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

Order Instituting Rulemaking to Consider the	)	
Annual Revenue Requirement Determination of	)	R.11-03-006
the California Department of Water Resources	)	(Filed March 10, 2011)
and related issues.	)	

# MOTION FOR APPROVAL OF SETTLEMENT AGREEMENT BY AND BETWEEN PACIFIC GAS AND ELECTRIC COMPANY (U 39 E), SOUTHERN CALIFORNIA EDISON COMPANY (U 338 E), AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M)

CHRISTOPHER J. WARNER
CRAIG M. BUCHSBAUM
Pacific Gas and Electric Company
77 Beale Street, B30A
San Francisco, CA 94105
Telephone: (415) 973-4844
Facsimile: (415) 973-5520
E-Mail: CMB3@pge.com

Attorneys for PACIFIC GAS AND ELECTRIC COMPANY

ALVIN S. PAK
San Diego Gas & Electric Company
101 Ash Street, HQ12C
San Diego, California 92101
Telephone: (619) 696-2190
Facsimile: (619) 699-5027

E-Mail: APak@SempraUtilities.com

Attorney for SAN DIEGO GAS & ELECTRIC COMPANY

Dated: February 10, 2012

JENNIFER TSAO SHIGEKAWA CLAIRE TORCHIA

Southern California Edison Company 2244 Walnut Grove Avenue Rosemead, CA 91770 Telephone: (626) 302-6945 Facsimile: (626) 302-3990 Email: claire.torchia@sce.com

Attorneys for SOUTHERN CALIFORNIA EDISON COMPANY

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MOTION FOR APPROVAL OF SETTLEMENT AGREEMENT BY AND BETWEEN

PACIFIC GAS AND ELECTRIC COMPANY (U 39 E),

SOUTHERN CALIFORNIA EDISON COMPANY (U 338 E),

AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M)

### I. INTRODUCTION AND SUMMARY OF RELIEF SOUGHT

Pursuant to Rule 12.1 of the California Public Utilities Commission's ("Commission's") Rules of Practice and Procedure, Pacific Gas and Electric Company ("PG&E"), Southern California Edison Company ("SCE"), and San Diego Gas & Electric Company ("SDG&E"), (individually, a "Settling Party" and collectively, the "Settling Parties"), hereby enter into the attached settlement agreement ("Settlement Agreement") resolving disputes over allocation of the CFS Discount and Sempra LT Contract Refund (herein defined) in the above-captioned proceeding. The proposed Settlement Agreement is in the public interest and represents a fair and equitable resolution of the issues, and the Settling Parties request that the Commission approve the Settlement Agreement without modification.

Each of the Settling Parties has authorized SCE to file this motion on its behalf.

### H. PROCEDURAL BACKGROUND

The California Department of Water Resources ("CDWR") submitted its 2012 revenue requirement determination to the Commission on August 4, 2011.

On August 25, 2011, PG&E and SCE filed Prehearing Conference Statements and on September 1, 2011, the Commission held a prehearing conference ("PHC") to discuss CDWR's 2012 revenue requirement determination.

In its Prehearing Conference Statement and at the PHC, PG&E asserted that CDWR had been incorrectly allocating proceeds it had been receiving from Sempra Energy ("Sempra") pursuant to a settlement agreement of a class action lawsuit between Sempra Energy et al. and Continental Forge et al. (the "Continental Forge Settlement"). PG&E claimed that Sempra had been paying these proceeds to CDWR from 2006 to 2011 as a price discount on Sempra's power supply contract with CDWR ("CFS Discount"). PG&E asserted that during the period from 2009 through 2011, the CFS Discount should have been allocated using Fixed Percentage Allocators (i.e., 42.2% to PG&E, 47.5% to SCE, and 10.3% to SDG&E), but were instead being allocated on a cost-follows-contract ("CFC") basis. Specifically, PG&E claimed that pursuant to the CFC methodology, SCE's customers were allocated 100% of the \$94,837,570.79 of CFS Discount revenues received and recorded in the 12-month period of September 2010 through August 2011.<sup>2</sup> In its Prehearing Conference Statement, PG&E requested that the Commission

<sup>2</sup> CDWR incorporates refunds and discounts in its revenue requirement determination on a realized basis. Because CDWR's revenue requirement determination is prepared in September of each year, discounts and refunds received by CDWR in the preceding 12-month period (i.e., September through August period) are included in the following calendar year revenue requirement determination.

