

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

THE REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION
I(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH THE
REDUCED DISCLOSURE FORMAT.

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM
_____ TO _____

COMMISSION FILE NUMBER 333-30761

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
SPECIAL PURPOSE TRUST SDG&E-1
(Issuer of the Certificates)

SDG&E FUNDING LLC
(Exact name of registrant as specified in its Certificate of Formation)

Delaware 95-1184800

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

101 Ash Street, Room 111, San Diego, California 92101

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (619) 696-2328

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:

California Infrastructure and Economic Development Bank Special Purpose Trust SDG&E-1
Rate Reduction Certificates, Series 1997-1: Class A-1 5.97% Certificates; Class A-2 6.04%
Certificates; Class A-3 6.07% Certificates; Class A-4 6.15% Certificates; Class A-5 6.19%
Certificates; Class A-6 6.31% Certificates; Class A-7 6.37% Certificates (maturing serially from
1998 to 2007, and underlying SDG&E Funding LLC Notes of the same respective classes)

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes _____ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes _____ No X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes _____ No X

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2006, was \$0.

Registrant's common stock outstanding as of February 28, 2007: None

DOCUMENTS INCORPORATED BY REFERENCE:

Not Applicable

PART I

ITEM 1. BUSINESS

GENERAL

SDG&E Funding LLC (the Note Issuer) is a special-purpose, single-member limited liability company organized under the laws of the State of Delaware. San Diego Gas & Electric Company (SDG&E), as the sole member of the Note Issuer, owns all of the equity securities of the Note Issuer. The Note Issuer was organized in July 1997 for the limited purposes of holding and servicing the Transition Property (as described below) and issuing notes secured by the Transition Property and other limited collateral and related activities, and is restricted by its organizational documents from engaging in other activities. The Note Issuer's organizational documents require it to operate in a manner such that it should not be consolidated in the bankruptcy estate of SDG&E in the event SDG&E becomes subject to such a proceeding.

The only material business conducted by the Note Issuer has been the acquisition of Transition Property and the issuance on December 16, 1997 of \$658,000,000 in principal amount of the SDG&E Funding LLC Notes, Series 1997-1, Class A-1 through Class A-7 (the Notes), with scheduled maturities ranging from one year to ten years and final maturities ranging from three to twelve years. The specific interest rate and maturity of each remaining class of Notes is specified in Note C of the Notes to Financial Statements herein. The Notes were issued pursuant to an Indenture between the Note Issuer and Bankers Trust Company of California, N.A., as trustee (the Indenture). The Note Issuer sold the Notes to the California Infrastructure and Economic Development Bank Special Purpose Trust SDG&E-1, a Delaware business trust (the Trust), which issued certificates corresponding to each class of Notes (the Certificates) in a public offering.

The Note Issuer has no employees. It has entered into a servicing agreement (the Servicing Agreement) with SDG&E, pursuant to which SDG&E is required to service the Transition Property on behalf of the Note Issuer. In addition, the Note Issuer has entered into an Administrative Services Agreement with SDG&E pursuant to which SDG&E performs administrative and operational duties for the Note Issuer.

TRANSITION PROPERTY

The California Public Utilities Code (the PU Code) provides for the creation of Transition Property. A financing order dated September 3, 1997 (the Financing Order) issued by the California Public Utilities Commission, together with the related Issuance Advice Letter, establishes, among other things, separate non-bypassable charges (the FTA Charges) payable by residential electric customers and small commercial electric customers in an aggregate amount sufficient to repay in full the Certificates, fund the Overcollateralization Sub-Account established under the Indenture and pay all related costs and fees. Under the PU Code and the Financing Order, the owner of the Transition Property is entitled to collect FTA Charges until such owner has received amounts sufficient to retire all outstanding series of Certificates and cover related fees and expenses and the Overcollateralization Amount described in the Financing Order. The Transition Property is a property right under California law that includes, without limitation, ownership of the FTA Charges and any adjustments thereto as described in the next paragraph.

In order to enhance the likelihood that actual collections with respect to the Transition Property are neither more nor less than the amount necessary to amortize the Notes in accordance with their expected amortization schedules, pay all related fees and expenses, and fund certain accounts established pursuant to the Indenture as required, the Servicing Agreement requires SDG&E, as the servicer of the Transition Property (in such capacity, the Servicer), to seek, and the Financing Order and the PU Code require the CPUC to approve, periodic adjustments to the FTA Charges. Such adjustments will be based on actual collections with respect thereto and updated assumptions by the Servicer as to future usage of electricity by specified customers, future expenses relating to the Transition Property, the Notes and the Certificates, and the rate of delinquencies and write-offs. The FTA Charges will be adjusted at least annually if there is a material shortfall or overage in collections.

THE TRUST

The Trust was organized in November 1997 solely for the purpose of purchasing the Notes and issuing the Certificates. It will not conduct any other material business activities.

ITEM 1A. RISK FACTORS

Not Applicable.

ITEM 2. PROPERTIES

The Note Issuer and the Trust have no tangible properties. The primary assets of the Note Issuer and the Trust are the Transition Property and the Notes, respectively, as described above in Item 1. Collections related to the Transition Property and the related payments on the Notes in 2006, 2005 and 2004 are shown on the Statements of Cash Flows included in this Annual Report.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Omitted with respect to the Note Issuer pursuant to Instruction I of Form 10-K.

No matters were submitted for a vote or consent of holders of Certificates in 2006.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) There is no established public trading market for the Note Issuer's equity securities. All of the Note Issuer's equity is owned by SDG&E. On August 11, 1997, SDG&E transferred \$400,000 to the Note Issuer as an initial capital contribution, and SDG&E made capital contributions to the Note Issuer aggregating to \$3,290,000. The sale of such membership interest was exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof. The Note Issuer has made no other sales of unregistered securities.

The Indenture prohibits the Note Issuer from making any distributions to the sole member from the amounts allocated to the Note Issuer unless no default has occurred and is continuing thereunder and the book value of the remaining equity of the Note Issuer, after giving effect to such distribution, is equal to at least 0.5% of the original principal amount of all series of Notes which then remain outstanding. As of December 31, 2006, the original principal amount of all series of Notes which then remained outstanding was \$65,800,000. As of December 31, 2006, the Note Issuer has not made any distributions to SDG&E. The Note Issuer intends to make a final distribution to the sole member as permitted by the Indenture once all Notes have been paid in full.

The registered owner for each class of the Certificates is Cede & Co., as nominee of The Depository Trust Company (DTC). DTC has informed the Note Issuer that as of February 28, 2007, there were approximately 16 beneficial holders of Certificates.

(b) The Note Issuer's Amendment No. 4 to the Registration Statement No. 333-30761 on Form S-3, as filed with the Securities and Exchange Commission (the Commission) on November 21, 1997 for the sale of the Notes and the Certificates was declared effective by the Commission on November 24, 1997. The Certificates were offered for sale beginning on December 4, 1997. Certificates in the aggregate amount of \$658,000,000 were sold on December 16, 1997. In connection with the offering of the Certificates, Morgan Stanley, Inc. and Lehman Brothers Inc. acted as the managing underwriters. The Trust purchased the Notes from the Note Issuer on December 16, 1997, pursuant to a private sale in the aggregate amount of \$658,000,000. Notes and Certificates in the aggregate principal amount of \$800,000,000 were authorized and \$658,000,000 have been offered and sold. All of the Notes offered in the sale were purchased. The amount of each class of Notes and Certificates registered and the respective sale prices, which exclude the original issue discount, are as follows:

Class	Principal Amount Sold	Sale Price (Net of Discount)
Class A-1 Notes and Certificates	\$ 65,800,000.00	\$ 65,797,058.74
Class A-2 Notes and Certificates	82,639,254.00	82,628,229.92
Class A-3 Notes and Certificates	66,230,948.00	66,218,105.82
Class A-4 Notes and Certificates	65,671,451.00	65,648,886.29
Class A-5 Notes and Certificates	96,537,839.00	96,536,159.24
Class A-6 Notes and Certificates	197,584,137.00	197,544,718.97
Class A-7 Notes and Certificates	83,536,371.00	83,481,128.40
Total	\$658,000,000.00	\$657,854,287.38

The net offering proceeds to the Trust were \$654,728,789: the \$657,854,287 net sale price less \$3,125,498 of underwriting discount and commission. The Trust used all of the net proceeds from the sale of Certificates to purchase the Notes from the Note Issuer. The net offering proceeds to the Note Issuer were used to purchase the Transition Property. Compensation paid to the independent director of the Note Issuer was \$3,800. Other than the payment to the independent director, no additional net offering proceeds were used to pay, either directly or indirectly, any director, officer or affiliate of the Note Issuer.

ITEM 6. SELECTED FINANCIAL DATA

Omitted pursuant to Instruction I (Omission of Information by Certain Wholly Owned Subsidiaries) of Form 10-K.

ITEM 7. MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS

The following analysis of the Note Issuer's results of operations is in an abbreviated format pursuant to Instruction I of Form 10-K.

As discussed above under Item 1. Business, the Note Issuer was established in July 1997 for limited purposes. As discussed above under Item 5 (Market for Registrant's Common Equity and Related Stockholder Matters), on December 16, 1997, the Note Issuer issued Notes in order to purchase Transition Property. The Note Issuer is restricted by its organizational documents from engaging in activities other than those described in Item 1.

The Note Issuer expects to use collections with respect to the Transition Property to make scheduled principal and interest payments on the Notes. Interest income earned on the Transition Property is expected to offset (1) interest expense on the Notes, (2) amortization of debt-issuance expenses and the discount on the Notes, and (3) the fees charged by SDG&E for servicing the Transition Property and providing administrative services to the Note Issuer. (These agreements are discussed in greater detail in Note D to the Financial Statements attached hereto.)

Collections of \$67,885,000 resulted in a net undercollection for 2006 of \$5,109,000 after deducting scheduled principal and interest payments of \$72,621,000 and \$373,000 for servicing fees and other expenses. Collections of \$80,178,000 resulted in a net overcollection for 2005 of \$2,867,000 after deducting scheduled principal and interest payments of \$76,774,000 and \$537,000 for servicing fees and other expenses. Collections of \$89,009,000 resulted in a net overcollection for 2004 of \$7,381,000 after deducting scheduled principal and interest payments of \$80,926,000 and \$702,000 for servicing fees and other expenses. The servicing fees and other expenses do not flow through SDG&E Funding LLC, but are retained quarterly by SDG&E from the collections for servicing and administrative fees SDG&E is entitled to pursuant to the servicing and administrative services agreements.

The FTA Charges are adjusted at least annually if there is a material shortfall or overage in collections. Management believes that it is reasonable to expect future collections of FTA Charges to be sufficient to make scheduled payments on the Notes and pay related expenses on a timely basis.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and related financial information required to be filed hereunder are indexed on page 9 of this Annual Report.

Since the Trust is a pass-through entity with no assets other than the Notes, financial statements for the Trust are not included.

Exhibit 99.1 contains financial information regarding collections of FTA Charges by the Servicer for the fourth quarter of 2006.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The company has designed and maintains disclosure controls and procedures to ensure that information required to be disclosed in the company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to the company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating these controls and procedures, management recognizes that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives and necessarily applies judgment in evaluating the cost-benefit relationship of other possible controls and procedures.

The company evaluates the effectiveness of its internal control over financial reporting based on the framework in *Internal Control--Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the company evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures as of December 31, 2006, the end of the period covered by this report. Based on that evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in the company's internal controls over financial reporting during the company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal controls over financial reporting.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Omitted pursuant to Instruction I of Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Omitted pursuant to Instruction I of Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Omitted pursuant to Instruction I of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Omitted with respect to the Note Issuer pursuant to Instruction I of Form 10-K.

Not applicable to the Trust.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Omitted with respect to the Note Issuer pursuant to Instruction J of Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. Financial Statements.

The following financial statements of the Note Issuer and report of independent auditors are included in Item 8:

Reports of Independent Registered Public Accounting Firm
Statements of Operations and Changes in Member's Equity
Balance Sheets
Statements of Cash Flows
Notes to Financial Statements

2. Financial Statement Schedules.

None.

3. Exhibits.

The following exhibits are filed as a part of this report:

<u>Exhibit</u>	<u>Description</u>
3.1	Certificate of Formation. (1)
3.2	Limited Liability Company Agreement. (1)
3.3	Amended and Restated Limited Liability Company Agreement. (1)
4.1	Note Indenture. (2)
4.2	Amended and Restated Declaration and Agreement of Trust. (1)
4.3	Series Supplement. (2)
4.4	Form of Note. (1)
4.5	First Supplemental Trust Agreement. (2)
4.6	Form of Rate Reduction Certificate. (2)
10.1	Transition Property Purchase and Sale Agreement. (2)
10.2	Transition Property Servicing Agreement. (2)
10.3	Note Purchase Agreement. (2)
10.4	Fee and Indemnity Agreement. (2)
23.1	Consent of Independent Registered Public Accounting Firm, page 17.
31.1	Statement of Registrant's Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
31.2	Statement of Registrant's Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
32.1	Statement of Registrant's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.
32.2	Statement of Registrant's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.
99.1	Quarterly Servicer's Certificate, dated December 18, 2006.

- (1) Incorporated by reference to the same-titled exhibit to the Note Issuer and Trust's Registration Statement on Form S-3, as amended, File No. 333-30761.
- (2) Incorporated by reference to the same-titled exhibit to the Note Issuer and Trust's Current Report on Form 8-K filed with the Commission on December 23, 1997.

FINANCIAL STATEMENT INDEX

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of SDG&E Funding LLC:

We have audited the accompanying balance sheets of SDG&E Funding LLC (the “Company”) as of December 31, 2006 and 2005, and the related statements of operations and changes in member’s equity and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of SDG&E Funding LLC as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

/S/ Deloitte & Touche LLP

San Diego, California
March 9, 2007

SDG&E FUNDING LLC
STATEMENTS OF OPERATIONS AND CHANGES IN MEMBER'S EQUITY
(In thousands of dollars)

	For the Year Ended December 31,		
	2006	2005	2004
INCOME			
Interest income	\$ 6,308	\$10,463	\$14,616
Other income	1,119	1,137	1,127
Total Income	7,427	11,600	15,743
EXPENSES			
Interest expense	6,753	10,906	15,059
General & administrative	654	654	654
Other expenses	20	40	30
Total Expenses	7,427	11,600	15,743
NET INCOME	--	--	--
Member's equity at			
beginning of period	3,290	3,290	3,290
MEMBER'S EQUITY AT			
END OF PERIOD	\$ 3,290	\$ 3,290	\$ 3,290

See notes to financial statements.

SDG&E FUNDING LLC
BALANCE SHEETS
(In thousands of dollars)

	December 31,	
	2006	2005
ASSETS		
Current Assets:		
Cash	\$ 188	\$ 565
Interest and other receivables	6,253	5,222
Current portion of transition property	58,804	65,800
Deferred financing costs	655	--
Restricted funds	23,296	--
Total Current Assets	89,196	71,587
Noncurrent Assets:		
Transition property	--	58,804
Deferred financing costs	--	1,309
Restricted funds	--	28,405
TOTAL ASSETS	\$ 89,196	\$ 160,105
LIABILITIES AND MEMBER'S EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 65,800	\$ 65,800
Overcollections from SDG&E customers	20,106	25,215
Total Current Liabilities	85,906	91,015
Long-term debt	--	65,800
Total Liabilities	85,906	156,815
Member's Equity	3,290	3,290
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 89,196	\$ 160,105

See notes to financial statements.

SDG&E FUNDING LLC
STATEMENTS OF CASH FLOWS
(In thousands of dollars)

	For the Year Ended December 31,		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ --	\$ --	\$ --
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred financing costs	654	654	654
Increase in interest and other receivables	(1,031)	(654)	(654)
Increase (decrease) in overcollections from SDG&E customers	(5,109)	2,867	7,381
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(5,486)	2,867	7,381
CASH FLOWS FROM FINANCING ACTIVITIES:			
Collection of transition property from SDG&E	65,800	65,800	65,800
Payments on long-term debt	(65,800)	(65,800)	(65,800)
NET CASH USED BY FINANCING ACTIVITIES	--	--	--
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease (increase) in restricted funds	5,109	(2,867)	(7,381)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	5,109	(2,867)	(7,381)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(377)	--	--
CASH AT BEGINNING OF PERIOD	565	565	565
CASH AT END OF PERIOD	\$ 188	\$ 565	\$ 565
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments	\$ 6,821	\$ 10,974	\$ 15,126

See notes to financial statements.

SDG&E FUNDING LLC

NOTES TO FINANCIAL STATEMENTS

A. Nature of Operations

The financial statements include the accounts of SDG&E Funding LLC (SDG&E Funding or the company), a Delaware special-purpose limited-liability company whose sole member is San Diego Gas & Electric Company (SDG&E), a provider of electric and natural gas services. SDG&E is a wholly owned subsidiary of Sempra Energy. SDG&E Funding was formed on July 1, 1997, in order to effect the issuance of notes (the Underlying Notes) intended to support a 10-percent electric-rate reduction. This reduction was provided to SDG&E's residential and small commercial customers in connection with the electric industry restructuring mandated by California Assembly Bill 1890.

SDG&E Funding was organized for the limited purposes of issuing the Underlying Notes and purchasing Transition Property. Transition Property is the right to be paid a specified amount from a non-bypassable charge levied on residential and small commercial customers (the FTA Charges or FTA rate). Since the Transition Property is recorded at its present value, each payment includes an interest income component. The non-bypassable charge has been authorized by the California Public Utility Commission (CPUC) pursuant to electric restructuring legislation.

SDG&E Funding is restricted by its organizational documents from engaging in any other activities. In addition, SDG&E Funding's organizational documents require it to operate in such a manner that it should not be consolidated in the bankruptcy estate of SDG&E in the event that SDG&E becomes subject to such a proceeding.

SDG&E Funding is legally separate from SDG&E. The assets of SDG&E Funding are not available to creditors of SDG&E or Sempra Energy. SDG&E Funding will cease to exist upon the maturation or retirement of the Underlying Notes. Once the Underlying Notes have been paid in full, SDG&E will receive its initial capital contribution and any remaining funds will be returned to SDG&E's residential and small commercial customers in an action before the CPUC.

B. Summary of Accounting Policies

Collateral Deposit

SDG&E Funding is required to maintain \$3.2 million on deposit as collateral to be used to make scheduled payments on the Underlying Notes and to pay other expenses of SDG&E Funding in the event that future collections of the non-bypassable charge provide insufficient funds to make such payments. On the balance sheets, this deposit is included in restricted funds, which also include the three accounts referred to in the next paragraph. The use of these accounts is restricted to covering deficiencies between current collections and required payments.

Overcollections/Undercollections from SDG&E Customers

The undercollection of FTA Charges resulting from the 2000 - 2001 California energy crisis necessitated the use of a portion of the company's previous surplus collections in the Reserve Sub-Account, the Overcollateralization Sub-Account established under the Notes' indenture and the Capital Sub-Account, in that order, to make required payments. After adjusting the FTA rate in 2002, overcollections of the FTA Charges occurred, enabling the company to replenish the Capital

Sub-Account and the Overcollateralization Sub-Account and to accumulate additional surplus collections in the Reserve Sub-Account for future use as necessary.

Unamortized Debt Issuance Expense

The costs associated with the issuance of the Underlying Notes have been capitalized and are being amortized over the ten-year life of the Underlying Notes.

Income Taxes

SDG&E Funding is a single-member limited-liability company. Accordingly, all federal income tax effects and all material State of California franchise tax effects of SDG&E Funding's activities accrue to SDG&E.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during a reporting period. Actual results could differ from these estimates.

C. Long-Term Debt

In December 1997, SDG&E Funding issued \$658 million of the Underlying Notes to the California Infrastructure and Economic Development Bank Special Purpose Trust (the Trust). The Trust, in turn, issued pass-through certificates known as rate-reduction bonds with an original principal amount equal to the original principal amount of the Underlying Notes. SDG&E Funding used the proceeds from the Underlying Notes to purchase the Transition Property from SDG&E.

The Underlying Notes are secured solely by the Transition Property and other assets of SDG&E Funding. Scheduled maturities and interest rates for the Underlying Notes at December 31 are as follows:

Class	Scheduled Maturity Date	Interest Rate	Year ended December 31,	
			2006	2005
(Dollars in thousands)				
A-6	September 25, 2006	6.31%	\$ --	\$ 48,064
A-7	December 26, 2007	6.37%	65,800	83,536
			65,800	131,600
Less current portion			(65,800)	(65,800)
Long-term debt			\$ --	\$ 65,800

Based on quoted market prices, the fair values of the Underlying Notes were \$66 million at December 31, 2006 and \$134 million at December 31, 2005.

The source of funds for repayment is the non-bypassable charge authorized by the CPUC. This non-bypassable charge is collected by SDG&E, as Servicer, from its residential and small commercial customers. Collections of the non-bypassable charge are deposited on a monthly basis

by SDG&E in an SDG&E Funding account maintained by the Certificate Trustee, Bankers Trust Company. Each quarter such monies are used to make principal and interest payments on the Underlying Notes. The debt service requirements include an overcollateralization amount that is retained for the benefit of the holders of the Underlying Notes. Any amounts not required for debt service are returned to SDG&E Funding.

D. Significant Agreements and Related Party Transactions

Under a Transition Property Servicing Agreement, SDG&E, the Servicer, is required to manage and administer the Transition Property of SDG&E Funding and to collect the non-bypassable charge from electric customers on behalf of SDG&E Funding. SDG&E retains a servicing fee each quarter equal to 0.25% of the outstanding principal amount of the Underlying Notes. The Servicer is also entitled to retain as compensation any interest earnings on non-bypassable charge collections prior to remittance to the Trust and any late payment charges collected from SDG&E's customers.

The Trust was created for the limited purposes of purchasing the Underlying Notes from SDG&E Funding, issuing the rate-reduction bonds, and applying the proceeds from the Underlying Notes to the payment of the rate-reduction bonds. Under a Fee and Indemnity Agreement, SDG&E Funding is responsible for paying all fees and expenses incurred by the Certificate Trustee and the Delaware Trustee, Bankers Trust Delaware.

E. Quarterly Financial Data (Unaudited)

Dollars in thousands	Quarter ended			
	March 31	June 30	September 30	December 31
2006				
Income	\$ 2,251	\$ 1,952	\$ 1,733	\$ 1,491
Expenses	2,251	1,952	1,733	1,491
Net Income	\$ 0	\$ 0	\$ 0	\$ 0
2005				
Income	\$ 3,299	\$ 2,978	\$ 2,771	\$ 2,552
Expenses	3,299	2,978	2,771	2,552
Net Income	\$ 0	\$ 0	\$ 0	\$ 0

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-30761 on Form S-3 of our report dated March 9, 2007, relating to the financial statements of SDG&E Funding LLC, appearing in this Annual Report on Form 10-K of SDG&E Funding LLC for the year ended December 31, 2006.

/S/ Deloitte & Touche LLP

San Diego, California
March 9, 2007

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SDG&E Funding LLC,
as Registrant

By: /S/ Charles A. McMonagle
Name: Charles A. McMonagle
Title: President and Chief
Executive Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u> /S/ Charles A. McMonagle </u> Charles A. McMonagle	President, Chief Executive Officer and Director	March 27, 2007
<u> /S/ James P. Trent </u> James P. Trent	Chief Financial Officer, Chief Accounting Officer and Director	March 27, 2007
<u> /S/ Donald J. Puglisi </u> Donald J. Puglisi	Director	March 27, 2007