1,173,600	-	$1,173,600	1.000000	$1,173,600	428,046	($1,173,600)	43,382,848	(745,554)
75	$1,173,600	-	$1,173,600	1.000000	$1,173,600	420,814	($1,173,600)	42,630,062	(752,786)
76	$1,173,600	-	$1,173,600	1.000000	$1,173,600	413,512	($1,173,600)	41,869,974	(760,088)
77	$1,173,600	-	$1,173,600	1.000000	$1,173,600	406,139	($1,173,600)	41,102,513	(767,461)
78	$1,173,600	-	$1,173,600	1.000000	$1,173,600	398,694	($1,173,600)	40,327,607	(774,905)
79	$1,173,600	-	$1,173,600	1.000000	$1,173,600	391,178	($1,173,600)	39,545,185	(782,422)
80	$1,173,600	-	$1,173,600	1.000000	$1,173,600	383,588	($1,173,600)	38,755,174	(790,012)
81	$1,173,600	-	$1,173,600	1.000000	$1,173,600	375,925	($1,173,600)	37,957,499	(797,675)
82	$1,173,600	-	$1,173,600	1.000000	$1,173,600	368,188	($1,173,600)	37,152,087	(805,412)
83	$1,173,600	-	$1,173,600	1.000000	$1,173,600	360,375	($1,173,600)	36,338,862	(813,225)
84	$1,173,600	-	$1,173,600	1.000000	$1,173,600	352,487	($1,173,600)	35,517,749	(821,113)
85	$1,173,600	-	$1,173,600	1.000000	$1,173,600	344,522	($1,173,600)	34,688,672	(829,078)
86	$1,173,600	-	$1,173,600	1.000000	$1,173,600	336,480	($1,173,600)	33,851,552	(837,120)
87	$1,173,600	-	$1,173,600	1.000000	$1,173,600	328,360	($1,173,600)	33,006,312	(845,240)
88	$1,173,600	-	$1,173,600	1.000000	$1,173,600	320,161	($1,173,600)	32,152,874	(853,439)
89	$1,173,600	-	$1,173,600	1.000000	$1,173,600	311,883	($1,173,600)	31,291,157	(861,717)
90	$1,173,600	-	$1,173,600	1.000000	$1,173,600	303,524	($1,173,600)	30,421,081	(870,076)
91	$1,173,600	-	$1,173,600	1.000000	$1,173,600	295,084	($1,173,600)	29,542,566	(878,515)
92	$1,173,600	-	$1,173,600	1.000000	$1,173,600	286,563	($1,173,600)	28,655,529	(887,037)
93	$1,173,600	-	$1,173,600	1.000000	$1,173,600	277,959	($1,173,600)	27,759,888	(895,641)
94	$1,173,600	-	$1,173,600	1.000000	$1,173,600	269,271	($1,173,600)	26,855,559	(904,329)
95	$1,173,600	-	$1,173,600	1.000000	$1,173,600	260,499	($1,173,600)	25,942,458	(913,101)
96	$1,173,600	-	$1,173,600	1.000000	$1,173,600	251,642	($1,173,600)	25,020,500	(921,958)
97	$1,173,600	-	$1,173,600	1.000000	$1,173,600	242,699	($1,173,600)	24,089,599	(930,901)
98	$1,173,600	-	$1,173,600	1.000000	$1,173,600	233,669	($1,173,600)	23,149,668	(939,931)

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)
99	$1,173,600	-	$1,173,600	1.000000	$1,173,600	224,552	($1,173,600)	22,200,620	(949,048)
100	$1,173,600	-	$1,173,600	1.000000	$1,173,600	215,346	($1,173,600)	21,242,366	(958,254)
101	$1,173,600	-	$1,173,600	1.000000	$1,173,600	206,051	($1,173,600)	20,274,817	(967,549)
102	$1,173,600	-	$1,173,600	1.000000	$1,173,600	196,666	($1,173,600)	19,297,883	(976,934)
103	$1,173,600	-	$1,173,600	1.000000	$1,173,600	187,189	($1,173,600)	18,311,473	(986,410)
104	$1,173,600	-	$1,173,600	1.000000	$1,173,600	177,621	($1,173,600)	17,315,494	(995,979)
105	$1,173,600	-	$1,173,600	1.000000	$1,173,600	167,960	($1,173,600)	16,309,855	(1,005,640)
106	$1,173,600	-	$1,173,600	1.000000	$1,173,600	158,206	($1,173,600)	15,294,461	(1,015,394)
107	$1,173,600	-	$1,173,600	1.000000	$1,173,600	148,356	($1,173,600)	14,269,217	(1,025,244)
108	$1,173,600	-	$1,173,600	1.000000	$1,173,600	138,411	($1,173,600)	13,234,029	(1,035,188)
109	$1,173,600	-	$1,173,600	1.000000	$1,173,600	128,370	($1,173,600)	12,188,799	(1,045,230)
110	$1,173,600	-	$1,173,600	1.000000	$1,173,600	118,231	($1,173,600)	11,133,430	(1,055,368)
111	$1,173,600	-	$1,173,600	1.000000	$1,173,600	107,994	($1,173,600)	10,067,825	(1,065,606)
112	$1,173,600	-	$1,173,600	1.000000	$1,173,600	97,658	($1,173,600)	8,991,883	(1,075,942)
113	$1,173,600	-	$1,173,600	1.000000	$1,173,600	87,221	($1,173,600)	7,905,504	(1,086,379)
114	$1,173,600	-	$1,173,600	1.000000	$1,173,600	76,683	($1,173,600)	6,808,588	(1,096,916)
115	$1,173,600	-	$1,173,600	1.000000	$1,173,600	66,043	($1,173,600)	5,701,032	(1,107,557)
116	$1,173,600	-	$1,173,600	1.000000	$1,173,600	55,300	($1,173,600)	4,582,732	(1,118,300)
117	$1,173,600	-	$1,173,600	1.000000	$1,173,600	44,452	($1,173,600)	3,453,584	(1,129,147)
118	$1,173,600	-	$1,173,600	1.000000	$1,173,600	33,500	($1,173,600)	2,313,484	(1,140,100)
119	$1,173,600	-	$1,173,600	1.000000	$1,173,600	22,441	($1,173,600)	1,162,325	(1,151,159)
120	$1,173,600	-	$1,173,600	1.000000	$1,173,600	11,275	($1,173,600)	(0)	(1,162,325)
Totals	**$140,831,979**	**$83,000,000**	**$140,831,979**		**$140,831,979**	**57,831,979**	**($140,831,979)**		**($83,000,000)**

	A	*B*
Present Value	**$83,000,000**	**$83,000,000**
		*See Fraction Computation Above **

Rent Allocation	**$1,173,600**

ATTACHMENT B to EXHIBIT CEC-2

CAISO Board Resolution
and accompanying press release

California ISO
Your Link to Power

FINAL
Released: September 15, 2006

GENERAL SESSION MINUTES
BOARD OF GOVERNORS MEETING
August 3, 2006
ISO Headquarters
Folsom, California

Mason Willrich, Chair of the Board of Governors, called the meeting to order. Roll call was taken and the presence of a quorum was determined.

ATTENDANCE

The following members of the Board of Governors were in attendance:

Mason Willrich, Chair
Ed Cazalet
Tim Gage
Elizabeth Lowe

GENERAL SESSION

The following agenda items were discussed in General Session:

PUBLIC COMMENT (relating to Sunrise Power Link / Green Path Transmission Project)

Governor Willrich provided a brief background regarding the high level of public interest in the Sunrise Power Link / Green Path Transmission Project "Sunpath Project", noting the Board's receipt of approximately one hundred and fifty letters regarding the project and stated that the letters would be posted on CAISO's website. Governor Willrich outlined the format and general speaking order for persons submitting public comment.

Joe Kennedy, President and Chairman of Citizens Energy and project sponsor, acknowledged the efforts of Imperial Irrigation District ("IID"), San Diego Gas and Electric Company ("SDG&E") and CAISO. Mr. Kennedy provided supporting comments for the transmission proposal noting that it addressed the immediate needs of Southern California as well as addressing the larger vision of bringing greater reliability and efficiency to the State of California and beyond.

Debbie Reed, President and Chief Operating Offices of San Diego Gas & Electric ("SDG&E") and project sponsor, acknowledged the efforts of CAISO. Ms. Reed provided supporting comments for the transmission proposal as well as the public process leading up to the proposal. Ms. Reed addressed the proposal as it related to customers.

Jim Avery, Senior Vice President of SDG&E and project sponsor, provided supporting comments for the transmission proposal. Mr. Avery addressed the technical and economical aspects of the project.

Charlie Hosken, General Manager of Imperial Irrigation District ("IID") and project sponsor, acknowledged the partnership efforts with Citizens Energy. Mr. Hosken provided supporting comments for the transmission proposal as well as the public process efforts made by IID.

John Geesman, Commissioner with the California Energy Commission ("CEC"), provided supporting comments for the transmission proposal. Commissioner Geesman provided a historical overview of the CEC's perspective on the renewables issue quoting from various CEC Reports. Commissioner Geesman acknowledged CAISO for its improved planning process and detailed documentation efforts.

Eric Saltmarsh, Executive Director of the Electricity Oversight Board ("EOB"), acknowledged the efforts of CAISO, the utilities and the generators in California for working together successfully during the recent heat wave. Mr. Saltmarsh provided supporting comments for the transmission proposal addressing the electrical, economical and environmental benefits.

Tony Young, Council President Pro Tem of the San Diego City Council, represented the businesses and residences of his District. Mr. Young stated the Mayor of San Diego was not able to attend the meeting and requested that Mr. Young hand-deliver a letter on his behalf regarding the importance of the transmission proposal. Mr. Young provided supporting comments for the transmission proposal.

Alan Zaremberg, on behalf of the California Chamber of Commerce and Associated Business and Labor for Energy, provided supporting comments for the transmission proposal stating that businesses needed reliable and affordable energy.

Tom Fat, President of Fat City, Incorporated, provided supporting comments on behalf of his family business as well as small business owners in the San Diego regions. Mr. Fat stated that small businesses needed reliability and reduced energy costs.

Bob Liden, Executive Vice President and General Manager for Stirling Energy Systems, provided supporting comments for the transmission proposal. Mr. Liden stated that new transmission lines are needed in order to get clean power from the Imperial Valley solar project from where it is produced to where it is needed. Mr. Liden addressed an inquiry from Governor Cazalet regarding the location of the Stirling solar collectors.

Lou Smith, Vice President of Facilities for Sharp Healthcare, provided supporting comments for the transmission proposal stating that it was critical for hospitals to have reliable energy as not all medical facilities had back up generation.

Rich Ferguson, Research Director for the Center of Energy Efficiency and Renewable Technology, acknowledged the stakeholder process and the efforts of CAISO. Mr. Ferguson addressed the delay of the Tehachapi decision and provided supporting comments for the Sunrise transmission project and offered to help SDG&E look at alternative paths.

Carl Zichella, Regional Staff Director for the Sierra Club for California, Nevada and Hawaii, provided comments on the transmission proposal and stated that a decision today would be premature. Mr. Zichella commented that there was inadequate review of alternative routes and stated that there was not enough time to review the CAISO staff report. Mr. Zichella commended CAISO's efforts in preparing the report, however, additional time for review was needed. Mr. Zichella addressed an inquiry from

Governor Lowe regarding the public process that led up to the CAISO staff report and an inquiry from Governor Cazalet regarding alternatives to the Sunrise project.

Rex Wait, Vice President of Nevada Hydro Company, who also represented co-applicant Elsinore Valley Muncipal Water District, provided comments in support of SDG&E for the transmission proposal stating that third line into San Diego is needed. Mr. Wait commended CAISO on its recent efforts. Mr. Wait addressed the delay in the LEAPS project. Yakout Mansour, President and CEO, responded by acknowledging it was a great project but that CAISO was waiting for the Federal Energy Regulatory Commission's resolution of one issue regarding ownership. Mr. Wait addressed an inquiry by Governor Lowe regarding project ownership and stated that Nevada Hydro was willing to own the project.

Andrew Poat, Vice President of San Diego Regional Economic Development Corporation, provided supporting comments for the transmission project and stated that CAISO conducted an extensive review.

Diane Conklin, Communities United for Sensible Power ("CUSP") represented nine communities in San Diego County. Ms. Conklin noted that she provided a letter in opposition to the transmission project to the Board. Ms. Conklin stated that global warning, renewables and reliability issues were important to CUSP. Ms. Conklin noted concerns regarding the public process stating there wasn't opportunity to participate in the stakeholder process and there was not enough time to review the CAISO staff report. Ms. Conklin requested a postponement in the vote and requested that the next CAISO Board meeting be held in San Diego. Ms. Conklin addressed concerns regarding lines into Mexico and the two transmission open houses. Governor Lowe confirmed with Management that the Sunrise project did not include any transmission lines into Mexico.

Alan Comnes, Director of Government Affairs of NRG Energy Incorporated, acknowledged CAISO staff in its efforts but commented that additional review of alternatives was still needed. Mr. Comnes also addressed concerns regarding the estimated RMR benefits in CAISO's study.

Todd Priest, Vice President of Orange County Business Council, provided comments in support of the transmission project stating that it was a project that would result in more energy based on transmission generation, and a renewable solution.