"adjust the three IOUs' 2012 revenue requirements" in order to correct this alleged CDWR "miscalculation and overcollection." SCE objected to this request on multiple grounds.

PG&E and SCE also disputed the allocation of settlement proceeds of approximately \$130 million (the "Sempra LT Contract Refund"), which were refunded to CDWR in connection with a 2010 settlement of a dispute over a long-term energy delivery contract between Sempra Generation and CDWR (the "Sempra Long-Term Contract"). PG&E sought an allocation of the Sempra LT Contract Refunds according to the Fixed Percentage Allocators, as shown in <a href="Table 1">Table 1</a> below:

Table 1

PG&E	<u>SCE</u>	SDG&E	<u>Total</u>
\$54,914,148.15	\$61,810,948.75	\$13,403,216.25	\$130,128,313.15

SCE disputed the use of the Fixed Percentage Allocators for allocating the Sempra LT Contract Refunds because SCE believed the refunds were intended to compensate, in part, costs that SCE's customers exclusively incurred under the operation of the Sempra Long-Term Contract.

Pursuant to the Scoping Memo and Ruling Regarding the Request of the California

Department of Water Resources to Allocate its 2012 Revenue Requirement Determination and Related Issues ("Scoping Memo") dated September 7, 2011, the filing of Opening and Reply Briefs regarding allocation of the Sempra LT Contract Refund and CFS Discount was set for September 22 and 30, 2011, respectively. Opening and Reply Briefs were timely filed by PG&E, SCE, and SDG&E.

See R.11-03-006, Prehearing Conference Statement of Pacific Gas and Electric Company, at p. 5 (filed August 25, 2011).

<sup>&</sup>lt;sup>4</sup> See R.11-03-006, Opening Brief of Southern California Edison Company (filed September 22, 2011) and Reply Brief of Southern California Edison Company (filed September 30, 2011).

On October 27, 2011, CDWR submitted a revised 2012 revenue requirement determination to the Commission.

Decision ("D.") 11-12-005, Allocating the Revised 2012 Revenue Requirement

Determination of the California Department of Water Resources became effective as of

December 1, 2011. On an interim basis, D.11-12-005 allocates the CFS Discount to SCE using the CFC methodology for the September 2010 through August 2011 timeframe and allocates the Sempra LT Contract Refunds using Fixed Percentage Allocators in accordance with Table 1 above. However, D.11-12-005 defers final determination of the allocation of the CFS Discount and Sempra LT Contract Refund to a subsequent decision.<sup>5</sup>

On November 21, 2011, ALJ Wilson presided over a workshop on the disputed issues. After that workshop, the Settling Parties engaged in settlement discussions and on January 13, 2012, reported having reached the general terms of a settlement agreement. In that status report, the Settling Parties indicated their intent to file a settlement agreement and approval motion by February 10, 2012.

### III. SUMMARY OF THE SETTLEMENT AGREEMENT

The Settlement Agreement addresses the allocation of the CFS Discount and the Sempra LT Contract Refund in CDWR's 2012 revenue requirement. Additionally, because of the way CDWR prepares its annual revenue requirement, some of the proceeds will be included in CDWR's 2013 revenue requirement instead. The specific allocation agreed upon by the Settling Parties is as follows:

<sup>&</sup>lt;sup>5</sup> See D.11-12-005 at pp. 16-17, Ordering Paragraph 8.

<sup>6</sup> See supra note 4 text.

- ffi The CFS Discount provided by Sempra to CDWR for the period between September 2010 through August 2011 (which is \$94,837,570.79), will be allocated as follows: \$51,297,435.30 for PG&E's customers, \$35,176,069.52 for SCE's customers, and \$8,364,065.96 for SDG&E's customers.
- through October 2011 shall be allocated in accordance with the Fixed Percentage Allocators. The Settling Parties acknowledge that the CFS Discount for this period will equal the amount actually received by CDWR. The Settling Parties anticipate this amount to be approximately \$15,882,854.73, and expect CDWR to include the actual amount in its 2013 Revenue Requirement determination.
- ffi The Sempra LT Contract Refund and any interest accrued thereon shall be allocated in accordance with the Fixed Percentage Allocators (consistent with the allocation adopted in D.11-12-005).
- ffi The following table summarizes the proposed settlement of the subject allocations:

SETTLED-ALLOCATION	-OF-THE-CFS-DISCOUNT	AND SEMPRA LONG	TERM-CONTRACT-REF	UND
CFS-Discount-Period	PG&E	SCE	SDG&E	Total
Aug 708 to bec 708*	\$12,872,566.20	\$14,489,262.91	\$3,141,882.27	\$30,503,711.38
Jan 709 to Aug 710**	\$0.00	\$158,027,897.70	\$0.00	\$158,027,897.70
Sep 710 to Aug 711***	\$51,297,435.30	\$35,176,069.52	\$8,364,065.96	\$94,837,570.79
Sep 711 to Oct 711*	\$6,702,564.70	\$7,544,356.00	\$1,635,934.04	\$15,882,854.73
Total¬CFS¬Discount	\$70,872,566.20	\$215,237,586.13	\$13,141,882.27	\$299,252,034.60
Sempra¬LT¬Contract¬Refund*	\$54,914,148.15	\$61,810,948.75	\$13,403,216.25	\$130,128,313.15
Total-Settlement-Allocation	\$125,786,714.35	\$277,048,534.87	\$26,545,098.53	\$429,380,347.75
Notes:	Antonia			
ארן	ed¬Percentage¬Alloc	ators¬(42.2%¬PG&E	,¬47.5%¬SCE,¬and¬	10.3%¬SDG&E)
רן*** קAllocated מון אין אין אין אין אין אין אין אין אין אי	0%¬SCE)			
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ffi The Settling Parties acknowledge that CDWR has already remitted some of the CFS Discount in accordance with D.11-12-005. Accordingly, as of the effective date of this Settlement Agreement and through the end of 2012 (the "Remaining Period"), each Settling Party will receive the difference between the amount of the CFS Discount to which such Settling Party is entitled pursuant to this Settlement Agreement minus the amount such Settling Party has received as of the effective date, amortized over the Remaining Period. The Settling Parties will work together to seek Commission modification of the 2012 revenue requirement allocation and remittance rates to be implemented for the Remaining Period.

# IV. THE COMMISSION SHOULD ADOPT THE SETTLEMENT AGREEMENT WIHTOUT MODIFICATION BECAUSE IT IS REASONABLE AND IN THE PUBLIC INTEREST.

The Commission has a history of supporting settlement of disputes if they are fair and reasonable in light of the whole record.<sup>2</sup> This policy supports many worthwhile goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable results.<sup>8</sup> This strong public policy favoring settlements weighs in favor of the Commission supporting the results of the negotiation process. As long as a settlement taken as a whole is reasonable in light of the record, consistent with the law, and in the public interest, it should be adopted.<sup>9</sup>

The Commission should adopt the Settlement Agreement described herein because it represents a reasonable compromise of the Settling Parties' positions. To wit, the Settlement Agreement results in a reasonable compromise between the otherwise irreconcilable principles and legal theories of the adverse parties and, further, results in the distribution of the amounts in

<sup>7</sup> D.05-03-022, mimeo, pp. 7-8, citing D.88-12-083 (30 CPUC 2d 189, 221-223) and D.91-05-029 (40 CPUC 2d. 301, 326).

<sup>8</sup> D.05-03-022, mimeo, p. 8, citing D.92-12-019, 46 CPUC 2d 538, 553.

<sup>9</sup> See generally D.05-03-022, mimeo, pp. 7-12.

controversy among the ratepayers of all of the utilities in a manner roughly approximate to the differences between their original positions. In addition, this agreement complies with all applicable statutes and prior Commission decisions. By resolving the allocation of the CFS Discount and Sempra LT Contract Refund, the Settlement Agreement saves the Commission and parties from the time, expense, and uncertainty associated with litigating these issues. For these reasons, the Settlement Agreement is in the public interest.

Each portion of the Settlement Agreement is dependent upon the other portions of that same agreement. As such, the Settling Parties request that this Settlement Agreement be adopted as a whole by the Commission, without modification.

