

Application: 17-11-XXX  
Exhibit No.: SDGE-X  
Witness: John D. Jenkins

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

**DIRECT TESTIMONY OF**  
**JOHN D. JENKINS**  
**SAN DIEGO GAS & ELECTRIC COMPANY**

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

**November 13, 2017**



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

2 San Diego Gas & Electric Company (“SDG&E”) and Citizens Energy Corporation  
3 (Citizens Energy Corporation and its subsidiary that propose to enter into the Transfer Capability  
4 Lease described below are collectively and individually referred to herein as “Citizens”) have  
5 signed a Development, Coordination, and Option Agreement, dated November 9, 2017  
6 (“DCOA”).<sup>1</sup> The DCOA provides Citizens with an option to lease an approximate 12.92 percent  
7 portion of the transfer capability on Segment B (“Underground Segment B”) of the Sycamore to  
8 Penasquitos 230 kilovolt (“kV”) Transmission Project (“SX-PQ” or “Project”) located in San  
9 Diego County, pursuant to the Transfer Capability Lease substantially in the form attached as  
10 Exhibit A to the DCOA (“Transfer Capability Lease”).<sup>2</sup> The term of the Transfer Capability  
11 Lease is for 30 years (“Lease Term”). The Transfer Capability Lease that SDG&E is requesting  
12 the California Public Utilities Commission (“CPUC”) to approve contains the principal business  
13 terms of the transaction. At the time of closing of the Transfer Capability Lease, Citizens will  
14 pay to SDG&E prepaid rent (“Lease Payment”) in the lump sum amount of \$27 million. The  
15 DCOA provides that regulatory approvals are required by both the CPUC and the Federal Energy  
16 Regulatory Commission (“FERC”).

17 **A. Purpose of Testimony**

18 The purpose of my testimony is to describe (i) the history of the Project leading to the  
19 execution of the DCOA; (ii) the most significant terms of the Transfer Capability Lease; (iii) the  
20 general nature of the filings Citizens and SDG&E will be making at the FERC to effectuate the

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<sup>1</sup> The DCOA is appended as Attachment 1 to SDG&E’s Application for Public Utilities Code Section 851 Approval to Lease Transfer Capability Rights to Citizens Sycamore-Penasquitos LLC (“SDG&E’s 851 Application”).

<sup>2</sup> See Schedule 1.1 of DCOA (Attachment 1 to SDG&E’s 851 Application).

1 Citizens transaction that is the subject of this Application; and (iv) the public interest basis for  
2 Commission approval of the transfer contemplated by the Transfer Capability Lease.

3 **II. THE SYCAMORE CANYON TO PENASQUITOS 230kV TRANSMISSION LINE**  
4 **PROJECT AND BACKGROUND LEADING TO THE DCOA**

5 **A. CAISO Process**

6 In its 2012-2013 planning process, the California Independent System Operator  
7 (“CAISO”) identified the Sycamore-Penasquitos Project as a “reliability-driven element with  
8 additional policy benefits,” and opened the project up to a competitive solicitation.<sup>3</sup> On May 31,  
9 2013, SDG&E and Citizens entered into a Letter of Intent and began work to prepare a joint  
10 application to the CAISO. SDG&E and Citizens joined together on this Project because of the  
11 overall benefits coupled with the previously successful implementation on the Sunrise Powerlink  
12 Project. As discussed in the Direct Testimony of Peter Smith, Citizens’ involvement in the  
13 Sunrise Project annually produces approximately \$1.5 million in benefits to low income families  
14 in Imperial County.

15 A total of four parties submitted applications to the CAISO, and the CAISO conducted a  
16 comparative analysis of the applications to determine which application most closely satisfied  
17 the CAISO tariff’s selection and qualification criteria.<sup>4</sup> The CAISO determined that the joint  
18 SDG&E and Citizens’ application was superior in “most of the tariff criteria” and therefore  
19 selected SDG&E in conjunction with Citizens to develop the SX-PQ Project.<sup>5</sup>

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<sup>3</sup> Sycamore-Penasquitos Project Sponsor Selection Report at 1, California Independent System Operator, available at: <https://www.aiso.com/Documents/Sycamore-PenasquitosProjectSponsorSelectionReport.pdf> (March 4, 2014).