Tanya McElhaney, CEO of South Orange County Regional Chambers of Commerce, provided comments in support of the transmission project as it provided more reliable energy for future business development.

Barbara Warden, President of San Diego Partnership and Co-Chair Community Alliance for the Sunrise Powerlink, provided comments in support of the transmission project stating is would allow for a reliable and affordable source of energy. Ms. Warden addressed an inquiry by Governor Lowe regarding the public process that led up to the CAISO staff report and stated that outreach efforts began last November.

Ali Amirali, Assistant Vice President of LS Power Generation, noted that a letter was being provided to the Board in addition to his public comment. Mr. Amirali raised concerns regarding the CAISO stakeholder process, including issues that pertained to the re-powering of the South Bay plant. Mr. Amirali requested to see the information that was used to prepare the CAISO staff report, not just the final analysis. Mr. Amirali responded to an inquiry from Governor Cazalet regarding the re-powering of South Bay. Armie Perez, Vice President of Planning and Infrastructure Development, noted that an analysis of

South Bay had been performed. Mr. Perez also noted that LS Power had not requested the base case and it would have been provided had it been requested. Mr. Perez stated the economic analysis could not be provided as it contained confidential information.

DECISION ON SUNRISE POWER LINK / GREEN PATH TRANSMISSION PROJECT

Yakout Mansour, President and CEO, expressed thanks to all those who made public comment and acknowledged the combined the leadership efforts of IID, SDG&E and Citizens Energy.

Armie Perez, Vice President of Planning and Infrastructure Development, presented an overview of Management's Long Term Transmission Strategy. Mr. Perez stated that loops in the system were important as they provided among other things, increased reliability. Mr. Perez reviewed the Southern and Northern transmission systems. Mr. Perez stated that Dallas, Phoenix, Atlanta, Minneapolis, San Antonio and Seattle had all successfully used loops in their transmission networks. Mr. Perez noted that both the Sunrise Project and the Leaps project would be needed in order to obtain a loop in Southern California transmission network.

Dariush Shirmohammadi, Director – Regional Transmission South, presented the CAISO South Regional Transmission Plan ("CSRTP") for 2006. Governor Gage acknowledged the efforts made by Staff on the project. Mr. Shirmohammadi noted that the Sunrise Powerlink and Green Path project would be referred to as the Sunpath project.

The presentation included four segments: (1) Background, (2) CSRTP-2006 process and study approach, (3) Findings for the Sun Path Project and (4) Recommendations on the Sun Path Project. Mr. Shirmohammadi responded to the public comment concern that implied Mr. Shirmohammadi did not listen to input from the public at the San Diego open house by stating that he had merely indicated that the technical reports study had already been completed. Mr. Shirmohammadi noted that the study results had been shared with the CSRTP team and the public as soon as it became available. A staff report that contained even more detailed information than the Board presentation was presented on July 24th at the Southwest Transmission Expansion Plan "STEP" meeting and was made available on the CAISO website on July 27th.

Governor Cazalet inquired about the ability to get new generation in the area if capacity payments no longer existed, or were imbedded, as a result of the elimination of Reliability Must Run "RMR" payments. Mr. Shirmohammadi responded that there were no guarantees but believed new generation would be built and it would have to be more efficient. Further discussion followed regarding RMR benefits. Governor Cazalet expressed concern regarding benefit projections being made without a detailed analysis and Managements use of an eight percent discount rate. Governor Cazalet stated he believed CAISO should be using a lower discount rate by discounting the actual benefit stream and the actual cash flows the ratepayers pay.

Mr. Shirmohammadi closed by summarizing the benefits of the project.

Governor Willrich invited comments by Management and the Board. Governor Gage inquired of Yakout Mansour what appropriate assistance, if any, would CAISO be providing with regards to the sighting of the project as the process moved forward, including looking at the alternative routes. Mr. Mansour, responded by stating that the objective of Management's analysis was to answer two questions: (1) Is it

needed?; and (2) As proposed, is the benefit higher than the cost? Mr. Mansour stated that the presentation addressed these questions and also reviewed many of the alternatives. Mr. Mansour stated that the CAISO did more public outreach with this project than any other project in the past and CAISO gained experience, value and learned from the criticism. CAISO would be taking a more active role in planning in the future. Mr. Mansour informed Governor Gage that CAISO would continue to be involved with the project, including providing technical advise to the California Public Utilities Commission regarding alternative routes.

Governor Cazalet provided summary comments in support of the project. Governor Lowe requested additional information from Mr. Avery regarding the public process. Mr. Avery provided a list of the community working group sessions that were held over the last year, including a list of those communities that were invited. Mr. Avery also provided a list of the open houses events that had occurred as well as a list of the publications that advertised these outreach programs.

Ms. Conklin, addressed the Board, stating that SD&GE approached individuals privately first, not publicly. Ms. Conklin stated that workshops were held with Community leaders first, not the Community as a whole. Ms. Conklin expressed further concerns regarding the public process.

Governor Lowe commented that the process did not end with CAISO and that there was a lot more process that needed to happen. Governor Lowe stated that there were things that could be done to continue to improve the stakeholder process. Governor Lowe commended CAISO staff on the efforts made on the project and provided comments in support of the project. Governor Wiseman commented that it wasn't a perfect process, but it got the job done, and the provided further comments in support of the project.

Motion:

Governor Lowe:

> ***MOVED, That the ISO Board of Governors approves the Sun Path (Sunrise Powerlink/Green Path) transmission project as a necessary and cost effective upgrade to the CAISO Controlled Grid that will also facilitate compliance with California renewable energy purchase requirements and directs San Diego Gas and Electric Company and Citizens Energy (Project Sponsors) to proceed with the permitting and construction of the transmission project by the summer of 2010, as detailed in the memorandum to the CAISO Governing Board dated July 26, 2006.***

Motion seconded by Governor Wiseman and approved, 5-0-0.

RECESS

There being additional business, the General Session of the Board of Governors meeting was recessed to be reconvened after conclusion of the Board of Governors Executive Session meeting at approximately 2:15 p.m

RECONVENED

Mason Willrich, Chair of the Board of Governors, reconvened the meeting to order. Roll call was taken and the presence of a quorum was determined.

ATTENDANCE

The following members of the Board of Governors were in attendance:

Mason Willrich, Chair
Ed Cazalet
Tim Gage
Elizabeth Lowe
Ken Wiseman

GENERAL SESSION

The following agenda items were discussed in General Session:

PUBLIC COMMENT

Barbara Barkovich, on behalf of Barkovich & Yap, provided comments regarding CAISO's proposed Tariff Amendment for Low Voltage Transmission Revenue Requirement Cost Recovery for Non-Load-Serving Participating Transmission Owners ("LVTRR"). Ms. Barkovich extended thanks to CAISO staff for its efforts to resolve the issues.

Brian Hitson, on behalf of PG&E, provided supporting comments regarding CAISO's proposed LVTRR Tariff Amendment and acknowledged CAISO staff for its efforts during the process.

Katie Kaplan, Director of Policy for IEP, commended CAISO leadership and teamwork efforts to keep the lights on during the recent heat wave. Ms. Kaplan commented that one lesson learned during the heat wave was that greater transparency was needed. IEP wanted to have additional information relating to the day-to-day operational decisions.

Brian Theaker, on behalf of Williams Power, presented a number of questions that involved new and unresolved issues. The questions submitted by Mr. Theaker are attached to the minutes for reference.

APPROVAL OF MINUTES

Governor Gage moved for the approval of the Board of Governors General Session Minutes for June 14, 2006. Motion seconded by Governor Cazalet, and approved 5-0-0.

CEO REPORT

Yakout Mansour, President and CEO, began his report by acknowledging all of the California entities that worked with CAISO to successfully get through the recent heat wave.

Governor Willrich stated that the Board had a Resolution to bring forward at that time.

Resolution:

Governor Wiseman:

WHEREAS in the past month California and the rest of the West experienced a severe and extended heat wave occurring over nearly two weeks, setting peak demands for electricity on three successive occasions; and

WHEREAS this heat wave placed great strain on the Region's electrical infrastructure and the people operating that infrastructure; and

WHEREAS ISO Operations, Planning and other staff, worked collaboratively with policymakers, other control areas, municipal utilities, suppliers, and participants from all segments of the ISO markets, worked for nearly a year to establish plans to address contingencies of the type experienced during the heat wave; and

WHEREAS ISO staff, policymakers, other control areas, municipal utilities, suppliers, and all ISO market participants executed these plans flawlessly during the heat wave and, assisted by the conservation efforts of the Public, maintained the reliability of electric service for tens of millions of customers throughout the Region, setting a standard of excellence for the entire nation:

NOW THEREFORE BE IT RESOLVED:
That the Board of Governors of the California ISO expresses its great appreciation to the Operations, Planning and other staff of the ISO, and to the staffs of market participants, municipal utilities, policymakers, suppliers, and other control areas, for their tireless dedication to proactive planning and their effective execution during the recent heat wave, for the benefit of customers in California and throughout the West.

Motion seconded by Governor Cazalet and approved, 5-0-0.

Governor Lowe further commended the efforts of CAISO and provided recent examples of external acknowledgements of CAISO efforts.

Mr. Mansour continued his report by highlighting events affecting CAISO since the last Board meeting. Mr. Mansour highlighted MRTU, the Three-year Business plan, Planning & Infrastructure Development, financial highlights, and provided an employee update. Mr. Mansour's report recognized the efforts of every CAISO employee as their contributions over the last year resulted in a smooth and well-run operation, culminating on a record peak day. Mr. Mansour presented an overhead slide of a Sacramento Bee editorial cartoon relating to the recent heat wave.

DECISION ON AMENDMENT TO BOARD SELECTION PROCESS

Charlie Robinson, Vice President, General Counsel and Corporate Secretary, provided the Board with a brief overview of the Board selection process that was adopted on May 6, 2005. Mr. Robinson stated that a suggestion had made to change the criteria, as the existing criteria, as it related to consultants was said to be too restrictive. Rather than a categorical band barring all consultants in the electric industry, the criteria could be changed to bar a consulting arrangement that would create an actual conflict of interest. The proposed modification would allow for a case-by-case determination of the potential conflicts presented by a particular consulting arrangement.

Motion:

Governor Gage:

> ***MOVED, That Resolution Concerning Board Member Selection dated May 6, 2005 be modified as described in the Board Memorandum on this subject dated July 26, 2006.***

Motion seconded by Governor Wiseman and approved, 5-0-0.

MARKET SURVEILLANCE COMMITTEE REPORT

Frank Wolak, Chairman of the Market Surveillance Committee, provided brief comments as outlined in his Board memo, supporting CAISO's proposed Tariff Amendment relating to Low Voltage Transmission Revenue Requirements Cost Recovery for Non-Load-Serving Participating Transmission Owners.

DECISION ON TARIFF AMENDMENT IN REGARDS TO LOW VOLTAGE TRANSMISSION REVENUE RIGHTS

Farrokh Rahimi, Principal Market Engineer, provided a background of the proposed Tariff amendment, a statement of the issue, the options that were considered, the principles of the proposed tariff amendment and justification of the proposed principles. Mr. Rahimi concluded by stating that Management recommended that the Board accept the proposed Tariff amendment as outlined in the Board materials provided.

Motion:

Governor Gage:

> ***MOVED, That the ISO Board of Governors approve amendment of the ISO Tariff as stated in this memorandum of July 27, 2006, and direct Management to prepare revised Tariff and make a FERC Section 205 filing accordingly.***

Motion seconded by Governor Cazalet and approved, 4-0-0 as Governor Wiseman was not present at the time of the vote.

BRIEFING ON THE POTENTIAL PARTICIPATING INTERMITTENT RESOURCE PROGRAM ("PIRP") TARIFF FILING

Keith Johnson, Senior Market and Product Developer, presented a briefing on the potential participating intermittent resource program Tariff filing. Mr. Johnson referenced the Board materials and provided an update on stakeholder and other activities that occurred subsequent to the production of the Board materials. Mr. Johnson concluded his presentation by reviewing the next steps in the process. Brief discussion followed.

MARKET PERFORMANCE REPORT

Greg Ford, Manger, Market Operations, provided highlights related to market performance in May and June 2006, including a market review, market volumes and prices, five-minute capacity utilization, ancillary services markets, and RA/Unit commitment costs.

MARKET MONITORING REPORT

Jeff McDonald, Manager, Monitoring and Reporting, presented a DMM report on market performance in May and June 2006. Mr. McDonald highlighted two items: Assessment of Real Time Bid Cap and Price Divergence and Real Time Imbalance Charge. Mr. McDonald reviewed key issues and events, real time energy price spikes, estimated real time ,market cost impact of price spikes, pre-dispatched export bid volumes and prices, and estimates of potential revenue imbalance charges from price divergence. Keith Casey, Director of Market Monitoring, addressed the Board by providing further information related to the Market Monitoring Report. Brief discussion followed.

NEW GENERAL SESSION BUSINESS ISSUES AND FUTURE AGENDA ITEMS

There were no new business issues or future agenda items.

CLOSING

There being no further business, the meeting was adjourned.