### V. THE SETTLING PARTIES HAVE COMPLIED WITH THE REQUIREMENTS OF RULE 12.1(b)

Commission Rule 12.1(b) requires parties to provide a notice of a settlement conference at least seven days before a settlement is signed. On February 1, 2012, the IOUs properly notified all of the parties on the service list of a settlement conference and subsequently convened the settlement conference on February 8, 2012, to describe and discuss the terms of the proposed settlement. Representatives of the Settling Parties participated in the settlement conference. The Settlement Agreement was finalized and executed on February 9, 2012.

### VI. CONCLUSION

For the reasons set forth above, the Settling Parties request that the Commission:

- 1. Find that the attached Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest;
  - 2. Adopt the Settlement Agreement without modification; and

3. Authorize the Settling Parties to implement changes in rates and tariffs in accordance with the terms of the Settlement Agreement.

Respectfully submitted,

JENNIFER TSAO SHIGEKAWA CLAIRE TORCHIA

/s/ Claire Torchia

By: Claire Torchia

Attorneys for SOUTHERN CALIFORNIA EDISON COMPANY

On behalf of PACIFIC GAS AND ELECTRIC COMPANY SAN DIEGO GAS & ELECTRIC COMPANY

February 10, 2012

# ATTACHMENT SETTLEMENT AGREEMENT

# SETTLEMENT AGREEMENT BY AND BETWEEN PACIFIC GAS AND ELECTRIC COMPANY (U 39 E), SOUTHERN CALIFORNIA EDISON COMPANY (U 338 E), AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M)

I.

### **INTRODUCTION AND SUMMARY**

In accordance with Rule 12.1 of the California Public Utilities Commission's ("Commission's") Rules of Practice and Procedure, Pacific Gas and Electric Company ("PG&E"), Southern California Edison Company ("SCE"), and San Diego Gas & Electric Company ("SDG&E") (individually, a "Settling Party" and collectively, the "Settling Parties"), hereby enter into this Settlement Agreement resolving disputes over allocation of the CFS Discount and Sempra LT Contract Refund (herein defined) in the above-captioned proceeding.

The Settling Parties believe that this Settlement Agreement is in the public interest and represents a fair and equitable resolution of the disputes. This Settlement Agreement is mutually acceptable to the Settling Parties. Therefore, the Settling Parties request that the Commission approve the Settlement Agreement without modification.

II.

### **RECITALS**

During California's 2000-2001 energy crisis, Assembly Bill 1 from the First Extraordinary Session ("AB1X") authorized California Department of Water Resources ("CDWR") to enter into a series of contracts for the procurement of electric power to serve customers in the service territories of the investor-owned utilities ("IOUs") and to recover its costs through electric charges established by the Commission. In connection with these contracts, CDWR has collected settlement proceeds on behalf of the IOUs' customers.

Specifically, on January 4, 2006, Sempra Energy et al. and Continental Forge et al. executed a settlement (the "2006 CF Settlement") of a class action lawsuit claiming that Sempra Energy ("Sempra") and others had committed antitrust violations and engaged in unfair competition in the California natural gas markets, among other things. Pursuant to the 2006 CF Settlement, Sempra agreed to provide CDWR a discount under its electric power contract with CDWR (the "CFS Discount").

Likewise, in 2010, Sempra reached settlement for, among other things, claims related to a long-term energy delivery contract between Sempra Generation and CDWR (the "Sempra Long-Term Contract"). As a result of that settlement, approximately \$130 million in proceeds (the "Sempra LT Contract Refund") were refunded to CDWR.

This proceeding authorizes the collection of revenues from IOUs' customers for costs imposed on CDWR in 2012 related to these CDWR contracts. At the opening of this proceeding, PG&E requested that the Commission authorize the allocation of certain negative revenues for PG&E's customers in order to compensate them for an alleged error in prior-year allocations with respect to the CFS Discount. SCE objected to this request. SCE, SDG&E, and PG&E have also disagreed as to methodology for allocating the Sempra LT Contract Refund.