<sup>4</sup> *Id.*

<sup>5</sup> *Id.* at 1, 63.

1           **B.       CPUC’s Approval of SX-PQ**

2           On October 19, 2016, in Decision (“D.”) 16-10-005, the CPUC granted the application of  
3           SDG&E for a Certificate of Public Convenience and Necessity (“CPCN”) to construct SX-PQ  
4           using the Final Environmentally Superior Alternative 5 – Pomerado Road to Miramar Area  
5           North Combination Underground/Overhead Route (“CPCN Decision”). In its CPCN Decision  
6           approving the project, the CPUC determined that SX-PQ will generate net benefits, primarily  
7           reliability as it is related to congestion and NERC reliability criteria violations on the 230kV,  
8           138kV, and 69kV transmission power lines downstream of the Sycamore Canyon Substation

9           As approved, SX-PQ is comprised of a new electric transmission line of approximately  
10          14.5 miles between the existing Sycamore Canyon and Penasquitos substations and other system  
11          modifications in order to reliably operate the new line. The Project is comprised of three  
12          separate segments : (Segment A) an overhead alignment traversing approximately 0.9 miles  
13          northwesterly from the Sycamore Canyon Substation to Stonecroft Trail within existing SDG&E  
14          right-of-way (ROW); (Segment B) an underground alignment that transitions from an overhead  
15          position into an underground duct bank traversing westerly approximately 11.5 miles within city  
16          streets along Pomerado Road, crossing Interstate 15, then continuing along predominantly  
17          secondary streets through the commercial area of the community of Mira Mesa, then  
18          transitioning back into an overhead position within an existing SDG&E ROW along the east side  
19          of Interstate 805 at Carroll Canyon Road; and (Segment C) an overhead alignment on existing  
20          230kV steel structures within the existing ROW traversing northward approximately 2.2 miles  
21          into the Penasquitos Substation.

1           Shortly after the CPUC granted SDG&E’s application for a CPCN, SDG&E and Citizens  
2 began negotiating the final terms of the DCOA and Transfer Capability Lease that are the subject  
3 of this Application.

4 **III. THE DEVELOPMENT, COORDINATION, AND OPTION AGREEMENT AND**  
5 **TRANSFER CAPABILITY LEASE**

6 **A. General Description Of The DCOA and Transfer Capability Lease**

7           Subject to CPUC and FERC approvals of the transaction, Citizens has the option to lease  
8 for a 30-year term approximately 12.92 percent of the power transfer capability on Underground  
9 Segment B of the Project. Citizens’ Leasehold in Underground Segment B will not include  
10 switching facilities within the Sycamore Canyon or Penasquitos substations. If Citizens  
11 exercises its option as proposed, Citizens will invest \$27 million as the Lease Payment to lease  
12 this entitlement to power transfer capability over Underground Segment B. Citizens will sign a  
13 Transmission Control Agreement with the CAISO as a Participating Transmission Owner  
14 (“PTO”).<sup>6</sup> As it did previously in the Sunrise case, Citizens will obtain FERC approval of its  
15 PTO Tariff and its revenue requirements applicable to its capital lease investment in the line.  
16 The DCOA and Transfer Capability Lease contemplate that SDG&E will remain responsible for  
17 the development, design, permitting, engineering, procurement and construction of the project, as  
18 well as operations and maintenance for the entire Project.

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<sup>6</sup> Under the CAISO’s FERC tariff, by executing a Transmission Control Agreement, the PTO turns over to the CAISO Operational Control of its interest in a transmission facility. The interest thereby transferred becomes part of what the tariff terms the “ISO Controlled Grid,” and the costs of the transferred interest are recovered in FERC-jurisdictional transmission rates as described further in this testimony. Note that “Operational Control” is defined by the CAISO tariff as the obligation to provide reliable, comparable and non-discriminatory access to the ISO Controlled Grid.

1           **B.     Significant Terms Involving Important Principles That Are In The Public**  
2           **Interest**

3           I describe below the principal terms of the DCOA and Transfer Capability Lease.

4                   **1.     The Transaction**

5           As noted above, the DCOA provides that SDG&E grant to Citizens an option to lease for  
6 a 30-year term approximately 12.92 percent of the transfer capability on the 230kV facilities of  
7 Underground Segment B (“Option”). This percentage share is based on a prepaid rent amount of  
8 \$27 million divided by the aggregate of all costs incurred by SDG&E to develop, design, permit,  
9 engineer and construct the Underground Segment B, including AFUDC and payments made  
10 under construction contracts for work to be completed after the Effective Date of the Transfer  
11 Capability Lease, currently estimated to be approximately \$209 million. Such transfer capability  
12 will revert to SDG&E upon expiration of such 30-year term or upon earlier termination of  
13 Citizens’ participation by reason of a material breach. The funding, ownership, and transfer  
14 capability of the various segments of SX-PQ, after Citizens’ exercise of its Option, are outlined  
15 below. Citizens will fund its share of the costs shown below through the Lease Payment for use  
16 of the transfer capability.

<b>SEGMENT</b>	<b>FUNDING</b>	<b>OWNERSHIP</b>	<b>TRANSFER CAPABILITY</b>
A	100% SDG&E	100% SDG&E	100% SDG&E
B *	12.92% Citizens 87.08% SDG&E	100% SDG&E	12.92% Citizens 87.08% SDG&E
C	100% SDG&E	100% SDG&E	100% SDG&E

\* Assumes that Citizens closes on its Option and all of Underground Segment B is comprised of 230 kV facilities. The allocation of costs and ownership interests are subject to future modification as a result of SDG&E funding upgrades, renewals, and replacements to the Project as described herein.

1                   **2.     Project Development and Construction**

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

6                   **3.     Option Mechanics**

7                   The Option is effective until no later than 31 days after the commercial operation date for  
8 SX-PQ but is extended if the CPUC and FERC approvals extend past the commercial operation  
9 date. Citizens may exercise its Option by delivering written notice to SDG&E within the period  
10 described above. If Citizens fails to exercise its Option within the defined period, such  
11 unexercised Option will expire.

12                   **4.     Prepaid Rent**

13                   The Lease Payment owed by Citizens to SDG&E for the transfer capability is \$27  
14 million. The Lease Payment will be paid in a lump sum at the closing of the transaction after  
15 Citizens exercises its Option. The parties will attach a schedule to the Transfer Capability Lease  
16 allocating the Lease Payment over the Lease Term and will report this payment as accruing for  
17 tax purposes quarterly in arrears according to the schedule. The parties will treat the Lease  
18 Payment to the extent it exceeds the rent that has accrued as a loan by Citizens to SDG&E that  
19 bears interest at a rate equal to 110 percent of the “applicable federal rate” as required by Section  
20 467 of the U.S. Tax Code. I describe the tax aspects of this Leasehold in more detail in Section  
21 III, B, 8 below. Further details are provided in the testimony of SDG&E witness Ragan Reeves.

1                   **5.     Citizens Rates**

2                   One of SDG&E’s and Citizens’ main goals in negotiating the Transfer Capability Lease  
3 was to ensure that ratepayers would be protected from rates above those which SDG&E would  
4 have charged without Citizens’ involvement, keeping in mind that Citizens’ involvement could  
5 come at a cost that was either greater or less than SDG&E’s cost of doing the Project in the  
6 absence of the Transfer Capability Lease. With this in mind, the Transfer Capability Lease  
7 includes a model designed to generate what is called an “SDG&E Representative Rate,” which  
8 approximates the capital cost recovery rate SDG&E estimates it would charge for Citizens’  
9 interest absent the Transfer Capability Lease.<sup>7</sup> Under this approach, even if FERC were to  
10 approve a capital cost recovery rate greater than the rate SDG&E would charge, Citizens would  
11 only be able to charge the SDG&E Representative Rate. On the other hand, if FERC were to  
12 approve a capital cost recovery rate less than the SDG&E Representative Rate, Citizens could  
13 not charge a rate higher than the SDG&E Representative Rate.

14                   As described in greater detail in the testimony of SDG&E witness Amanda White, the  
15 SDG&E Representative Rate thus constitutes a ceiling or cap on the capital cost rate Citizens  
16 may charge. Because this SDG&E Representative Rate is determined based on a snapshot of  
17 actual costs incurred by SDG&E at the time Citizens exercises its option under the DCOA, it is  
18 not possible to predict with 100% certainty what the SDG&E Representative Rate will be at the

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<sup>7</sup> It should be noted that the final FERC-approved rates for Citizens, including Citizens’ incremental development and operational costs, must be approved in a subsequent Section 205 rate proceeding that Citizens will file at the FERC.



1 time Citizens actually exercises that option. Nevertheless, these costs can be considered and  
2 evaluated in relation to Citizens' probable comparative costs over time.

3           SDG&E requests that the Commission consider these potential rate impacts together with  
4 the benefits of Citizens' participation in Underground Segment B described later in this  
5 testimony in its determination of whether this transaction is in the public interest. These benefits  
6 include the approximately \$12 million over the life of the Lease that Citizens will dedicate to  
7 supporting transportation electrification for low income ratepayers and disadvantaged  
8 communities in San Diego County.

9                           **a.       SDG&E does not guarantee Citizens' cost recovery**

10           While SDG&E is part of the CAISO, SDG&E shall not be responsible to guarantee or  
11 financially support Citizens' cost recovery.

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

13           By far the largest cost component in the rate that Citizens will be able to charge CAISO  
14 customers is the capital cost for Underground Segment B. As noted above, in order to ensure  
15 that Citizens' participation would not adversely affect this cost, SDG&E and Citizens structured  
16 the Transfer Capability Lease so that the capital cost component of Citizens' rates is capped at a  
17 calculated rate that is intended to approximate the capital cost that SDG&E would have charged  
18 for the same interest in Underground Segment B, including some of Citizens' incremental  
19 development costs, on an equivalent levelized basis. The SDG&E Representative Rate includes  
20 reasonably incurred incremental Citizens project costs, development costs, regulatory costs,  
21 transactional costs, sales costs, use or excise tax costs, and financing costs, as defined in the  
22 Transfer Capability Lease. Some of these costs may not be fully incurred without Citizens'

1 involvement in Underground Segment B. Others (e.g., financing costs) may be mitigated over  
2 time because of Citizens' involvement.

3 As described above and in the testimony of SDG&E witness Amanda White, this cap on  
4 Citizens' rates is established by the Representative Rate Model attached to the Transfer  
5 Capability Lease. The Model calculates an estimated theoretical annual rate (for a fifty-eight-  
6 year depreciable life) that SDG&E could have recovered given the following:

- 7 (1) costs prevailing at the time of commercial operation if SDG&E held  
8 Citizens' Transfer Capability are held constant;
- 9 (2) this cost-based revenue recovery is then amortized over a thirty-year  
10 period on a level basis each year based on fixed and variable parameters  
11 set forth in the model;
- 12 (3) this produces a theoretical levelized annual amount referenced in the  
13 Transfer Capability Lease as the SDG&E Representative Rate; and
- 14 (4) this rate comparison is made at the closing date of the Transfer Capability  
15 Lease, and this component of Citizens' rate will be fixed and not subject to  
16 modification throughout the Lease Term.

17 **c. Citizens Operating Costs**

18 In addition to the Citizens capital cost rates capped by the Model, Citizens rates will  
19 include additional non-capital related charges. Pursuant to the Transfer Capability Lease,  
20 Citizens will be responsible for its proportionate share of operation and maintenance services  
21 incurred by SDG&E for Underground Segment B. SDG&E will charge Citizens the actual costs  
22 incurred for the operations and maintenance associated with Citizens' proportionate share of  
23 Underground Segment B, plus applicable overheads. Citizens will recover these SDG&E  
24 operations and maintenance ("O&M"), administrative and general ("A&G") charges and any  
25 other overheads, such as general and common plant costs (overheads or general and common  
26 plant), through Citizens' rates that will be the subject of its rate filings at the FERC. All of these  
27 proportionate costs would be in CAISO customer rates even in the absence of Citizens.

1 In addition to the SDG&E component of the SDG&E flow-through of its A&G costs,  
2 Citizens also will recover all of its own A&G costs through FERC-approved rates, such as those  
3 required to effect billing and settlements with the CAISO. Some of these Citizens-specific A&G  
4 costs will be incremental to charges that ratepayers would have paid in the absence of Citizens,  
5 but they may be mitigated over the term of the lease by virtue of Citizens' low fixed capital  
6 costs. Ratepayers will further benefit from the approximately \$12 million over the term of the  
7 Lease that Citizens will dedicate to supporting transportation electrification for low income  
8 ratepayer and disadvantaged communities within San Diego County.

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

11 Pursuant to the Transfer Capability Lease, SDG&E shall be responsible for operations  
12 and maintenance services for Underground Segment B. SDG&E shall charge Citizens the actual  
13 costs incurred for the operations and maintenance associated with Citizens' proportionate share,  
14 plus applicable overheads.

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

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

23 To the extent that additional capital investment is needed for replacement or renewal of  
24 facilities, SDG&E shall be responsible for all costs of such replacement or renewal. Each party's

1 proportionate share of transfer capability on Underground Segment B will be modified to an  
2 amount equal to the quotient of (a) the sum of (i) that party's then-current percentage share of  
3 transfer capability on Underground Segment B multiplied by the former net book value of  
4 Underground Segment B (excluding all new funding of replacements or renewals from the  
5 former net book value); plus (ii) that party's new funding of replacements or renewals as part of  
6 the new net book value, divided by (b) the new net book value of Underground Segment B  
7 (including all new funding of replacements or renewals as part of the new net book value).

8 Pursuant to the Transfer Capability Lease and subject to the CAISO Tariff, SDG&E will  
9 be the interconnection agent on behalf of Citizens with respect to Citizens' entitlement for all  
10 requests for generator interconnection to Underground Segment B. Interconnecting generators  
11 will initially advance funds for the costs of interconnection facilities and related network  
12 upgrades, subject to repayment by SDG&E pursuant to the terms of the CAISO Tariff. SDG&E  
13 will retain all ownership and transfer capability interests in all generator interconnection facilities  
14 and related network upgrades on its transmission system.

15 **7. Citizens will transfer operational control over its Lease Term in**  
16 **Underground Segment B to the CAISO**

17 As noted above, the Transfer Capability Lease requires that Citizens function as a PTO  
18 under the CAISO tariff and turn over to the CAISO operational control of its transfer capability,  
19 as SDG&E will do with its transfer capability.<sup>8</sup> In the end, the entire transfer capability of SX-  
20 PQ will be under the operational control of the CAISO and available to CAISO customers.  
21 Citizens' commitment to do so is consistent with the economic analysis utilized by the  
22 Commission in D.16-10-005 for SX-PQ that was based on a CAISO ratepayer perspective.

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<sup>8</sup> Citizens initially became a PTO in conjunction with its participation in the Sunrise Project. The ownership, operation, financing and consumer protection measures proposed here mirror those approved by the Commission in Sunrise.

1 CAISO operation of Citizens' and SDG&E's shares of SX-PQ will be seamless, given that the  
2 CAISO will ensure comparable and non-discriminatory access to SX-PQ for all generators and  
3 power sellers. The net benefits to the CAISO customers that underpin the Commission's  
4 approval of SX-PQ are undiminished by this transaction.

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

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

13 **8. The transaction is structured pursuant to Internal Revenue Code**  
14 **§467 to meet IRS requirements for lease transactions**

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

1                                   **9.       Termination and Reinstatement**

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

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

16                  If within five years of the effective date SDG&E resumes development of Underground  
17 Segment B, then this termination will no longer be effective and the option will be automatically  
18 reinstated.

19                                   **10.     Low Income Programs**

20                  Among other expenditures Citizens will make, Citizens agrees that it will pay annually 50  
21 percent of its after-tax profits attributable to its transfer capability to programs or entities  
22 assisting low income ratepayers of San Diego County to participate in the electrification of  
23 transportation. As discussed in the Direct Testimony of Peter F. Smith, Citizens currently  
24 estimates its involvement in the SX-PQ Project will generate approximately \$400,000 in support  
25 each year for the 30 year term of the Lease, for an expected total of \$12 million.

26                                   **11.     Right of First Refusal**

27                  SDG&E has a right of first refusal in any proposed sale of Citizens’ Leasehold in  
28 Underground Segment B.

1 **IV. NECESSARY REGULATORY FILINGS**

2 As noted above, the effectiveness of the Transfer Capability Lease is contingent on  
3 approvals both by the CPUC through the instant Application and by the FERC. A description of  
4 the respective obligations of the parties to obtain necessary authorizations and the Citizens and  
5 SDG&E FERC filings follows.

6 SDG&E takes the primary responsibility for obtaining the regulatory approvals necessary  
7 for SDG&E to develop, design, engineer, procure, construct, commission, own, operate,  
8 maintain and finance SX-PQ and Citizens agrees to cooperate with and assist SDG&E in  
9 obtaining such approvals. Citizens takes the primary responsibility for obtaining the regulatory  
10 approvals necessary for Citizens to exercise its Option, or to lease and finance its Lease Payment  
11 for use of Underground Segment B, and SDG&E agrees to cooperate with and assist Citizens in  
12 obtaining such approvals (*i.e.*, FERC and CAISO).

13 **A. SDG&E FERC Filings**

14 Prior to the Effective Date of the Transfer Capability Lease to Citizens, SDG&E will  
15 make filings with FERC pursuant to Sections 203 and 205 of the Federal Power Act. The  
16 Section 203 filing will request authorization for SDG&E to lease to Citizens transfer capability  
17 in the underground portion of the Project. The Section 205 filing will implement the ratemaking  
18 with respect to the Transfer Capability Lease, including SDG&E's recovery of O&M and A&G  
19 costs for transmission services provided to Citizens. Both applications will reflect the  
20 accounting treatment SDG&E required with respect to a similar transfer capability lease  
21 arrangement in *San Diego Gas & Electric Company*, 129 FERC ¶ 61,233 (2009).

22 The FERC ratemaking approach is intended to ensure CAISO ratepayer indifference to  
23 this transaction such that during the 30-year term of the lease with Citizens, SDG&E will not

1 seek to recover in its transmission rates any capital costs that are the subject of the lease.  
2 Further, at the conclusion of the lease, SDG&E will not have on its books any capital costs  
3 associated with the Citizens transaction because Citizens will have fully depreciated that portion  
4 of SX-PQ that was the subject of the lease. Applying FERC precedent from the Citizens-Sunrise  
5 arrangement provides assurance to the Commission and to CAISO customers that SDG&E will  
6 not be permitted to “double recover” both from Citizens and from CAISO customers the capital  
7 costs for Underground Segment B that is the subject of the Leasehold.

8 **V. THE TRANSFER CAPABILITY LEASE WITH CITIZENS IS IN THE PUBLIC**  
9 **INTEREST**

10 SDG&E believes that the public interest is served by the Transfer Capability Lease for  
11 the following reasons.

12 **A. The CPUC Has Encouraged Diverse Interests, Such As Citizens, In**  
13 **Transmission Development**

14 As described above, Citizens originally joined SDG&E in an effort to develop  
15 Underground Segment B, as reflected in the parties’ May 31, 2013 Letter of Intent. Citizens is  
16 not a public utility with an obligation to serve and, as such, is significantly different from a  
17 traditional utility, both in structure and in its exposure to regulatory risk. Citizens, as a non-  
18 utility financial participant in electric transmission, is a relatively new competitor in an industry  
19 that is traditionally absent of competition. As discussed above, Citizens has already teamed with  
20 SDG&E in a transfer capability lease in connection with the SDG&E’s Sunrise Transmission  
21 Line. As evidenced by a June 25, 2009 letter that the CPUC filed in a Startrans, IO, LLC  
22 proceeding in Docket No. ER08-413-002, the CPUC recognizes the value of bringing new  
23 entrants into transmission development.<sup>9</sup>

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<sup>9</sup> CPUC June 25, 2009 letter, ER08-413-002, *available at*:  
<http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=12083655>.



1           **B.     Citizens’ Participation In Underground Segment B Is In the Public Interest**  
2           **Because It Benefits San Diego County**

3           Importantly, Citizens’ participation in SX-PQ also benefits the interests of San Diego  
4 County – in which Underground Segment B is located. As noted above, Citizens has committed  
5 to spend fifty percent of its profits after taxes, currently estimated to be approximately \$400,000  
6 a year, on programs serving low income ratepayers and disadvantaged communities in San Diego  
7 County, in the area of transportation electrification. These expenditures will directly benefit  
8 CAISO customers. The targeting of these benefits to low income families and disadvantaged  
9 communities, is consistent with SDG&E’s values.

10           **C.     Customers Will Have The Benefit Of The Remaining Useful Life After The**  
11           **Expiration Of The Transfer Capability Lease**

12           While the capital cost component of Citizens’ rate will be capped during the Lease Term,  
13 at the end of this Transfer Capability Lease the capital costs for the portion of Underground  
14 Segment B will be fully depreciated and CAISO customers will have the benefit of 28 years  
15 remaining useful life for this facility.

16           **D.     It Is In the Public Interest That Under The Transfer Capability Lease**  
17           **CAISO Customers Will Have Perpetual Rights To 100% of Underground**  
18           **Segment B**

19           The Transfer Capability Lease secures for the benefit of the CAISO’s customers  
20 perpetual rights to 100 percent of the transfer capability on Citizens’ portion of the 230kV line,  
21 in order to ensure that SDG&E’s ratepayers will realize the full benefits of SDG&E’s portion of  
22 the 230kV line. So long as Citizens remains a PTO entitled to cost recovery under CAISO’s  
23 FERC tariff, SDG&E ratepayers will have access to Citizens’ portion of the 230kV line at  
24 reasonable rates. In the event that Citizens is no longer participating in the Project, ceases to be a  
25 PTO, or upon a breach of Citizens’ obligations, Citizens’ entitlement in Underground Segment B  
26 will revert to SDG&E and, of course, be placed under the CAISO’s operational control.

1 Citizens' agreement to transfer operational control of its entitlement in SX-PQ to the CAISO will  
2 ensure comparable and non-discriminatory access to SX-PQ for all generators and power sellers.

3 **E. The Citizens Transaction Is In The Public Interest Even In The Event The**  
4 **Rate It May Ultimately Charge (the SDG&E Representative Rate) Is Higher**  
5 **Than The Rate SDG&E Would Charge Without Citizens.**

6 As described above, the capital cost recovery rate that Citizens will be able to charge is  
7 capped at the SDG&E Representative Rate. This cap protects CAISO electric consumers if  
8 FERC approves a rate for Citizens in excess of the SDG&E Representative Rate. If FERC  
9 approves a lower rate, the lower rate will apply. Within its FERC-approved rate, Citizens will  
10 have certain of its own A&G-related costs that will be incremental to charges that ratepayers  
11 would have paid in the absence of Citizens. As discussed above, these incremental charges may  
12 be mitigated by Citizens' low fixed capital cost rates, and by other public benefits attributable to  
13 Citizens' participation in the Project.

14 A significant benefit associated with Citizens' participation in SX-PQ under the Transfer  
15 Capability Lease is this rate stability. That is, even if the present value of Citizens' rate were  
16 higher than the estimated present value of the rate SDG&E would charge without Citizens,  
17 Citizens' rate will not be subject to change once Citizens rate is finally approve by FERC. In  
18 contrast, SDG&E's financing is traditionally balanced with equal debt and equity, with debt  
19 financing tenure normally matching the term of the asset life. Citizens would be providing long-  
20 term rate stability to the extent that capital market costs ever increased significantly during the  
21 30 years of Citizens' participation by locking in its rate for capital cost recovery over the Lease  
22 Term, as opposed to a traditional investor-owned utility's rate that would be based upon swings  
23 in both the equity and debt markets. Of course, while rates of return increase or decrease over

1 time, Citizens fixed return over thirty years, locked in at today's rates, may be a customer benefit  
2 resulting from this transaction.<sup>10</sup>

3 **F. The Proposed Transaction Is Supported by Commission Precedent**

4 The proposed transaction between SDG&E and Citizens is substantially identical to a  
5 transfer capability lease for the Sunrise Transmission Line that the Commission approved in  
6 Decision 11-05-048. The Commission in that instance found that the transaction was in the  
7 public interest.

8 This concludes my direct testimony.

9 **VI. QUALIFICATIONS**

10 My name is John D. Jenkins. My business address is 8335 Century Park Court, San  
11 Diego, California, 92123. I am employed by SDG&E as Vice President. I oversee the  
12 company's electric engineering, construction, operations and maintenance for the Electric Design  
13 and Construction Department. I attended California Polytechnic State University, San Luis  
14 Obispo and received a Bachelor's degree in electrical engineering. I am a registered professional  
15 engineer in the state of California.

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<sup>10</sup> See further discussion of this subject in Section V, C, above.