California Independent
System Operator Corporation

NEWS RELEASE

FOR IMMEDIATE RELEASE
August 3, 2006

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

California ISO Board Approves Sunrise/Greenpath Transmission Project

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

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

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

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

-MORE-

Sunrise 2-2-2-2

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

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

######

EXHIBIT CEC-3

Affidavit and Attachments of David T. Helsby

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Citizens Energy Corporation	)	
	)	Docket No. EL10-_____
Petitioner	)	

DECLARATION 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 7635 SE 72nd Place, Mercer Island, Washington 98040. I am an independent consultant.

2. I have over 35 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 in support of the Petition for Declaratory Order of Citizens Energy Corporation to Authorize Rate Treatments for the Sunrise Powerlink Transmission Project.

7. The purpose of Citizens' Petition for a Declaratory Order is to obtain Commission approval of two rate treatments by Citizens in connection with its proposed participation in the Border-East Line of the Sunrise Powerlink Project. The rate treatments are (1) approval of a specific capital cost recovery rate methodology and (2) qualification under Order 679 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.

8. As is described in more detail in the supporting Affidavit of William R. Mayben, the proposed Sunrise Powerlink Project is comprised of three components: (1) The Border-East Line, (2) the Border-West facilities, and (3) substation facilities and lower voltage transmission facilities associated with the Border-East Line. The second and third of these components will be financed by San Diego Gas and Electric Company ("SDG&E"), which will also finance 50% of the cost of the Border-East Line. Citizens' Petition pertains to its proposed financing of the cost of leasing 50% of the transfer capability of the Border-East Line. The Border-East Line is the portion of the proposed 500 kV Sunrise Powerlink transmission line extending east of the border between San Diego County and Imperial County, California to the Imperial Valley substation.

II. THE SDG&E REPRESENTATIVE RATE MODEL

9. Citizens and SDG&E entered into a Development and Coordination Agreement dated May 11, 2009 (the "DCA") which provides for Citizens' engagement in the development of SDG&E's Sunrise Powerlink transmission

project in Southern California. The DCA is included as an attachment to the Affidavit of William R. Mayben. The DCA grants Citizens an option to participate in the financing of the Sunrise Powerlink Project through a long term lease of 50 percent of the transfer capability of that portion of the Project in Imperial County, California known as the Border-East Line – a new 500 kV transmission line extending from the El Centro area of Imperial County west to the San Diego County border. SDG&E will retain 100 percent ownership of the entire Sunrise Powerlink Project, including the Border-East Line. Citizens' participation will be a leasehold interest in 50 percent of the transfer capability of the Border-East Line.

10. The DCA provides that Citizens shall seek from FERC a cost recovery methodology that provides cost recovery to Citizens limited to the recovery of transmission operating costs and capital requirements. With respect to Operating costs, the DCA provides that Citizens shall seek recovery of all reasonably and prudently incurred costs for operation and maintenance on an annual formulaic basis, including administrative and general activities (and any sales, use or excise tax), directly attributable to Citizens' Transfer Capability on the Project as recorded in FERC accounts 560-573, and 920-935 under the FERC Uniform System of Accounts. With respect to Capital Requirements, the DCA provides that Citizens shall seek recovery for all costs other than Operating Costs associated with its Transfer Capability on the Project at a fixed rate that is no higher than the rate SDG&E could recover at the time of commercial operation of the project if SDG&E held Citizens' Transfer Capability. This fixed rate is intended to cover all costs

associated with Citizens' Transfer Capability (other than Operating Costs described above) including prepaid rent and other costs of Transfer Capability, debt service, capitalized interest, liquidity reserves, taxes, charitable contributions, and any and all other costs. For purposes of determining the rate SDG&E could recover at the time of commercial operation of the project if SDG&E held Citizens' Transfer Capability, the Parties agreed to use a model specified in the DCA ("SDG&E Representative Rate Model").

11. The SDG&E Representative Rate Model calculates a theoretical annual rate (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 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 are 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 actual SDG&E AFUDC. The phrase "Costs of Transfer Capability" mean 101% of the sum of the prepaid rent of Citizens' Transfer Capability as determined in the DCA plus all reasonably incurred project costs, development costs, regulatory costs, transactional costs, sales costs, use or excise tax costs, and Financing Costs incurred by Citizens allocated to its Transfer

Capability. 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 Citizens' Transfer Capability.

12. As stated above, The SDG&E Representative Rate Model calculates a theoretical annual rate that SDG&E could 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 to produce a theoretical levelized annual amount. The SDG&E Representative Rate addresses capital requirements, and incorporates Depreciation Expense, Return on Common Equity, Return on Debt, Federal and State Income Taxes, and Property Taxes. A revenue requirement including these items is calculated for each of the 58 years of the estimated 58 year depreciable life of the Citizen's portion of the Sunrise Powerlink Project. A net present value is then calculated for each of the 58 annual revenue requirements. A Levelized Annual Amount is then calculated to amortize the sum of the net present value of the 58 years of annual revenue requirements over a 30 year period. This Levelized Annual Amount is the SDG&E Representative Rate for Capital Requirements.

13. An example of the SDG&E Representative Rate is included in the DCA as Exhibit 2.2B thereto. That example uses as inputs a Moody's Aa Utility Bond Index of 6.00%, the Cost of Transfer Capability of $1,000,000, and AFUDC of $100,000. Attached to this Affidavit as Attachment A is an example of the SDG&E Representative Rate using as inputs a Moody's Aa Utility Bond Index of 5.48%, the

cost of transfer capability of $88,944,640, and AFUDC of $10,060,000. These inputs are representative of current estimates of a capitalized lease cost of $83,064,000 and Citizens development costs of $5,000,000. Attachment A shows that, with these inputs, the annual Capital Requirements using the SDG&E Representative Rate model are $10,770,501.

III. CITIZENS' FINANCING FOR ITS PARTICIPATION IN THE SUNRISE POWERLINK PROJECT

14. As explained in the Affidavit of Peter F. Smith, Citizens Energy Corporation 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. For purposes of participating in the development of the Sunrise Powerlink Project, Citizens will create a wholly-owned subsidiary for-profit corporation.

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

16. After payment of debt service on the bonds, operating expenses, and other obligations, Citizens expects to earn a margin that will be subject to U.S. Federal, State and, possibly, local income tax. As explained in more detail in the Affidavit of Peter F. Smith, Citizens is obligated to spend 50% of its after tax margins (related to its participation in the Sunrise Powerlink Project as a standalone activity) in activities beneficial to low income electricity consumers in the Imperial Valley (CEC-1 at P. 64). The remaining margin will be transferred by its for-profit subsidiary, Citizens Enterprises, to the not-for-profit Citizens for purposes that are the basis of its tax exemption.

IV. CITIZENS' FORMULA REVENUE REQUIREMENT METHODOLOGY

17. Citizens intends to recover its revenue requirements from the California Independent System Operator ("CAISO") as a Participating Transmission Owner ("PTO"). Citizens proposes to use a formula approach to establish its revenue requirements. Citizens' cost recovery from the CAISO will be based on a cost recovery methodology reflecting transmission operation and maintenance costs, administrative and general costs, and fixed capital requirements costs. These costs are proposed to be recovered under a formula rate. As previously noted, the capital requirements portion of this formulaic cost recovery rate is intended to be no higher than the rate that SDG&E would charge for Citizens' interest in the Project, absent Citizens' participation in the Project.

18. The Citizens' formula 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 revenue requirements will reflect actual costs. Citizens' capital requirements cost recovery is proposed to be a fixed rate for the thirty year term of the lease arrangement with SDG&E for Citizens' participation in the Sunrise Powerlink Project. Citizens' proposed tariff and the formula rate will be presented in a future Section 205 filing. In general, Citizens' revenue requirements contain the elements as shown in the following table.

<u>Revenue Requirements</u>

Transmission O&M Expenses

Applicable Overhead Costs

Capital Requirements

19. With respect to the above listed elements of Citizens' revenue requirements, Transmission O&M Expenses and Applicable Overhead Costs are no different from those same elements in the revenue requirements of FERC jurisdictional investor owned utilities. Transmission operation and maintenance of the project will be performed by SDG&E, and SDG&E will bill Citizens for the Transmission O&M 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, functioning as a CAISO PTO, and billing the CAISO. Citizens will bill the CAISO for these transmission O&M and overhead costs. Citizens' proposed formula rate approach would initially bill the Transmission O&M and the overhead costs on a budgeted basis, and then true them up to actual expenses with an after

the fact true-up adjustment. Thus, Citizens' revenue requirements would ultimately reflect a flow-through of actual Transmission O&M and overhead costs.

20. 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, functioning as a CAISO PTO. The Capital Requirements fixed rate will include the elements of return on rate base, amortization of the capitalized lease and development costs, property taxes, 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 DCA 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.

21. 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 approximates the SDG&E capital structure. 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

SDG&E's currently authorized cost of equity of 11.35% as a proxy for Citizens' cost of equity. Thus, Citizens' overall proposed rate of return on rate base (assuming 6.0% debt cost) would be as follows:

	Ratio	Cost	Weighted Cost
Debt	50.00%	6.00%	3.00%
Equity	50.00%	11.35%	5.68%
Total	100.00%		8.68%

22. It is reasonable for Citizens to use a hypothetical capital structure of 50% debt and 50% equity. Citizens is a not-for-profit entity, and currently has no significant debt. As explained previously, Citizens 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. In addition, a capital structure of 50% debt and 50% equity is used in the SDG&E Representative Rate Model, as previously described. SDG&E's actual capital structure as of March 31, 2009 is Long Term Debt of 42%, Preferred Equity of 2%, and Common Equity of 56%. Thus, a hypothetical capital structure of 50% debt and 50% equity incorporates a lower equity ratio than SDG&E's currently authorized equity ratio.

23. It is reasonable to use the SDG&E currently authorized return on equity of 11.35% as a proxy for Citizens' cost of equity. The SDG&E return on equity has been established by a settlement in FERC Docket ER07-284-000 approved by the Commission, and is fixed under the terms of that settlement through August 2013. To an investor, Citizens is no less risky than SDG&E, and Citizens is likely a higher risk investment. Citizens' 50% funding of the Border-

East Line represents a major capital commitment for a company the size of Citizens. The Border-East Line is Citizens' first entry into the transmission business and Citizens' all debt financing will be far in excess of Citizens' current net asset value. Citizens' proposed investment represents an unprecedented capital commitment for Citizens, as it would for any company the size of Citizens. Under these circumstances, I believe that Citizens can be judged to be no less risky than SDG&E, and quite likely is more risky than SDG&E.

24. Citizens' rate base will be the capitalized lease cost (now estimated to be $83,064,000) plus development costs (now estimated to be $5,000,000), 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 (*see* Schedule 2.2 of the DCA, Section 6 and Exhibit 2.2C thereto).

25. Citizens proposes to 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 consistent with Citizens' financing using level bond debt service over 30 years.

26. To summarize, Citizens' revenue requirement consists of Operating Costs and Capital Requirements. The Operating Cost component consists of Transmission O&M expenses and applicable overhead costs. Thus the Operating Cost component is essentially no different from the operating expense component of a traditional Inventor Owned Utility regulated by FERC. Further, Citizens' formula rate will provide for adjustments to reflect actual operating costs. Thus, the Operating Cost component of Citizens' revenue requirement should 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 is used. Citizens' actual cost of debt will be used, along with the authorized SDG&E cost of equity capital as a proxy. Attachment B to this Affidavit is a preliminary representation of the Citizens' rate model.

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 Sunrise. 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' formula 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 formula rate that: (1) recovers actual Transmission O&M expenses and actual applicable overhead costs, and (2) recovers Capital Requirements on a levelized fixed basis for 30 years; wherein 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.

29. Citizens requests that the Commission issue a Declaratory Order (1) approving Citizens use of a hypothetical capital structure of 50% debt and 50%

equity, (2) approving Citizens use of a cost of equity11.35% based on the SDG&E authorized return on equity as a proxy, and (3) authorizing Citizens to use a 30 year levelized fixed rate for recovery of capital requirements.

V. CITIZENS' QUALIFICATION FOR ABANDONED PLANT 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 the Border-East Line is abandoned as a result of factors beyond Citizens' control. Actual recovery of such costs would, however, be subject to a full 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. As part of the requirements for qualifying for incentives, the Commission has stated that proposed incentives must be shown to have a nexus between the incentive 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.

32. There is a close nexus between the single incentive that Citizens is requesting herein – qualification for recovery of abandoned plant costs - and

Citizens' investment to obtain the leased transmission capability. Citizens' investment in the Sunrise Powerlink Project represents a substantial financial undertaking to develop new high voltage transmission lines in Southern California to ensure reliable electric service by expanding capacity and providing access to new generation supply alternatives. Here, Citizens' requested incentive is 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." The following paragraphs of this Affidavit will discuss the nexus that exists between Citizens' proposed transmission investment for the Border-East Line of the Sunrise Powerlink Project and the single incentive requested by Citizens.

33. Citizens' proposed incentive is tailored to make the financing of this project by Citizens possible, and the risks associated with developing this project manageable. Citizens' 50% funding of the Border-East Line represents a major capital commitment for a company the size of Citizens. Specifically, the Border-East Line is Citizens' first entry into the transmission business and will require substantial debt financing that will be far in excess of Citizens' current net asset value, and the investment represents an unprecedented capital commitment for

Citizens as it would for any company the size of Citizens. Yet, Citizens' entry into the transmission business 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, make available renewable energy resources, and reduce the cost of delivered power to customers by reducing transmission congestion. Furthermore, the Sunrise Powerlink Project entails significant regulatory and technological risks. It will involve the construction of high voltage transmission lines through difficult areas in one of the two U.S. Department of Energy 's National Interest Electric Transmission Corridors[1/], that has already proven to be highly controversial, and will require local approvals that have yet to be obtained.

34. The only incentive sought by Citizens is that, subject to a subsequent section 205 proceeding, it qualifies to seek recovery of all prudently incurred pre-commercial operations development costs. Citizens seeks authorization to recover 100% of its prudently-incurred costs in the event of abandonment of the Border-

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[1/] Specifically, in DOE Docket No. 2007–OE–02, seven counties in Southern California and three counties in western Arizona were designated as part of a critical congestion corridor (one of two designated areas in the United States). *See* http://www.oe.energy.gov/nietc.htm

East Line, if the abandonment is outside of the control of Citizens. Authorization to seek recovery of such abandonment costs is necessary to mitigate the risk to Citizens that the Border-East Line 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. For example, the CAISO planning process could permit it to cancel a project that has already been accepted by the CAISO should it conclude that the conditions that originally supported the construction of the expansion have changed. Citizens has no ongoing public utility operations of a magnitude which would allow it to, over time, absorb the cost of the CAISO changing its mind. Rather, Citizens would be entirely dependent on the CAISO for its ability to repay abandoned project costs. This introduces an element of risk that would not be faced by Citizens if it were proposing to develop transmission outside of an RTO planning context, and introduces an element of risk that would not be faced by Citizens if it were using its resources for a project other than electric transmission. Further, neither Citizens nor the manager of Sunrise Powerlink have obtained all of the needed permits and local approvals to proceed with all phases of the project. Significant portions of the project will be constructed through heavily urban areas, and although it is planned that the Border East Line

will rely upon expansion of existing rights-of-way as much as possible, there is already local opposition to portions of the line. Although the CAISO has directed SDG&E to move forward with Sunrise, these risks make it appropriate to provide Citizens with assurance of recovery of its abandonment costs from the CAISO.

35. As explained in the foregoing paragraphs, there is a clear, close and direct nexus between Citizens' proposed incentive and the investment Citizens proposes to make for the Sunrise Powerlink Project. Citizens' proposal meets the requirements of Order 679 as clarified and modified by Order 679-A and Citizens therefore seeks a determination that it qualifies to seek recovery of those costs in a subsequent Section 205 proceeding before the Commission in the event of abandonment of the Border-East Line, if the abandonment is outside of the control of Citizens.

[SIGNATURE ON FOLLOWING PAGE]

Subject to the Penalties of Perjury at
King County, Washington
This 9B day of October, 2009.

David T. Helsby

David T. Helsby

ATTACHMENT A to EXHIBIT CEC-3

Example of the SDG&E Representative Rate

SUNRISE POWERLINK
CITIZEN PORTION
REVENUE REQUIREMENT OVER 58 YEARS
YEAR ANALYSIS PERIOD - LEVELIZED OVER 30 YEARS

Model Inputs

The Moody's Aa Utility Bond Index	5.48%
Cost of Transfer Capability	88,944,640
AFUDC	10,060,000

Calculation of Debt Cost as Input to Model

The Moody's Aa Utility Bond Index	5.48%	
Less: 38 basis points	0.38%	**remains fixed "do not change"**
Total Debt Cost per Model	5.10%	

Calculation of WACC

	Capital Ratio	Cost	WACC	
Debt	50.00%	5.10%	2.55%	
Preferred Equity	0.00%	0.00%	0.00%	**remains fixed "do not change"**
Common Equity	50.00%	11.35%	5.68%	**remains fixed "do not change"**
			8.23%	

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	88,944,640	1,533,528	1,533,528	1,533,528	1,533,528	1,533,528	1,533,528	1,533,528	1,533,528	1,533,528	1,533,528	73,609,357
Return on Common Equity	103,490,584	4,974,580	4,782,141	4,554,489	4,343,628	4,147,938	3,965,956	3,793,902	3,625,909	3,459,155	3,293,558	62,549,329
Return on Preferred Equity	-	-	-	-	-	-	-	-	-	-	-	-
Return on Debt	46,502,377	2,235,274	2,148,804	2,046,510	1,951,762	1,863,831	1,782,059	1,704,749	1,629,263	1,554,334	1,479,925	28,105,866
Federal Income Taxes	63,524,570	3,295,075	2,665,499	2,568,908	2,455,359	2,351,274	2,254,374	2,162,511	2,072,355	1,982,653	1,893,578	39,822,984
State Income Taxes	21,713,624	897,062	817,349	785,907	754,448	725,378	698,334	672,741	647,708	622,839	598,143	14,493,716
Property Taxes	23,692,472	1,077,412	1,029,855	985,774	944,823	906,687	871,087	836,687	802,287	767,887	733,488	14,736,487
Total Revenue Requirement	347,868,267	14,012,931	12,977,176	12,475,116.5	11,983,548.0	11,528,636.0	11,105,338.6	10,704,117.6	10,311,049.2	9,920,395.6	9,532,218.9	###########
Net Present Value (58 yrs)	118,722,687	13,469,925	11,526,270	10,238,248	9,087,383	8,077,998	7,190,019	6,403,560	5,699,620	5,066,925	4,498,646	37,464,092.4
Levelized Annual Amount (30 yrs)	$10,770,501											

ATTACHMENT B to EXHIBIT CEC-3

Preliminary Representation of the Citizens' Rate Model

Citizens Capital Cost Revenue Requirement

Year	Return on Rate Base	Amortization	Property Taxes	Income Taxes	Total Capital Requirement
1	$7,706,730	$2,935,467	$1,081,581	$3,467,415	$15,191,192
2	$7,489,083	$2,935,467	$1,049,570	$3,369,491	$14,843,610
3	$7,266,176	$2,935,467	$1,016,910	$3,269,200	$14,487,753
4	$7,042,648	$2,935,467	$984,174	$3,168,631	$14,130,920
5	$6,818,271	$2,935,467	$951,333	$3,067,679	$13,772,749
6	$6,592,804	$2,935,467	$918,357	$2,966,237	$13,412,865
7	$6,365,754	$2,935,467	$885,186	$2,864,082	$13,050,489
8	$6,136,404	$2,935,467	$851,732	$2,760,893	$12,684,495
9	$5,904,383	$2,935,467	$817,947	$2,656,502	$12,314,299
10	$5,669,585	$2,935,467	$783,821	$2,550,862	$11,939,733
11	$5,431,903	$2,935,467	$749,338	$2,443,924	$11,560,632
12	$5,191,223	$2,935,467	$714,486	$2,335,637	$11,176,813
13	$4,947,403	$2,935,467	$679,246	$2,225,938	$10,788,054
14	$4,700,241	$2,935,467	$643,594	$2,114,734	$10,394,036
15	$4,449,699	$2,935,467	$607,525	$2,002,010	$9,994,702
16	$4,198,351	$2,935,467	$571,357	$1,888,924	$9,594,098
17	$3,948,582	$2,935,467	$535,384	$1,776,547	$9,195,979
18	$3,697,634	$2,935,467	$499,265	$1,663,641	$8,796,006
19	$3,442,742	$2,935,467	$462,659	$1,548,960	$8,389,828
20	$3,183,746	$2,935,467	$425,547	$1,432,432	$7,977,192
21	$2,920,505	$2,935,467	$387,912	$1,313,995	$7,557,878
22	$2,652,859	$2,935,467	$349,733	$1,193,575	$7,131,634
23	$2,380,614	$2,935,467	$310,986	$1,071,087	$6,698,154
24	$2,103,575	$2,935,467	$271,649	$946,441	$6,257,132
25	$1,821,566	$2,935,467	$231,698	$819,560	$5,808,290
26	$1,534,392	$2,935,467	$191,110	$690,354	$5,351,322
27	$1,241,857	$2,935,467	$149,861	$558,737	$4,885,922
28	$943,751	$2,935,467	$107,924	$424,613	$4,411,755
29	$639,914	$2,935,467	$65,280	$287,910	$3,928,571
30	$330,027	$2,935,467	$21,890	$148,486	$3,435,869
Total		$88,064,000			$289,161,970
			NPV		$125,741,639
			Levelized Amount		$11,888,078

Rate of Return:

	Ratio	Cost	Weighted Cost
Debt	50.00%	6.00%	3.00%
Common Equity	50.00%	11.35%	5.68%
R of R			8.68%

CitizensTransmission Rate Base

Year	Capitalized Lease	Development Cost	Total Capital	Accumulated Amortization	Net Capital	Accumulated Deferred Income Taxes	Working Capital	Rate Base
1	$83,064,000	$5,000,000	$88,064,000	($1,467,733)	$86,596,267	$242,119	$2,000,000	$88,838,385
2	$83,064,000	$5,000,000	$88,064,000	($4,403,200)	$83,660,800	$668,686	$2,000,000	$86,329,486
3	$83,064,000	$5,000,000	$88,064,000	($7,338,667)	$80,725,333	$1,034,619	$2,000,000	$83,759,952
4	$83,064,000	$5,000,000	$88,064,000	($10,274,133)	$77,789,867	$1,393,401	$2,000,000	$81,183,267
5	$83,064,000	$5,000,000	$88,064,000	($13,209,600)	$74,854,400	$1,742,382	$2,000,000	$78,596,782
6	$83,064,000	$5,000,000	$88,064,000	($16,145,067)	$71,918,933	$2,078,812	$2,000,000	$75,997,745
7	$83,064,000	$5,000,000	$88,064,000	($19,080,533)	$68,983,467	$2,396,984	$2,000,000	$73,380,451
8	$83,064,000	$5,000,000	$88,064,000	($22,016,000)	$66,048,000	$2,688,646	$2,000,000	$70,736,646
9	$83,064,000	$5,000,000	$88,064,000	($24,951,467)	$63,112,533	$2,949,517	$2,000,000	$68,062,050
10	$83,064,000	$5,000,000	$88,064,000	($27,886,933)	$60,177,067	$3,178,375	$2,000,000	$65,355,442
11	$83,064,000	$5,000,000	$88,064,000	($30,822,400)	$57,241,600	$3,373,997	$2,000,000	$62,615,597
12	$83,064,000	$5,000,000	$88,064,000	($33,757,867)	$54,306,133	$3,535,056	$2,000,000	$59,841,189
13	$83,064,000	$5,000,000	$88,064,000	($36,693,333)	$51,370,667	$3,659,921	$2,000,000	$57,030,588
14	$83,064,000	$5,000,000	$88,064,000	($39,628,800)	$48,435,200	$3,746,248	$2,000,000	$54,181,448
15	$83,064,000	$5,000,000	$88,064,000	($42,564,267)	$45,499,733	$3,793,629	$2,000,000	$51,293,362
16	$83,064,000	$5,000,000	$88,064,000	($45,499,733)	$42,564,267	$3,831,709	$2,000,000	$48,395,976
17	$83,064,000	$5,000,000	$88,064,000	($48,435,200)	$39,628,800	$3,887,992	$2,000,000	$45,516,792
18	$83,064,000	$5,000,000	$88,064,000	($51,370,667)	$36,693,333	$3,930,692	$2,000,000	$42,624,026
19	$83,064,000	$5,000,000	$88,064,000	($54,306,133)	$33,757,867	$3,927,921	$2,000,000	$39,685,788
20	$83,064,000	$5,000,000	$88,064,000	($57,241,600)	$30,822,400	$3,877,844	$2,000,000	$36,700,244
21	$83,064,000	$5,000,000	$88,064,000	($60,177,067)	$27,886,933	$3,778,828	$2,000,000	$33,665,762
22	$83,064,000	$5,000,000	$88,064,000	($63,112,533)	$24,951,467	$3,629,040	$2,000,000	$30,580,507
23	$83,064,000	$5,000,000	$88,064,000	($66,048,000)	$22,016,000	$3,426,236	$2,000,000	$27,442,236
24	$83,064,000	$5,000,000	$88,064,000	($68,983,467)	$19,080,533	$3,168,173	$2,000,000	$24,248,707
25	$83,064,000	$5,000,000	$88,064,000	($71,918,933)	$16,145,067	$2,852,813	$2,000,000	$20,997,879
26	$83,064,000	$5,000,000	$88,064,000	($74,854,400)	$13,209,600	$2,477,911	$2,000,000	$17,687,511
27	$83,064,000	$5,000,000	$88,064,000	($77,789,867)	$10,274,133	$2,041,225	$2,000,000	$14,315,359
28	$83,064,000	$5,000,000	$88,064,000	($80,725,333)	$7,338,667	$1,540,309	$2,000,000	$10,878,976
29	$83,064,000	$5,000,000	$88,064,000	($83,660,800)	$4,403,200	$973,327	$2,000,000	$7,376,527
30	$83,064,000	$5,000,000	$88,064,000	($86,596,267)	$1,467,733	$336,609	$2,000,000	$3,804,342

Deferred Taxes

Year	Straight Line Amortization	Tax Amortization	Straight Line Amortization less Tax Ammortization	Accumulated Deferred Income Taxes (B.O.Y)	Accumulated Deferred Income Taxes (E.O.Y.)	Accumulated Deferred Income Taxes (Ave.)
1	$2,935,467	$1,747,154	$1,188,313	$0	$484,238	$242,119
2	$2,935,467	$2,030,198	$905,268	$484,238	$853,134	$668,686
3	$2,935,467	$2,044,746	$890,721	$853,134	$1,216,103	$1,034,619
4	$2,935,467	$2,065,295	$870,172	$1,216,103	$1,570,698	$1,393,401
5	$2,935,467	$2,092,846	$842,621	$1,570,698	$1,914,066	$1,742,382
6	$2,935,467	$2,126,899	$808,568	$1,914,066	$2,243,558	$2,078,812
7	$2,935,467	$2,182,454	$753,012	$2,243,558	$2,550,410	$2,396,984
8	$2,935,467	$2,257,011	$678,455	$2,550,410	$2,826,881	$2,688,646
9	$2,935,467	$2,333,571	$601,896	$2,826,881	$3,072,153	$2,949,517
10	$2,935,467	$2,414,132	$521,334	$3,072,153	$3,284,597	$3,178,375
11	$2,935,467	$2,496,696	$438,770	$3,284,597	$3,463,396	$3,373,997
12	$2,935,467	$2,583,763	$351,703	$3,463,396	$3,606,715	$3,535,056
13	$2,935,467	$2,674,333	$261,134	$3,606,715	$3,713,127	$3,659,921
14	$2,935,467	$2,772,909	$162,557	$3,713,127	$3,779,369	$3,746,248
15	$2,935,467	$2,865,480	$69,987	$3,779,369	$3,807,889	$3,793,629
16	$2,935,467	$2,818,558	$116,909	$3,807,889	$3,855,529	$3,831,709
17	$2,935,467	$2,776,139	$159,328	$3,855,529	$3,920,455	$3,887,992
18	$2,935,467	$2,885,223	$50,244	$3,920,455	$3,940,929	$3,930,692
19	$2,935,467	$2,999,311	($63,844)	$3,940,929	$3,914,913	$3,927,921
20	$2,935,467	$3,117,402	($181,935)	$3,914,913	$3,840,774	$3,877,844
21	$2,935,467	$3,239,496	($304,029)	$3,840,774	$3,716,882	$3,778,828
22	$2,935,467	$3,366,594	($431,127)	$3,716,882	$3,541,198	$3,629,040
23	$2,935,467	$3,499,696	($564,230)	$3,541,198	$3,311,274	$3,426,236
24	$2,935,467	$3,637,803	($702,336)	$3,311,274	$3,025,072	$3,168,173
25	$2,935,467	$3,780,913	($845,446)	$3,025,072	$2,680,553	$2,852,813
26	$2,935,467	$3,930,028	($994,561)	$2,680,553	$2,275,269	$2,477,911
27	$2,935,467	$4,084,147	($1,148,680)	$2,275,269	$1,807,182	$2,041,225
28	$2,935,467	$4,245,271	($1,309,804)	$1,807,182	$1,273,437	$1,540,309
29	$2,935,467	$4,408,397	($1,472,930)	$1,273,437	$673,218	$973,327
30	$2,935,467	$4,587,535	($1,652,068)	$673,218	($0)	$336,609
	$88,064,000	$88,064,000				

Inputs

Capitalized Lease Cost	$83,064,000
Development Cost	$5,000,000
Working Capital	$2,000,000
Mergent Double A Utility Bond Index	5.50%
Composite Income Tax Factor	0.4075
Property Tax Factor	0.0125
Debt Ratio	50.00%
Equity Ratio	50.00%
Cost of Equity	11.35%

Year	Lease Tax Amortization for $83M	Ratio	Lease Tax Amortization
1	$1,496,000	0.018024	$1,497,154
2	$1,554,000	0.018723	$1,555,198
3	$1,616,000	0.019470	$1,617,246
4	$1,679,000	0.020229	$1,680,295
5	$1,745,000	0.021024	$1,746,346
6	$1,814,000	0.021855	$1,815,399
7	$1,886,000	0.022723	$1,887,454
8	$1,960,000	0.023614	$1,961,511
9	$2,037,000	0.024542	$2,038,571
10	$2,117,000	0.025506	$2,118,632
11	$2,200,000	0.026506	$2,201,696
12	$2,287,000	0.027554	$2,288,763
13	$2,377,000	0.028639	$2,378,833
14	$2,476,000	0.029831	$2,477,909
15	$2,568,000	0.030940	$2,569,980
16	$2,669,000	0.032157	$2,671,058
17	$2,774,000	0.033422	$2,776,139
18	$2,883,000	0.034735	$2,885,223
19	$2,997,000	0.036108	$2,999,311
20	$3,115,000	0.037530	$3,117,402
21	$3,237,000	0.039000	$3,239,496
22	$3,364,000	0.040530	$3,366,594
23	$3,497,000	0.042133	$3,499,696
24	$3,635,000	0.043795	$3,637,803
25	$3,778,000	0.045518	$3,780,913
26	$3,927,000	0.047313	$3,930,028
27	$4,081,000	0.049169	$4,084,147
28	$4,242,000	0.051108	$4,245,271
29	$4,405,000	0.053072	$4,408,397
30	$4,584,000	0.055229	$4,587,535
Total	$83,000,000		$83,064,000

CERTIFICATE OF SERVICE

I hereby certify that I have on this day served the foregoing document upon each party designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 CFR § 385.1020).

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

Dated at Washington, DC this 9th of August, 2009.

/s/ Paul M. Breakman

Paul M. Breakman

Attachment 3

SAN DIEGO GAS & ELECTRIC COMPANY
BALANCE SHEET
ASSETS AND OTHER DEBITS
JUNE 30, 2009

	1. UTILITY PLANT	2009
101	UTILITY PLANT IN SERVICE	$8,994,195,135
102	UTILITY PLANT PURCHASED OR SOLD	-
105	PLANT HELD FOR FUTURE USE	2,973,017
106	COMPLETED CONSTRUCTION NOT CLASSIFIED	-
107	CONSTRUCTION WORK IN PROGRESS	462,148,650
108	ACCUMULATED PROVISION FOR DEPRECIATION OF UTILITY PLANT	(4,122,435,606)
111	ACCUMULATED PROVISION FOR AMORTIZATION OF UTILITY PLANT	(235,434,555)
118	OTHER UTILITY PLANT	616,341,061
119	ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF OTHER UTILITY PLANT	(130,467,314)
120	NUCLEAR FUEL - NET	42,932,857
	TOTAL NET UTILITY PLANT	5,630,253,245

	2. OTHER PROPERTY AND INVESTMENTS	
121	NONUTILITY PROPERTY	5,897,686
122	ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF NONUTILITY PROPERTY	(500,769)
123	INVESTMENTS IN SUBSIDIARY COMPANIES	-
124	OTHER INVESTMENTS	-
125	SINKING FUNDS	-
128	OTHER SPECIAL FUNDS	580,762,883
	TOTAL OTHER PROPERTY AND INVESTMENTS	586,159,800

Data from SPL as of July 30, 2009

SAN DIEGO GAS & ELECTRIC COMPANY
BALANCE SHEET
ASSETS AND OTHER DEBITS
JUNE 30, 2009

3. CURRENT AND ACCRUED ASSETS

		2009
131	CASH	20,887,169
132	INTEREST SPECIAL DEPOSITS	-
134	OTHER SPECIAL DEPOSITS	-
135	WORKING FUNDS	3,000
136	TEMPORARY CASH INVESTMENTS	159,800,000
141	NOTES RECEIVABLE	801,453
142	CUSTOMER ACCOUNTS RECEIVABLE	175,968,903
143	OTHER ACCOUNTS RECEIVABLE	62,435,675
144	ACCUMULATED PROVISION FOR UNCOLLECTIBLE ACCOUNTS	(3,534,500)
145	NOTES RECEIVABLE FROM ASSOCIATED COMPANIES	5,335,186
146	ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES	658,572
151	FUEL STOCK	2,720,956
152	FUEL STOCK EXPENSE UNDISTRIBUTED	-
154	PLANT MATERIALS AND OPERATING SUPPLIES	59,897,492
156	OTHER MATERIALS AND SUPPLIES	-
163	STORES EXPENSE UNDISTRIBUTED	-
164	GAS STORED	356,750
165	PREPAYMENTS	42,789,773
171	INTEREST AND DIVIDENDS RECEIVABLE	2,697,154
173	ACCRUED UTILITY REVENUES	48,834,000
174	MISCELLANEOUS CURRENT AND ACCRUED ASSETS	984,010,234
175	DERIVATIVE INSTRUMENT ASSETS	40,732,898
	TOTAL CURRENT AND ACCRUED ASSETS	1,604,394,715

4. DEFERRED DEBITS

181	UNAMORTIZED DEBT EXPENSE	24,541,564
182	UNRECOVERED PLANT AND OTHER REGULATORY ASSETS	1,415,438,992
183	PRELIMINARY SURVEY & INVESTIGATION CHARGES	645,141
184	CLEARING ACCOUNTS	137,955
185	TEMPORARY FACILITIES	-
186	MISCELLANEOUS DEFERRED DEBITS	3,558,935
188	RESEARCH AND DEVELOPMENT	-
189	UNAMORTIZED LOSS ON REACQUIRED DEBT	28,493,716
190	ACCUMULATED DEFERRED INCOME TAXES	273,225,435
	TOTAL DEFERRED DEBITS	1,746,041,738
	TOTAL ASSETS AND OTHER DEBITS	9,566,849,498

Data from SPL as of July 30, 2009

SAN DIEGO GAS & ELECTRIC COMPANY
BALANCE SHEET
LIABILITIES AND OTHER CREDITS
JUNE 30, 2009

5. PROPRIETARY CAPITAL

		2009
201	COMMON STOCK ISSUED	$291,458,395
204	PREFERRED STOCK ISSUED	78,475,400
207	PREMIUM ON CAPITAL STOCK	592,222,753
210	GAIN ON RETIRED CAPITAL STOCK	-
211	MISCELLANEOUS PAID-IN CAPITAL	279,618,042
214	CAPITAL STOCK EXPENSE	(25,688,571)
216	UNAPPROPRIATED RETAINED EARNINGS	1,436,819,621
219	ACCUMULATED OTHER COMPREHENSIVE INCOME	(10,352,524)
	TOTAL PROPRIETARY CAPITAL	2,642,553,116

6. LONG-TERM DEBT

221	BONDS	1,936,905,000
223	ADVANCES FROM ASSOCIATED COMPANIES	-
224	OTHER LONG-TERM DEBT	253,720,000
225	UNAMORTIZED PREMIUM ON LONG-TERM DEBT	-
226	UNAMORTIZED DISCOUNT ON LONG-TERM DEBT	(3,952,389)
	TOTAL LONG-TERM DEBT	2,186,672,611

7. OTHER NONCURRENT LIABILITIES

227	OBLIGATIONS UNDER CAPITAL LEASES - NONCURRENT	-
228.2	ACCUMULATED PROVISION FOR INJURIES AND DAMAGES	26,248,198
228.3	ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	433,180,166
228.4	ACCUMULATED MISCELLANEOUS OPERATING PROVISIONS	-
230	ASSET RETIREMENT OBLIGATIONS	570,399,405
	TOTAL OTHER NONCURRENT LIABILITIES	1,029,827,769

Data from SPL as of July 30, 2009

SAN DIEGO GAS & ELECTRIC COMPANY
BALANCE SHEET
LIABILITIES AND OTHER CREDITS
JUNE 30, 2009

8. CURRENT AND ACCRUED LIABILITES

		2009
231	NOTES PAYABLE	-
232	ACCOUNTS PAYABLE	200,261,723
233	NOTES PAYABLE TO ASSOCIATED COMPANIES	
234	ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES	57,583,451
235	CUSTOMER DEPOSITS	53,562,609
236	TAXES ACCRUED	1,520,642
237	INTEREST ACCRUED	23,260,151
238	DIVIDENDS DECLARED	1,204,917
241	TAX COLLECTIONS PAYABLE	6,559,417
242	MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES	1,107,329,298
243	OBLIGATIONS UNDER CAPITAL LEASES - CURRENT	-
244	DERIVATIVE INSTRUMENT LIABILITIES	299,356,131
245	DERIVATIVE INSTRUMENT LIABILITIES - HEDGES	-
	TOTAL CURRENT AND ACCRUED LIABILITIES	1,750,638,339

9. DEFERRED CREDITS

252	CUSTOMER ADVANCES FOR CONSTRUCTION	15,872,888
253	OTHER DEFERRED CREDITS	156,011,090
254	OTHER REGULATORY LIABILITIES	847,094,403
255	ACCUMULATED DEFERRED INVESTMENT TAX CREDITS	25,120,697
257	UNAMORTIZED GAIN ON REACQUIRED DEBT	-
281	ACCUMULATED DEFERRED INCOME TAXES - ACCELERATED	5,201,256
282	ACCUMULATED DEFERRED INCOME TAXES - PROPERTY	671,842,744
283	ACCUMULATED DEFERRED INCOME TAXES - OTHER	236,014,585
	TOTAL DEFERRED CREDITS	1,957,157,663
	TOTAL LIABILITIES AND OTHER CREDITS	$9,566,849,498

Data from SPL as of July 30, 2009

SAN DIEGO GAS & ELECTRIC COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS
SIX MONTHS ENDED JUNE 30, 2009

1. UTILITY OPERATING INCOME

400	OPERATING REVENUES		$1,381,792,565
401	OPERATING EXPENSES	$819,955,138	
402	MAINTENANCE EXPENSES	78,117,002	
403-7	DEPRECIATION AND AMORTIZATION EXPENSES	157,674,594	
408.1	TAXES OTHER THAN INCOME TAXES	35,722,605	
409.1	INCOME TAXES	70,794,702	
410.1	PROVISION FOR DEFERRED INCOME TAXES	18,739,140	
411.1	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	(6,002,084)	
411.4	INVESTMENT TAX CREDIT ADJUSTMENTS	(1,236,812)	
411.6	GAIN FROM DISPOSITION OF UTILITY PLANT	(945,335)	
	TOTAL OPERATING REVENUE DEDUCTIONS		1,172,818,950
	NET OPERATING INCOME		208,973,615

2. OTHER INCOME AND DEDUCTIONS

415	REVENUE FROM MERCHANDISING, JOBBING AND CONTRACT WORK	-	
417.1	EXPENSES OF NONUTILITY OPERATIONS	(30,891)	
418	NONOPERATING RENTAL INCOME	210,819	
418.1	EQUITY IN EARNINGS OF SUBSIDIARIES	-	
419	INTEREST AND DIVIDEND INCOME	4,322,981	
419.1	ALLOWANCE FOR OTHER FUNDS USED DURING CONSTRUCTION	13,057,679	
421	MISCELLANEOUS NONOPERATING INCOME	520,733	
421.1	GAIN ON DISPOSITION OF PROPERTY	-	
	TOTAL OTHER INCOME	18,081,321	
421.2	LOSS ON DISPOSITION OF PROPERTY	-	
426	MISCELLANEOUS OTHER INCOME DEDUCTIONS	641,729	
	TOTAL OTHER INCOME DEDUCTIONS	641,729	
408.2	TAXES OTHER THAN INCOME TAXES	166,783	
409.2	INCOME TAXES	4,618,274	
410.2	PROVISION FOR DEFERRED INCOME TAXES	3,266,287	
411.2	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	-	
	TOTAL TAXES ON OTHER INCOME AND DEDUCTIONS	8,051,344	
	TOTAL OTHER INCOME AND DEDUCTIONS		10,671,706
	INCOME BEFORE INTEREST CHARGES		219,645,321
	NET INTEREST CHARGES*		48,163,444
	NET INCOME		$171,481,877

**NET OF ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION (4,435,302)*

Data from SPL as of July 30, 2009

SAN DIEGO GAS & ELECTRIC COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS
SIX MONTHS ENDED JUNE 30, 2009

3. RETAINED EARNINGS

RETAINED EARNINGS AT BEGINNING OF PERIOD, AS PREVIOUSLY REPORTED	$1,417,747,578
NET INCOME (FROM PRECEDING PAGE)	171,481,877
DIVIDEND TO PARENT COMPANY	-
DIVIDENDS DECLARED - PREFERRED STOCK	(2,409,834)
OTHER RETAINED EARNINGS ADJUSTMENTS	(150,000,000)
RETAINED EARNINGS AT END OF PERIOD	$1,436,819,621

CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the Commission's Rules of Practice and Procedure, I have this day served a true and correct copy of the foregoing **APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) FOR APPROVAL PURSUANT TO PUBLIC UTILITIES CODE SECTION 851 TO LEASE TRANSFER CAPABILITY RIGHTS TO CITIZENS ENERGY CORPORATION** to each party named in the official service list for the Sunrise proceeding (A.06-08-010) by electronic mail. Those parties without an email address were served by placing copies in properly addressed and sealed envelopes and depositing such envelopes in the United States Mail with first-class postage prepaid. Hard copies will also be sent to the Assigned Commissioner and Administrative Law Judge ("ALJ") in the Sunrise proceeding (A.06-08-010) and to Chief ALJ Karen Clopton.

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

/s/ Lisa Fucci-Ortiz___
Lisa Fucci-Ortiz

CPUC Home

CALIFORNIA PUBLIC UTILITIES COMMISSION
Service Lists

PROCEEDING: A0608010 - SDG&E - CPCN FOR THE
FILER: SAN DIEGO GAS & ELECTRIC COMPANY (U902E)
LIST NAME: LIST
LAST CHANGED: OCTOBER 7, 2009

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Parties

ARNOLD B. PODGORSKY
WRIGHT & TALISMAN, P.C.
1200 G STREET, N.W., SUITE 600
WASHINGTON, DC 20005
FOR: THE NEVADA HYDRO COMPANY

MICHAEL J. THOMPSON
ATTORNEY AT LAW
WRIGHT & TALISMAN, PC
1200 G STREET, N.W., STE 600
WASHINGTON, DC 20005
FOR: THE NEVADA HYDRO COMPANY

NICOLAS PUGA
BATES WHILE, LLC
1300 EYE STREET, NW, SUITE 600
WASHINGTON, DC 20005
FOR: ZEMER ENERGIA

STEVEN SIEGEL
STAFF ATTORNEY
CENTER FOR BIOLOGICAL DIVERSITY
3421 PARK PLACE
EVANSTON, IL 60201
FOR: CENTER FOR BIOLOGICAL DIVERSITY

STEVEN SIEGEL
3421 PARK PLACE
EVANSTON, IL 60201
FOR: SELF

SARA FELDMAN
CA STATE PARKS FOUNDATION
714 W. OLYMPIC BLVD., SUITE 717
LOS ANGELES, CA 90015
FOR: CA STATE PARKS FOUNDATION

S. NANCY WHANG
ATTORNEY AT LAW
MANATT, PHELPS & PHILLIPS, LLP
11355 WEST OLYMPIC BLVD.
LOS ANGELES, CA 90064
FOR: THE CITY OF SANTEE

ARTHUR FINE
MITCHELL SILBERBERG & KNUPP LLP
11377 W. OLYMPIC BLVD.
LOS ANGELES, CA 90064-1683
FOR: DAVID H. BATCHELDER

THOMAS A. BURHENN
SOUTHERN CALIFORNIA EDISON
2244 WALNUT GROVE AVENUE
ROSEMEAD, CA 91770
FOR: SOUTHERN CALIFORNIA EDISON

DON WOOD SR.
PACIFIC ENERGY POLICY CENTER
4539 LEE AVENUE
LA MESA, CA 91941

DIANA LINSDAY
ANZA-BORREGO FOUNDATION & INSTITUTE
PO BOX 2001

LINDA A. CARSON
EXECUTIVE DIRECTOR
ANZA-BORREGO FOUNDATION

BORREGO SPRINGS, CA 92004
FOR: ANZA-BORREGO FOUNDATION & INSTITUTE

PO BOX 2001
BORREGO SPRINGS, CA 92004
FOR: ANZA-BORREGO FOUNDATION

MICHAEL L. WELLS
CALIFORNIA DEPARTMENTOF PARKS&RECREATION
200 PALM CANYON DRIVE
BORREGO SPRINGS, CA 92004

SCOT MARTIN
PO BOX 1549
BORREGO SPRINGS, CA 92004

DAVID LLOYD
ATTORNEY AT LAW
CABRILLO POWER I, LLC
4600 CARLSBAD BLVD.
CARLSBAD, CA 92008
FOR: CABRILLO POWER I, LLC

CONNIE BULL
24572 RUTHERFORD ROAD
RAMONA, CA 92065

DIANE CONKLIN
SPOKESPERSON
MUSSEY GRADE ROAD ALLIANCE
PO BOX 683
RAMONA, CA 92065
FOR: MUSSEY GRADE ROAD ALLIANCE

ELIZABETH EDWARDS
RAMONA VALLEY VINEYARD ASSOCIATION
26502 HIGHWAY 78
RAMONA, CA 92065
FOR: RAMONA VALLEY VINEYARD ASSOC.

PAM WHALEN
24444 RUTHERFORD ROAD
RAMONA, CA 92065

MICHAEL PAGE
17449 OAK HOLLOW ROAD
RAMONA, CA 92065-6758
FOR: STARLIGHT MOUNTAIN ESTATES OWNERS

HEIDI FARKASH
JOHN & HEIDI FARKASH TRUST
PO BOX 576
RANCHO SANTA FE, CA 92067
FOR: FARKASH RANCH IN SANTA YSABEL

DENIS TRAFECANTY
COMMUNITY OF SANTA YSABEL & RELATED COMM
PO BOX 305
SANTA YSABEL, CA 92070
FOR: SELF

E. GREGORY BARNES
ATTORNEY AT LAW
SAN DIEGO GAS & ELECTRIC COMPANY
101 ASH STREET, HQ 13D
SAN DIEGO, CA 92101
FOR: SAN DIEGO GAS & ELECTRIC

FREDERICK M. ORTLIEB
OFFICE OF CITY ATTORNEY
CITY OF SAN DIEGO
1200 THIRD AVENUE, SUITE 1200
SAN DIEGO, CA 92101
FOR: CITY OF SAN DIEGO

JAMES F. WALSH
SAN DIEGO GAS & ELECTRIC COMPANY
101 ASH STREET
SAN DIEGO, CA 92101
FOR: SAN DIEGO GAS & ELECTRIC COMPANY

MICHAEL P. CALABRESE
CITY OF SAN DIEGO
OFFICE OF THE CITY ATTORNEY
1200 THIRD AVENUE, SUITE 1100
SAN DIEGO, CA 92101
FOR: CITY OF SAN DIEGO

SHAWN D. HAGERTY
CITY OF ATTORNEY
BEST BEST & KRIEGER LLP
655 W. BROADWAY, 15TH FLOOR
SAN DIEGO, CA 92101-3301
FOR: THE CITY OF SANTEE

DONALD C. LIDDELL
ATTORNEY AT LAW
DOUGLASS & LIDDELL
2928 2ND AVENUE
SAN DIEGO, CA 92103
FOR: STIRLING ENERGY SYSTEMS

MICHAEL SHAMES
UTILITY CONSUMERS ACTION NETWORK
3100 FIFTH AVENUE, SUITE B
SAN DIEGO, CA 92103
FOR: UTILITY CONSUMERS' ACTION NETWORK

MICHAEL SHAMES
UTILITY CONSUMERS ADVOCATE NETWORK
3100 FIFTH AVE. STE. B
SAN DIEGO, CA 92103
FOR: UCAN

CARRIE DOWNEY
LAW OFFICES OF CARRIE ANNE DOWNEY
1313 YNEZ PLACE
CORONADO, CA 92118
FOR: IMPERIAL IRRIGATION DISTRICT

KEVIN O'BEIRNE
REGULATORY CASE MANAGER
SAN DIEGO GAS & ELECTRIC COMPANY
8330 CENTURY PARK COURT, CP32D
SAN DIEGO, CA 92123
FOR: SAN DIEGO GAS & ELECTRIC

HARVEY PAYNE
LAW OFFICES OF HARVEY M. PAYNE

KEITH RITCHEY
POWERLINK ISSUES MANAGER

15330 AVENUE OF SCIENCE
SAN DIEGO, CA 92128
FOR: RANCHO PENASQUITOS CONCERNED CITIZENS

8744 CREEKWOOD LANE
SAN DIEGO, CA 92129
FOR: WEST CHASE HOMEOWNER'S ASSOCIATION

JOHN W. LESLIE, ESQ.
ATTORNEY AT LAW
LUCE, FORWARD, HAMILTON & SCRIPPS, LLP
11988 EL CAMINO REAL, SUITE 200
SAN DIEGO, CA 92130
FOR: CORAL POWER, LLC AND ENERGIA AZTECA/ENERGIA DE BAJA CALIFORNIA (LA ROSITA)

JOETTA MIHALOVICH
11705 ALDERCREST POINT
SAN DIEGO, CA 92131

STEPHEN KEENE
ATTORNEY AT LAW
IMPERIAL IRRIGATION DISTRICT
333 EAST BARIONI BLVD., PO BOX 937
IMPERIAL, CA 92251
FOR: IMPERIAL IRRIGATION DISTRICT

PATRICIA C. SCHNIER
14575 FLATHEAD RD.
APPLE VALLEY, CA 92307
FOR: SELF

JACQUELINE AYER
2010 WEST AVENUE K, NO. 701
LANCASTER, CA 93536
FOR: JACQUELINE AYER

BILLY BLATTNER
MANAGER REGULATORY RELATIONS
SAN DIEGO GAS & ELECTRIC COMPANY
601 VAN NESS AVENUE, SUITE 2060
SAN FRANCISCO, CA 94102
FOR: SAN DIEGO GAS & ELECTRIC COMPANY

OSA L. WOLFF
ATTORNEY AT LAW
SHUTE, MIHALY & WEINBERGER, LLC
396 HAYES STREET
SAN FRANCISCO, CA 94102
FOR: CITIES OF TEMECULA, MURRIETA & HEMET

RORY COX
RATEPAYERS FOR AFFORDABLE CLEAN ENERGY
251 KEARNY STREET, 2ND FLOOR
SAN FRANCISCO, CA 94102
FOR: C/O PACIFIC ENVIROMENT

MARION PELEO
CALIF PUBLIC UTILITIES COMMISSION
LEGAL DIVISION
ROOM 4107
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214
FOR: DIVISION OF RATEPAYER ADVOCATES

TRAVIS FOSS
CALIF PUBLIC UTILITIES COMMISSION
LEGAL DIVISION
ROOM 5028
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214
FOR: CONSUMER PROTECTION AND SAFETY DIVISION

NORMAN J. FURUTA
ATTORNEY AT LAW
FEDERAL EXECUTIVE AGENCIES
1455 MARKET ST., SUITE 1744
SAN FRANCISCO, CA 94103-1399
FOR: DEPARTMENT OF THE NAVY

JUSTIN AUGUSTINE
CENTER FOR BIOLOGICAL DIVERSITY
351 CALIFORNIA STREET, SUITE 600
SAN FRANCISCO, CA 94104
FOR: CENTER FOR BIOLOGICAL DIVERSITY

MICHEL PETER FLORIO
ATTORNEY AT LAW
THE UTILITY REFORM NETWORK
115 SANSOME STREET, SUITE 900
SAN FRANCISCO, CA 94104
FOR: TURN

BRIAN T. CRAGG
ATTORNEY AT LAW
GOODIN MACBRIDE SQUERI RITCHIE & DAY
505 SANSOME STREET, SUITE 900
SAN FRANCISCO, CA 94111
FOR: LS POWER; SOUTH BAY REPLACEMENT PROJECT, LLC

RICHARD W. RAUSHENBUSH
ATTORNEY AT LAW
LATHAM & WATKINS LLP
505 MONTGOMERY STREET, SUITE 2000
SAN FRANCISCO, CA 94111
FOR: SAN DIEGO GAS & ELECTRIC

JEFFREY P. GRAY
ATTORNEY AT LAW
DAVIS WRIGHT TREMAINE, LLP
505 MONTGOMERY STREET, SUITE 800
SAN FRANCISCO, CA 94111-6533
FOR: CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORP.

CHRISTOPHER J. WARNER
PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE STREET, B30A
SAN FRANCISCO, CA 94120-7442

WILLIAM F. DIETRICH
ATTORNEY AT LAW
DIETRICH LAW
2977 YGNACIO VALLEY ROAD, NO. 613

FOR: PACIFIC GAS & ELECTRIC COMPANY

WALNUT CREEK, CA 94598-3535
FOR: CALIFORNIA STATE PARKS FOUNDATION AND ANZA-BORREGO FOUNDATION

DAVID KATES
DAVID MARK AND COMPANY
3510 UNOCAL PLACE, SUITE 200
SANTA ROSA, CA 95403-5571
FOR: THE NEVADA HYDRO COMPANY

JOHN MCCAULL
GEOTHERMAL ENERGY ASSOCIATION
538 BROADWAY, SUITE B
SONOMA, CA 95476-6885
FOR: GEOTHERMAL ENERGY ASSOCIATION

JUDITH B. SANDERS
ATTORNEY AT LAW
CALIFORNIA INDEPENDENT SYSTEM OPERATOR
151 BLUE RAVINE ROAD
FOLSOM, CA 95630
FOR: CALIFORNIA INDEPENDENT SYSTEM OPERATOR

KATHRYN J. TOBIAS
LEGAL OFFICE
DEPARTMENT OF PARKS AND RECREATION
1416 9TH STREET, ROOM 1404-6
SACRAMENTO, CA 95814
FOR: CA DEPARTMENT OF PARKS AND RECREATION

STEVEN KELLY
POLICY DIRECTOR
INDEPENDENT ENERGY PRODUCERS
1215 K STREET, SUITE 900
SACRAMENTO, CA 95814
FOR: INDEPENDENT ENERGY PRODUCERS ASSSOCIATION.

JEFFERY D. HARRIS
ATTORNEY AT LAW
ELLISON, SCHNEIDER & HARRIS LLP
2600 CAPITOL AVENUE, SUITE 400
SACRAMENTO, CA 95816-5905

KAREN NORENE MILLS
ATTORNEY AT LAW
CALIFORNIA FARM BUREAU FEDERATION
2300 RIVER PLAZA DRIVE
SACRAMENTO, CA 95833
FOR: CALIFORNIA FARM BUREAU FEDERATION

KEVIN A. LYNCH
IBERDROLA RENEWABLES INC
1125 NW COUCH ST., SUITE 700
PORTLAND, OR 97209

Information Only

ELIZABETH KLEIN
LATHAM & WATKINS, LLP
555 11TH STREET NW, STE. 1000
WASHINGTON, DC 20004

JANICE SCHNEIDER
LATHAM & WATKINS, LLP
555 11TH STREET NW, STE 1000
WASHINGTON, DC 20004-1304

MICHAEL J. GERGEN
LATHAM & WATKINS LLP
SUITE 1000
555 ELEVENTH STREET, NW
WASHINGTON, DC 20004-1304

KELLY FULLER
ENERGY AND NATURE
PO BOX 6732
MINNEAPOLIS, MN 55406

DANIEL SUURKASK
WILD ROSE ENERGY SOLUTIONS, INC.
1418 E. RANDLE AVE.
COEUR D'ALENE, ID 83814

E. CRAIG SMAY
E. CRAIG SMAY PC
174 EAST SOUTH TEMPLE
SALT LAKE CITY, UT 84111
FOR: WILLIAM AND SHANNON DAVIS

RANDY S. HOWARD
LOS ANGELES DEPT. OF WATER AND POWER
111 NORTH HOPE STREET, ROOM 921
LOS ANGELES, CA 90012

CLAY E. FABER
SOUTHERN CALIFORNIA GAS COMPANY
555 WEST FIFTH STREET, GT-14D6
LOS ANGELES, CA 90013
FOR: SAN DIEGO GAS & ELECTRIC COMPANY

BRADLY TORGAN
TRUMAN ELLIOTT LLP
626 WILSHIRE BLVD. SUITE 550
LOS ANGELES, CA 90017
FOR: TRUMAN ELLIOTT LLP

RANDALL W. KEEN
ATTORNEY AT LAW
MANATT PHELPS & PHILLIPS, LLP
11355 WEST OLYMPIC BLVD.
LOS ANGELES, CA 90064
FOR: CITY OF SANTEE

CASE ADMINISTRATION
SOUTHERN CALIFORNIA EDISON COMPANY
LAW DEPARTMENT, ROOM 370

DARELL HOLMES
TRANSMISSION MANAGER
SOUTHERN CALIFORNIA EDISON

2244 WALNUT GROVE AVENUE
ROSEMEAD, CA 91770

2244 WALNIT GROVE AVE, 238M, QUADB, G01
ROSEMEAD, CA 91770

JENNIFER HASBROUCK
ATTORNEY AT LAW
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE PO BOX 800
ROSEMEAD, CA 91770

JULIE A. MILLER
ATTORNEY AT LAW
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVE, RM. 345/POBOX 800
ROSEMEAD, CA 91770

MONICA ARGANDONA
DESERT PROGRAM DIRECTOR
CALIFORNIA WILDERNESS COALITION
167 NORTH THIRD AVENUE, STE. M
UPLAND, CA 91786

DONNA TISDALE
BOULEVARD SPONSOR GROUP
PO BOX 1272
BOULEVARD, CA 91905

MATTHEW JUMPER
SAN DIEGO INTERFAITH HOUSING FOUNDATION
7956 LESTER AVE
LEMON GROVE, CA 91945
FOR: SAN DIEGO INTERFAITH HOUSING FOUNDATION

REBECCA PEARL
POLICY ADVOCATE, CLEAN BAY CAMPAIGN
ENVIRONMENTAL HEALTH COALITION
401 MILE OF CARS WAY, STE. 310
NATIONAL CITY, CA 91950
FOR: ENVIRONMENTAL HEALTH COALITION

BOB & MARGARET BARELMANN
6510 FRANCISCAN ROAD
CARLSBAD, CA 92011

DAVE DOWNEY
NORTH COUNTY TIMES
207 E. PENNSYLVANIA AVENUE
ESCONDIDO, CA 92025

J. HARRY JONES
SAN DIEGO UNION TRIBUNE
800 WEST VALLEY PARKWAY, SUITE 114
ESCONDIDO, CA 92025

PAT/ALBERT BIANEZ
1223 ARMSTRONG CIRCLE
ESCONDIDO, CA 92027

WALLY BESUDEN
PRESIDENT
SPANGLER PEAK RANCH, INC
PO BOX 1959
ESCONDIDO, CA 92033

DAVID W. CAREY
DAVID CAREY & ASSOCIATES, INC.
PO BOX 2481
JULIAN, CA 92036

LAUREL GRANQUIST
PO BOX 2486
JULIAN, CA 92036

MARTHA BAKER
VOLCAN MOUNTAIN PRESERVE FOUNDATION
PO BOX 1625
JULIAN, CA 92036

JOHN RAIFSNIDER
PO BOX 121
JULIAN, CA 92036-0121

BRIAN KRAMER
PO BOX 516
JULIAN, CA 92036-0516

NANCY PARINELLO
PO BOX 516
JULIAN, CA 92036-0516

PAUL RIDGWAY
3027 LAKEVIEW DR.
PO BOX 1435
JULIAN, CA 92036-1435

DAVID VOSS
502 SPRINGFIELD AVENUE
OCEANSIDE, CA 92057

SCOTT KARDEL
PALOMAR OBSERVATORY
PO BOX 200
PALOMAR MOUNTAIN, CA 92060

CAROLYN A. DORROH
RAMONA COMMUNITY PLANNING GROUP
17235 VOORHES LANE
RAMONA, CA 92065

JOSEPH W. MITCHELL, PH. D.
M-BAR TECHNOLOGIES AND CONSULTING, LLC
19412 KIMBALL VALLEY RD
RAMONA, CA 92065

JOSEPH W. MITCHELL, PHD
M-BAR TECHNOLOGIES AND CONSULTING
19412 KIMBALL VALLEY RD.
RAMONA, CA 92065
FOR: M-BAR TECHNOLOGIES AND CONSULTING

LARA LOPEZ
16828 OPEN VIEW RD
RAMONA, CA 92065

PETER SCHULTZ
OLD JULIAN CO.
PO BOX 2269
RAMONA, CA 92065

PHILLIP &ELIANE BREEDLOVE
1804 CEDAR STREET
RAMONA, CA 92065

WILLIAM TULLOCH
28223 HIGHWAY 78
RAMONA, CA 92065

CAROLYN MORROW
GOLIGHTLY FARMS
36255 GRAPEVINE CANYON ROAD
RANCHITA, CA 92066

JOSEPH RAUH
RANCHITA REALTY
37554 MONTEZUMA VALLEY RD
RANCHITA, CA 92066
FOR: RANCHITA REALTY

STEVE/CAROLYN ESPOSITO
37784 MONTEZUMA VALLEY ROAD
RANCHITA, CA 92066

BONNIE GENDRON
4812 GLENSIDE ROAD
SANTA YSABEL, CA 92070

GLENDA KIMMERLY
PO BOX 305
SANTA YSABEL, CA 92070

GLENN E. DROWN
PO BOX 330
SANTA YSABEL, CA 92070

JOHN&PHYLLIS BREMER
PO BOX 510
SANTA YSABEL, CA 92070

K. RENEE MARTIN
PO BOX 1276
POWAY, CA 92074

DAN PERKINS
ENERGYSMARTHOMES.NET
983 PHILLIPS ST.
VISTA, CA 92083

DEANNA SPEHN
OFFICE OF SENATOR CHRISTINE KEHOE
39TH STATE SENATE DISTRICT
2445 5TH AVENUE, SUITE 200
SAN DIEGO, CA 92101

SUSAN FREEDMAN
SENIOR REGIONAL ENERGY PLANNER
SAN DIEGO ASSOCIATION OF GOVERNMENTS
401 B STREET, SUITE 800
SAN DIEGO, CA 92101

JASON M. OHTA
LATHAM &WATKINS LLP
600 WEST BROADWAY, SUITE 1800
SAN DIEGO, CA 92101-3375
FOR: SAN DIEGO GAS AND ELECTRIC COMPANY

PATRICIA GUERRERO
ATTORNEY AT LAW
LATHAM & WATKINS
600 WEST BROADWAY, SUITE 1800
SAN DIEGO, CA 92101-3375
FOR: SAN DIEGO GAS AND ELECTRIC COMPANY

MICAH MITROSKY
SIERRA CLUB
3820 RAY STREET
SAN DIEGO, CA 92104-3623

KIM KIENER
504 CATALINA BLVD
SAN DIEGO, CA 92106

JIM BELL
4862 VOLTAIRE ST.
SAN DIEGO, CA 92107

STEPHEN ROGERS
1340 OPAL STREET
SAN DIEGO, CA 92109

EPIC INTERN
EPIC/USD SCHOOL OF LAW
5998 ALCALA PARK
SAN DIEGO, CA 92110

ONELL SOTO
SAN DIEGO UNION TRIBUNE
PO BOX 120191
SAN DIEGO, CA 92112-0191
FOR: SAN DIEGO UNION TRIBUNE

GEORGE COURSER
3142 COURSER AVENUE
SAN DIEGO, CA 92117

CENTRAL FILES
SAN DIEGO GAS & ELECTRIC CO.
8330 CENTURY PARK COURT, CP31-E
SAN DIEGO, CA 92123

JENNIFER PORTER
POLICY ANALYST
CALIFORNIA CENTER FOR SUSTAINABLE ENERGY
8690 BALBOA AVENUE, SUITE 100
SAN DIEGO, CA 92123

SABRINA OZTURK
MSCP DIVISION
COUNTY OF SAN DIEGO
5201 RUFFIN ROAD, SUITE B
SAN DIEGO, CA 92123

SEPHRA A. NINOW
POLICY ANALYST
CALIFORNIA CENTER FOR SUSTAINABLE ENERGY
8690 BALBOA AVENUE, SUITE 100
SAN DIEGO, CA 92123

TOM BLAIR
ENERGY ADMINISTRATOR
CITY OF SAN DIEGO
9601 RIDGEHAVEN COURT, SUITE 120
SAN DIEGO, CA 92123-1636

DAHVIA LOCKE
ENIRONMENTAL RESOURCE MANAGER
COUNTY OF SAN DIEGO
5201 RUFFIN ROAD, SUITE B
SAN DIEGO, CA 92123-1666

JALEH (SHARON) FIROOZ, P.E.
ADVANCED ENERGY SOLUTIONS
17114 TALLOW TREE LANE
SAN DIEGO, CA 92127

EILEEN BIRD
12430 DORMOUSE ROAD
SAN DIEGO, CA 92129

KIMBELRY SCHULZ
10303 CANINITO ARALIA NO 96
SAN DIEGO, CA 92131

GREGORY T. LAMBRON
LAMBRON LAKESIDE RANCH, LLC
PO BOX 15453
SAN DIEGO, CA 92175-5453

LYNDA KASTOLL
BUREAU OF LAND MANAGEMENT
1661 SOUTH 4TH STREET
EL CENTRO, CA 92243

THOMAS ZALE
BUREAU OF LAND MANAGEMENT
1661 SO. 4TH STREET
EL CENTRO, CA 92243

SUZANNE WILSON
PO BOX 798
IDYLLWILD, CA 92549

LOUIS NASTRO
PO BOX 942896
SACRAMENTO, CA 92860-0001

BRUCE FOSTER
SENIOR VICE PRESIDENT
SOUTHERN CALIFORNIA EDISON COMPANY
601 VAN NESS AVENUE, STE. 2040
SAN FRANCISCO, CA 94102

DIANE I. FELLMAN
NEXTERA ENERGY RESOURCES, LLC.
234 VAN NESS AVENUE
SAN FRANCISCO, CA 94102

SHERIDAN PAUKER
SHUTE,MIHALY & WEINBERGER LLP
396 HAYES STREET
SAN FRANCISCO, CA 94102
FOR: CITIES OF TEMECULA, HEMET AND MURRIETA

AARON QUINTANAR
RATE PAYERS FOR AFFORDABLE CLEAN ENERGY
311 CALIFORNIA STREET, STE 650
SAN FRANCISCO, CA 94104

BREWSTER BIRDSALL
ASPEN ENVIRONMENTAL GROUP
235 MONTGOMERY STREET, SUITE 935
SAN FRANCISCO, CA 94104

DAVID T. KRASKA
ATTORNEY AT LAW
PACIFIC GAS AND ELECTRIC COMPANY
PO BOX 7442, 77 BEALE ST, B30A
SAN FRANCISCO, CA 94105

JASON YAN
PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE STREET, MAIL CODE B13L
SAN FRANCISCO, CA 94105

KATARZYNA M. SMOLEN
PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE STREET, MC B10A
SAN FRANCISCO, CA 94105

MICHAEL S. PORTER
PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE ST., MAIL CODE 13L RM 1318
SAN FRANCISCO, CA 94105

CASSANDRA SWEET
DOW JONES NEWSWIRES
201 CALIFORNIA ST., 13TH FLOOR
SAN FRANCISCO, CA 94111

JULIE L. FIEBER
FOLGER LEVIN & KAHN LLP
275 BATTERY STREET, 23RD FLOOR
SAN FRANCISCO, CA 94111

DAVID L. HUARD
ATTORNEY AT LAW
MANATT, PHELPS & PHILLIPS, LLP
ONE EMBARCADERO CENTER, STE 2900
SAN FRANCISCO, CA 94111-3736
FOR: CITY OF SANTEE

CALIFORNIA ENERGY MARKETS
425 DIVISADERO ST. STE 303
SAN FRANCISCO, CA 94117-2242

CASE COORDINATION
PACIFIC GAS AND ELECTRIC COMPANY

ROBIN HARRINGTON
STAFF COUNSEL

PO BOX 770000; MC B9A
SAN FRANCISCO, CA 94177

CAL.DEPT OF FORESTRY AND FIRE PROTECTION
PO BOX 944246
SACRAMENTO, CA 94244-2460

AUDRA HARTMANN
DIRECTOR, GOVERNMENT & REG. AFFAIRS
DYNEGY, INC.
4140 DUBLIN BLVD., STE. 100
DUBLIN, CA 94568

JOSEPH PAUL
SENIOR CORPORATE COUNSEL
DYNEGY, INC.
4140 DUBLIN BLVD., STE. 100
DUBLIN, CA 94568

PHILIPPE AUCLAIR
11 RUSSELL COURT
WALNUT CREEK, CA 94598

J.A. SAVAGE
CALIFORNIA ENERGY CIRCUIT
3006 SHEFFIELD AVE
OAKLAND, CA 94602

MRW & ASSOCIATES, INC.
1814 FRANKLIN STREET, SUITE 720
OAKLAND, CA 94612

DAVID MARCUS
ADAMS BROADWELL & JOSEPH
PO BOX 1287
BERKELEY, CA 94701

BRETT JOLLEY
JAM INVESTMENTS, INC
2291 W. MARCH LANE SUITE B-100
STOCKTON, CA 95207
FOR: JAM INVESTMENTS, INC

W. KENT PALMERTON
WK PALMERTON ASSOCIATES, LLC
2106 HOMEWOOD WAY, SUITE 100
CARMICHAEL, CA 95608

NANCY J. SARACINO
ATTORNEY
CALIFORNIA INDEP. SYSTEM OPERATOR CORP.
151 BLUE RAVINE ROAD
FOLSOM, CA 95630
FOR: CALIFORNIA INDEP. SYSTEM OPERATOR CORP.

LEGAL & REGULATORY DEPARTMENT
CALIFORNIA ISO
151 BLUE RAVINE ROAD
FOLSOM, CA 95630
FOR: CALIFORNIA ISO

ZIAD ALAYWAN
ZGLOBAL INC. ENGINEERING AND ENERGY
193 BLUE RAVINE RD, STE 110
FOLSOM, CA 95630-4769

DAVID BRANCHCOMB
BRANCHCOMB ASSOCIATES, LLC
9360 OAKTREE LANE
ORANGEVILLE, CA 95662

PAUL G. SCHEUERMAN
SHEUERMAN CONSULTING
3915 RAWHIDE RD.
ROCKLIN, CA 95677

LON W. HOUSE
WATER & ENERGY CONSULTING
4901 FLYING C RD.
CAMERON PARK, CA 95682

JAMES W. REEDE JR. ED.D
CALIFORNIA ENERGY COMMISSION
1516 - 9TH STREET
SACRAMENTO, CA 95814
FOR: CALIFORNIA ENERGY COMMISSION

KELLI MCDOWELL
CA DEPT. OF PARKS AND RECREATION
1416 NINTH STREET, ROOM 1404-06
SACRAMENTO, CA 95814

KELLIE SMITH
SENATE ENERGY/UTILITIES & COMMUNICATION
STATE CAPITOL, ROOM 2195
SACRAMENTO, CA 95814

KEVIN WOODRUFF
WOODRUFF EXPERT SERVICES, INC.
1100 K STREET, SUITE 204
SACRAMENTO, CA 95814

TARA LYNCH
ATTORNEY AT LAW
CALIFORNIA DEPT. OF PARKS & RECREATION
1416 NINTH STREET, ROOM 1404-06
SACRAMENTO, CA 95814
FOR: CALIFORNIA DEPT. OF PARKS & RECREATION

ANDREW B. BROWN
ATTORNEY AT LAW
ELLISON SCHNEIDER & HARRIS, LLP
2600 CAPITOL AVENUE, SUITE 400
SACRAMENTO, CA 95816-5905

RICHARD LAUCKHART
GLOBAL ENERGY
2379 GATEWAY OAKS DRIVE, SUITE 200
SACRAMENTO, CA 95833

G. ALAN COMNES
CABRILLO POWER I LLC
3934 SE ASH STREET
PORTLAND, OR 97214

State Service

MARCUS NIXON
CALIF PUBLIC UTILITIES COMMISSION
PUBLIC ADVISOR OFFICE
320 WEST 4TH STREET SUITE 500
LOS ANGELES, CA 90013

ANDREW CAMPBELL
CALIF PUBLIC UTILITIES COMMISSION
EXECUTIVE DIVISION
ROOM 5203
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

BILLIE C. BLANCHARD
CALIF PUBLIC UTILITIES COMMISSION
ENERGY DIVISION
AREA 4-A
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

DAVID NG
CALIF PUBLIC UTILITIES COMMISSION
EXECUTIVE DIVISION
ROOM 5207
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

DONALD R. SMITH
CALIF PUBLIC UTILITIES COMMISSION
ELECTRICITY PLANNING & POLICY BRANCH
ROOM 4209
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

GREGORY HEIDEN
CALIF PUBLIC UTILITIES COMMISSION
LEGAL DIVISION
ROOM 5039
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

HELEN M. MICKIEWICZ
CALIF PUBLIC UTILITIES COMMISSION
LEGAL DIVISION
ROOM 5123
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

JANET A. ECONOME
CALIF PUBLIC UTILITIES COMMISSION
DIVISION OF ADMINISTRATIVE LAW JUDGES
ROOM 5116
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

JEAN VIETH
CALIF PUBLIC UTILITIES COMMISSION
DIVISION OF ADMINISTRATIVE LAW JUDGES
ROOM 5010
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

JEANETTE LO
CALIF PUBLIC UTILITIES COMMISSION
UTILITY & PAYPHONE ENFORCEMENT
ROOM 2253
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

JULIE HALLIGAN
CALIF PUBLIC UTILITIES COMMISSION
CONSUMER PROTECTION AND SAFETY DIVISION
ROOM 2203
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

KEITH D WHITE
CALIF PUBLIC UTILITIES COMMISSION
ENERGY DIVISION
AREA 4-A
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

LAURENCE CHASET
CALIF PUBLIC UTILITIES COMMISSION
LEGAL DIVISION
ROOM 5131
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

LINDA J. WOODS
CALIF PUBLIC UTILITIES COMMISSION
UTILITY & PAYPHONE ENFORCEMENT
AREA 2-A
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

MATTHEW DEAL
CALIF PUBLIC UTILITIES COMMISSION
EXECUTIVE DIVISION
ROOM 5215
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

NICHOLAS SHER
CALIF PUBLIC UTILITIES COMMISSION
LEGAL DIVISION
ROOM 4007
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

ROBERT ELLIOTT
CALIF PUBLIC UTILITIES COMMISSION
ENERGY DIVISION
AREA 4-A
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

SCOTT LOGAN
CALIF PUBLIC UTILITIES COMMISSION
ELECTRICITY PLANNING & POLICY BRANCH
ROOM 4209
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214
FOR: DRA

TERRIE D. PROSPER
CALIF PUBLIC UTILITIES COMMISSION
EXECUTIVE DIVISION

TRACI BONE
CALIF PUBLIC UTILITIES COMMISSION
LEGAL DIVISION

ROOM 5301
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

ROOM 5031
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

SUSAN LEE
ASPEN ENVIRONMENTAL GROUP
235 MONTGOMERY STREET, SUITE 935
SAN FRANCISCO, CA 94104

CLARE LAUFENBERG
CALIFORNIA ENERGY COMMISSION
1516 NINTH STREET, MS 46
SACRAMENTO, CA 95814

DARRON BOUTON
DEPUTY CABINET SECRETARY
OFFICE OF GOVERNOR SCHWARZENEGGER
STATE CAPITOL
SACRAMENTO, CA 95814

MARC PRYOR
CALIFORNIA ENERGY COMMISSION
1516 9TH ST, MS 20
SACRAMENTO, CA 95814

PAUL C. RICHINS JR.
CALIFORNIA ENERGY COMMISSION
1516 9TH STREET
SACRAMENTO, CA 95814
FOR: CALIFORNIA ENERGY COMMISSION

THOMAS FLYNN
CALIF PUBLIC UTILITIES COMMISSION
ENERGY DIVISION
770 L STREET, SUITE 1050
SACRAMENTO, CA 95814

JUDY GRAU
CALIFORNIA ENERGY COMMISSION
1516 NINTH STREET MS-46
SACRAMENTO, CA 95814-5512

TOM MURPHY
VP., SACRAMENTO OPERATIONS
ASPEN ENVIRONMENTAL GROUP
8801 FOLSOM BLVD., SUITE 290
SACRAMENTO, CA 95826

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