In Decision ("D.") 11-12-005, Allocating the Revised 2012 Revenue Requirement

Determination of the California Department of Water Resources, which became effective as of

December 1, 2011, the Commission allocated CDWR's 2012 revenue requirement between the

customers of PG&E, SCE, and SDG&E. D.11-12-005 allocates the CFS Discount on an interim

basis using the Commission's so called cost-follows-contract ("CFC") methodology. As a result,

SCE's customers were allocated 100% of the CFS Discount included in CDWR's 2012 revenue

requirement determination. Specifically, SCE's customers were allocated 100% of the

\$94,837,570.79 of CFS Discount revenues received and recorded in the 12-month period of

September 2010 through August 2011, which are reflected in CDWR's 2012 revenue requirement determination. 10

D.11-12-005 also allocates the Sempra LT Contract Refunds according to the so called Fixed Percentage Allocators (i.e., 42.2% to PG&E, 47.5% to SCE, and 10.3% to SDG&E), as shown in Table 1 below:

Table 1

PG&E	<u>SCE</u>	SDG&E	<u>Total</u>
\$54,914,148.15	\$61,810,948.75	\$13,403,216.25	\$130,128,313.15

SCE disputed the use of the Fixed Percentage Allocators for allocating the Sempra LT Contract Refunds because SCE believed the refunds were intended to compensate, in part, costs that SCE's customers exclusively incurred under the operation of the Sempra LT Contract. However, D.11-12-005 deferred final determination of the allocation of the CFS Discount and Sempra LT Contract Refund to a subsequent decision. (*See* D.11-12-005 at pp. 16-17, Ordering Paragraph 8).

Since D.11-12-005 was issued, the Settling Parties have agreed upon the terms of a Settlement Agreement resolving the aforementioned disputes, as set forth below.

#### III.

### SETTLEMENT AGREEMENT

The Settling Parties hereby agree as follows:

1. Revised Allocation of CFS Discount and Sempra LT Contract Refund. The Settling Parties agree to the following revisions to the allocation of CFS Discount and the Sempra LT Contract Refund:

CDWR incorporates refunds and discounts in its revenue requirement determination on a realized basis. Because CDWR's revenue requirement determination is prepared in September of each year, discounts and refunds received by CDWR in the preceding 12-month period (i.e., September through August period) are included in the following calendar year revenue requirement determination.

- a. The CFS Discount provided by Sempra to CDWR for the period from September
   2008 through December 2008 was allocated using the Fixed Percentage
   Allocators, and no further revision is required.
- b. The CFS Discount provided by Sempra to CDWR for the period from January 2009 through August 2010 was allocated 100% to SCE's customers pursuant to the CFC methodology; no further revision is required.
- c. The CFS Discount provided by Sempra to CDWR for the period between September 2010 through August 2011 (which is \$94,837,570.79), will be allocated as follows: \$51,297,435.30 for PG&E's customers, \$35,176,069.52 for SCE's customers, and \$8,364,065.96 for SDG&E's customers.
- d. The CFS Discount provided by Sempra to CDWR for the period September 2011 through October 2011 shall be allocated in accordance with the Fixed Percentage Allocators. The Settling Parties acknowledge that the CFS Discount for this period will equal the amount actually received by CDWR. The Settling Parties anticipate this amount to be approximately \$15,882,854.73, and expect CDWR to include the actual amounts in its 2013 Revenue Requirement determination.
- e. The Sempra LT Contract Refund and any interest accrued thereon shall be allocated in accordance with the Fixed Percentage Allocators (consistent with the allocation adopted in D.11-12-005).
- f. The following table summarizes the proposed settlement of the subject allocations:

SETTLED-ALLOCATION	I-OF-THE-CFS-DISCOUNT	AND SEMPRA-LONG	TERM-CONTRACT-REF	UND
CFS¬Discount¬Period	PG&E	<u>SCE</u>	SDG&E	<u>Total</u>
Aug 708 to bec 708*	\$12,872,566.20	\$14,489,262.91	\$3,141,882.27	\$30,503,711.38
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Notes:				
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רן**דןAllocated¬using¬CFC¬(10	0%¬SCE)			To the state of th
***TNegotiated allocation pursuan	t to settlement discussion	ons		

- g. The Settling Parties acknowledge that CDWR has already remitted some of the CFS Discount in accordance with D.11-12-005. Accordingly, as of the effective date of this Settlement Agreement and through the end of 2012 (the "Remaining Period"), each Settling Party will receive the difference between the amount of the CFS Discount to which such Settling Party is entitled pursuant to this Settlement Agreement minus the amount such Settling Party has received as of the effective date, amortized over the Remaining Period. The Settling Parties will work together to seek Commission modification of the 2012 revenue requirement allocation and remittance rates to be implemented for the Remaining Period.
- 2. **No Interest Owed.** No Settling Party will be required to pay interest to another Settling Party in order to effectuate this Settlement Agreement.
- 3. **Effective Date.** This Settlement Agreement shall become effective on the first calendar date of the month following the Commission meeting adopting a Final Commission Decision. A "Final Commission Decision" for purposes of this Settlement Agreement shall mean a Commission order or decision that approves the terms of this Settlement Agreement without

modifications, other than modifications deemed accepted or agreed to among the Settling Parties pursuant to Paragraph 4.

4. Modifications by Commission. Each Settling Party shall review any Commission orders or decisions regarding this Settlement Agreement to determine if the Commission has changed, modified, or severed any portion of the Settlement Agreement, deleted a term, or imposed a new term. If a Settling Party is unwilling to accept such change, modification, severance, deletion, or addition of a new term of the Settlement Agreement, that Settling Party shall so notify the other Settling Parties within ten (10) business days after issuance of any such Commission order or decision approving this Settlement Agreement (the "Notice Period"). The Settling Parties shall thereafter promptly discuss each change, modification, severance, deletion or new term found unacceptable and negotiate in good faith to achieve a resolution acceptable to all Settling Parties and promptly seek Commission approval of the resolution so achieved. Failure to resolve such change, modification, severance, deletion or new term to this Settlement Agreement to the satisfaction of all Settling Parties within thirty (30) calendar days of notification, and to obtain Commission approval of such resolution promptly thereafter, shall cause this Settlement Agreement to terminate. If no Settling Party provides notice within the Notice Period, the Settlement Agreement shall be deemed accepted.

### 5. General Terms and Conditions.

- a. The Settlement Agreement is intended to be a resolution among the Settling

  Parties of the CFS Discount and Sempra LT Contract Refund disputes.
- b. The Settling Parties agree to support the Settlement Agreement and perform diligently, and in good faith, all actions required or implied hereunder to obtain Commission approval of the Settlement Agreement, including without limitation, the preparation of written pleadings. No Settling Party will contest in this proceeding, or in any other forum or in any manner before this Commission, this Settlement Agreement.

- c. The Settling Parties agree by executing and submitting this Settlement Agreement that the relief requested herein is just, fair and reasonable, and in the public interest.
- d. The Settlement Agreement is not intended by the Settling Parties to be precedent regarding any principle or issue. The Settling Parties have assented to the terms of this Settlement Agreement only for the purpose of arriving at the compromise embodied in this Settlement. Each Settling Party expressly reserves its right to advocate, in current and future proceedings, positions, principles, assumptions, and arguments which may be different than those underlying this Settlement Agreement, and each Settling Party declares that this Settlement Agreement should not be considered as precedent for or against it.
- e. This Settlement Agreement embodies compromises of the Settling Parties' positions. No individual term of this Settlement Agreement is assented to by any Settling Party, except in consideration of the other Settling Parties' assent to all other terms. Thus, the Settlement Agreement is indivisible and each part is interdependent on each and all other parts.
- f. The terms and conditions of the Settlement Agreement may only be modified in writing subscribed to by the Settling Parties and approved by a Commission order.
- g. The Settling Parties have caused this Settlement Agreement to be executed by their authorized representatives. By signing this Settlement Agreement, the representatives of the Settling Parties warrant that they have the requisite authority to bind their respective principals.

### PACIFIC GAS AND ELECTRIC COMPANY

BY:
ITS:
DATE:
SOUTHERN CALIFORNIA EDISON COMPANY
BY:
ITS
DATE:
SAN DIEGO GAS & ELECTRIC COMPANY
BY:
ITS Morney
DATE: February 9, 2012
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DATE:

PACIFIC GAS AND ELECTRIC

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### PACIFIC GAS AND ELECTRIC COMPANY

BY:
ITS:
DATE:
SOUTHERN CALIFORNIA EDISON COMPANY
BY: Aklar Jozayen
ITS <u>VICE PRESIDENT</u>
DATE: 2/9/2012
SAN DIEGO GAS & ELECTRIC COMPANY
BY:
ITS
DATE: