

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

Order Instituting Rulemaking on the Commission's Own Motion to Conduct a Comprehensive Examination of Investor Owned Electric Utilities' Residential Rate Structures, the Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations.

Rulemaking 12-06-013
(Filed June 21, 2012)

JOINT MOTION OF SAN DIEGO GAS & ELECTRIC COMPANY (U902E), THE OFFICE OF RATEPAYER ADVOCATES, THE UTILITY REFORM NETWORK, THE UTILITY CONSUMERS' ACTION NETWORK, THE SAN DIEGO CONSUMERS' ACTION NETWORK, AND THE COALITION OF CALIFORNIA UTILITY EMPLOYEES FOR ADOPTION OF SETTLEMENT AGREEMENT FOR PHASE 2 INTERIM RESIDENTIAL RATE DESIGN CHANGES FOR SAN DIEGO GAS AND ELECTRIC COMPANY

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Dated: March 27, 2014

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I. INTRODUCTION

Pursuant to Rule 12.1 et seq. of the Commission's Rules of Practice and Procedure, five parties - - San Diego Gas & Electric Company ("SDG&E"), The Office Of Ratepayer Advocates ("ORA"), The Utility Reform Network ("TURN"), The Utility Consumers' Action Network ("UCAN"), The San Diego Consumers' Action Network ("SDCAN"), and The Coalition Of California Utility Employees ("CUE") (hereinafter collectively referred to as "Settling Parties") jointly request that the Commission adopt and find reasonable the Settlement Agreement for Phase 2 Interim Residential Rate Design Changes for SDG&E ("Settlement Agreement"), which is attached to this Motion as Appendix "A".

The Settlement Agreement resolves all issues related to SDG&E's Phase 2 Interim Residential Rate Design Changes in Phase 2 of this Order Instituting Rulemaking 12-06-013. Upon Commission approval of the Settlement Agreement, expected to issue no later than June 12, 2014, SDG&E will file a Tier 1 Advice Letter adjusting its tariffs to reflect the terms of the Settlement Agreement.

Section I of this motion provides the procedural background related to this proceeding. Section II describes in general the positions advocated by parties in Phase 2 of this proceeding and summarizes the terms of the Settlement Agreement. Section III demonstrates that the

Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest pursuant to Rule 12.1(d), and that it should be adopted without modification. Section IV discusses the procedural requests of the Settling Parties related to expeditious resolution of this motion given the compressed schedule in Phase 2 of the Rulemaking and the intent expressed in the Assigned Commissioner’s Ruling (“ACR”) of October 25, 2013 and the January 24, 2014 Second Amended Scoping Memo and Ruling that residential rate design changes be adopted in time for summer 2014.

II. BACKGROUND

Paragraph 3 of the Settlement Agreement provides the relevant procedural background, which is repeated herein for convenience. On June 28, 2012, the Commission issued an Order Instituting Rulemaking on the Commission’s Own Motion To Conduct A Comprehensive Examination Of Investor-Owned Electric Utilities’ Residential Rate Structures, The Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations (Rulemaking, or “R.” 12-06-013). The Rulemaking was initiated, among other reasons, “to examine current residential electric rate design, including the tier structure in effect for residential customers, the state of time variant and dynamic pricing, potential pathways from tiers to time variant and dynamic pricing, and preferable residential rate design to be implemented when statutory restrictions are lifted.”¹

From summer 2012 through summer 2013, parties to the Rulemaking submitted opening and reply comments in response to a series of policy and other questions in the initial Rulemaking; attended an initial prehearing conference; filed another round of opening and reply comments on questions posed by the Assigned Administrative Law Judge (“ALJ”) regarding how the Rulemaking should be coordinated with other residential rate design proceedings; filed opening comments on definitional matters in advance of an in-person workshop facilitated by the assigned ALJ and Commission staff; and filed “optimal” residential rate design proposals assuming no legislative restrictions, including opening and reply comments thereto. Informal and formal discovery has been ongoing throughout the Rulemaking.

In October 2013, over one year after the Rulemaking was initiated, the California Legislature passed Assembly Bill (“AB”) 327, which was supported by the investor-owned utilities (“IOUs”), ORA, TURN, American Association of Retired Persons (“AARP”), and the Greenlining Institute. Among other things, AB 327 lifted many of the statutory restrictions that

¹ R.12-06-013, p. 2.

had applied to residential rates for usage up to 130% of baseline under AB 1X beginning in February 2001, and by Senate Bill (“SB”) 695, which became effective in January 2010.

Following the passage of AB 327, an ACR was issued on October 25, 2013 inviting the IOUs to submit “interim” rate change proposals that were consistent with the Commission’s authority under AB 327. The goal of the interim proposals was to “stabilize and rebalance tiered rates” through a reasonable phase-in schedule relative to rates in effect prior to January 1, 2014, and consistent with statutory requirements that differentials between tiers should be gradual, that rates not unreasonably impair incentives for conservation and energy efficiency, and that rates not overburden low-income customers.² The IOUs were instructed to file interim proposals in a newly opened “Phase 2” of the Rulemaking, which was categorized as ratesetting, and was to run concurrently with Phase 1.³

To comply with the October 25, 2013 ACR, SDG&E filed its Phase 2 Supplemental Filing For Interim Residential Rate Design Changes on November 22, 2013 (“November 22 Proposal”), concurrently with the service of supporting testimony. The November 22 Proposal requested authorization to: increase lower tier rates; increase Tier 1 rates to Tier 2 levels; consolidate Tiers 3 and 4; move California Alternate Rates for Energy (“CARE”) subsidies from rates to a line item on the bill for residential and non-residential CARE customers; implement a transition path to bring the effective CARE discount within 30-35% for residential and non-residential CARE customers; and adopt a four year transition for rates applicable to non-CARE medical baseline customers. Several parties filed protests to the November 22 Proposal and SDG&E filed a reply.

SDG&E provided notice to customers via bill insert, electronic access to the insert, and by publication of its November 22, 2013 Phase 2 proposal.

On January 24, 2014 (consistent with conclusions drawn at a prehearing conference held January 8, 2014), a Second Amended Scoping Memo and Ruling Of Assigned Commissioner and Assigned Administrative Law Judge (“Second Amended Scoping Memo”) was issued, in which the IOUs were instructed to serve “simplified” interim residential rate design proposals to supplement the testimony filed on November 22, 2013. The stated reason for instructing the IOUs to re-serve simplified proposals was “in order [for the Commission] to fairly evaluate the

² October 25, 2013 ACR, p. 3.

³ See Amended Scoping Memo and Ruling Of Assigned Commissioner, dated January 6, 2014. Phase 1, designed to address the years 2015-2018, was also categorized as ratesetting, but the longer-term issues to be decided in Phase 1 are beyond the scope of this Settlement Agreement.

IOU rate change proposals in time to implement new residential rates in 2014.” The Second Amended Scoping Memo stated that the simplified proposals “should be limited to increases in the lower tiers commensurate with projected increases in the overall revenue requirement allocated to the residential class, plus no more than a few percentage points, if necessary, to keep the upper tiers within a range that will avoid the potential for significant bill volatility and rate shock in the summer.”⁴

To comply with these directives and guidelines, on January 28, 2014, SDG&E served the Revised Prepared Direct Testimony of Cynthia Fang On Behalf of San Diego Gas & Electric Company, revising its Interim Residential Rate Design Proposal (“Revised Proposal”). Through this testimony, SDG&E proposed: to increase Tier 1 and Tier 2 rates with and at the same level as system average rate (“SAR”) increases; to change California Alternate Rates for Energy (“CARE”) rates with and at the same level as SAR changes to better maintain current effective discount levels and avoid moving further from the 30-35% legislated range; to increase Tier 1 non-CARE rates by an additional 1 cent/kWh; and to reduce the differential between Tier 3 and Tier 4 non-CARE rates from 2 cents/kWh to 1 cent/kWh. On March 7, 2014, parties served intervenor testimony, raising various issues and concerns regarding SDG&E’s Revised Proposal. SDG&E served rebuttal testimony on March 12, 2014 in response to intervenor testimony.

On March 21, 2014, SDG&E filed a Motion Seeking Leave to Notice a Settlement Conference on less than 7 days’ notice, attaching a notice of settlement conference as an appendix. On March 21, 2014, ALJ McKinney issued an order granting SDG&E’s request. On that basis, SDG&E provided notice to all parties of its intent to formally hold a settlement conference, and an initial settlement conference pursuant to Article 12 of the Commission’s Rules of Practice and Procedure was held telephonically on March 24, 2014.

On March 25, the terms of the Settlement Agreement were presented by a panel of witnesses representing SDG&E, ORA and TURN at transcribed evidentiary hearings that were held in R.12-06-013, ALJs McKinney and Halligan presiding.

III. SUMMARY OF POSITIONS AND SETTLEMENT

On December 23, 2013, ORA, TURN, UCAN, and SDCAN filed protests in response to SDG&E’s 2014 Interim Rate Design Proposal. Among other things, these parties expressed concern about the impact on lower tier customers as well as whether SDG&E’s Interim Rate

⁴ Second Amended Scoping Memo, p. 2.

Design Proposal would go too far and do so too quickly. On January 4, 2014, SDG&E filed a Reply to Protests.

In its revised proposal, served on January 28, 2014, SDG&E responded to direction provided in the Second Amended Scoping Memo as well as many of the concerns that had been raised in Protests of its November 22, 2013 filing. On March 7, 2014, ORA, TURN, UCAN and SDCAN served intervenor testimony, raising additional issues and concerns regarding the Revised Proposal SDG&E served on January 28, 2014. Through both their protests and testimony, these parties expressed concern over impacts on lower tier customers, among other things:

- ORA raised issues concerning the impact of SDG&E's Revised Proposal on lower tier customers, questioned whether SDG&E's proposals complied with the Second Amended Scoping Order, and made its own proposals.⁵
- TURN expressed concerns that SDG&E's rate changes would result in a rate design that approaches a two-tier rate system, would not advance the Commission's short-term goals of gradually raising Tier 1 and 2 rates and preventing immediate rate shock, and would set the stage for more severe future rate shock by increasing the rate differential between existing Tier 2 (101-130% baseline usage) and Tier 3 (131-200% baseline usage) rates.⁶
- UCAN expressed the concern that SDG&E's proposals attempt to move too quickly toward a 2 tier rate design as well as over the potential impacts on Tier 1 customers.⁷ UCAN also expressed concern that SDG&E's proposal to manage the rise in the Tier 4 price caused the Tier 1 price to rise excessively.⁸

⁵ See, ORA Testimony on San Diego Gas and Electric Company 2014 Summer Rate Relief, Exhibit ORA-01, at pp. 1-4.

⁶ See, Prepared testimony of William B. Marcus submitted on behalf of TURN, TURN Exhibit TURN-01, at p. 1.

⁷ See, Prepared Testimony of David Croyle Regarding San Diego Gas and Electric's 2014 Phase 2 Proposal for Interim Rate Relief On Behalf of the Utility Consumers' Action Network (UCAN), UCAN Exhibit UCAN -06, at p. 5.

⁸ See, Prepared Testimony of David Croyle Regarding San Diego Gas and Electric's 2014 Phase 2 Proposal for Interim Rate Relief On Behalf of the Utility Consumers' Action Network (UCAN), UCAN Exhibit UCAN -06, at p. 6-7

- SDGAN raised concerns over SDG&E’s revenue requirement, potential impacts upon Tier 1 customers as well as the effect of the proposal upon the State’s conservation and energy efficiency efforts.⁹

A matrix summarizing the positions of the Settling Parties is set forth below.

Comparison Matrix of the Positions of Settling Parties in Phase 2 of R.12-06-013

Issues	SDG&E	ORA	TURN	UCAN	SDGAN
Non-CARE Tiered Rates	<ul style="list-style-type: none"> □ Tier 1 and 2 rates with should increase with SAR increases. □ Tier 1 should increase by an additional 1 cents/kWh. □ Tier 3/Tier 4 differential should be reduced from 2 cents/kWh to 1 cent/kWh. 	<ul style="list-style-type: none"> □ Tier 1 should be set at RAR + 5% and capped at a 15% increase. □ Tier 2 should be set at RAR + 8% and capped at an 18% increase. □ Tiers 3 should be solved residually and Tier 4 should be set 4 cents above Tier 3. 	<ul style="list-style-type: none"> □ Supports ORA’s rate proposal. 	<ul style="list-style-type: none"> □ There should be a wider gap between Tiers 1 and 3 and between Tiers 3 and 4. □ Tier 4 rate should not be capped at 40 cents. □ Tier 2 as well as Tier 1 should be allocated revenues to mitigate bill impacts. 	<ul style="list-style-type: none"> □ Rate changes should focused upon Tiers 2 and 3, with Tier 3 getting closer to Tier 4 and increasing the delta between Tiers 1&2. □ Tier 1 rate should be increased by the system average rate increase.
CARE Tiered Rates	<ul style="list-style-type: none"> □ Change CARE rates with SAR levels. 	<ul style="list-style-type: none"> □ All CARE rates should be set at RAR + 5% and capped at a 15% increase. 	<ul style="list-style-type: none"> □ Supports ORA’s recommended rate proposal. 	<ul style="list-style-type: none"> □ Nothing proposed for CARE. 	<ul style="list-style-type: none"> □ Nothing proposed for CARE.
Overarching Concerns	<ul style="list-style-type: none"> □ Significant revenue requirements will result in upper tier rates over 40 cents/kWh. 	<ul style="list-style-type: none"> □ Significant revenue requirement increases are unfortunate because it causes unreasonable bill impacts for low usage customers. 	<ul style="list-style-type: none"> □ SDG&E’s proposal much more significantly increases the Tier 1 rate while reducing the Tier 2/Tier 1 and the Tier 3/Tier 1 ratios. 	<ul style="list-style-type: none"> □ More revenues should be allocated to Tier 2 to take away some of the burden from Tier 1 customers. 	<ul style="list-style-type: none"> □ Rate shock for Tier 1 customers. □ Impacts upon conservation.

* CUE did not submit intervenor testimony in Phase 2 of R.12-06-013.

⁹ See, Prepared Testimony of Michael Shames on behalf of San Diego Consumers’ Action Network, at p. 1.

The Settlement Agreement represents a compromise of the positions outlined above. Under the Settlement Agreement, revenue requirement changes post-February 1, 2014 and prior to a decision in Phase 1 of R.12-06-013 shall be implemented pursuant to the following rules:

- Non-CARE Tier 1: Tier 1 Rates shall change at a level of residential class average rate (“RAR”) plus 2%, but in no event less than 7% relative to February 1, 2014 rates. In the event that Tier 1 rates change at the floor level of 7%, the existing cents/kWh differential between Tier 1 and Tier 2 rates shall be maintained.
- Non-CARE Tier 2: Tier 2 Rates shall change at a level of RAR plus 4%, subject to the provisions applicable to the Tier 1 and Tier 2 differential in the event Tier 1 reaches the 7% floor set forth above.
- CARE Tier 1: CARE Tier 1 Rates shall change at a level of RAR plus 2%.
- CARE Tier 2: CARE Tier 2 Rates shall change at a level of RAR plus 2%.
- CARE Tier 3: CARE Tier 3 Rates shall change at a level of RAR plus 5%.
- Non-CARE Tier 3 and Tier 4: Tier 3 Rates shall be adjusted, after implementation of the forgoing rules for Non-CARE Tier 1 and Tier 2 Rates as well as CARE Tier 1, Tier 2 and Tier 3 Rates treatment of post February 1, 2014 revenue requirement changes, in a manner that maintains the existing 2 cent differential between Tier 3 and Tier 4 Rates.
- SDG&E will consolidate revenue requirement changes whenever feasible to reduce unnecessary rate fluctuations.
- When SDG&E files an Advice Letter to reflect revenue requirement changes, it will include data about February 1, 2014 rates, RAR and SAR contrast to February 1, 2014 percent changes to help parties to review them more efficiently.

The Settlement agreement provides for rules regarding how tiered rates will change with changes in revenue requirements rather than setting fixed rate levels. Table 1 below provides illustrative Settlement rates under different revenue requirement scenarios.

Table 1: Illustrative Settlement Rates under Full Revenue¹⁰ and 50% Revenue¹¹ Scenarios

	Current (2/1/2014)	Illustrative Settlement Rates (Full Revenue Change)	% Change from Current	Illustrative Settlement Rates (50% Revenue Change)	% Change from Current
RAR	21.1	23.3	11%	21.7	3%
Non-CARE					
Tier 1	15.4	17.3	13%	16.5	7%
Tier 2	17.8	20.4	15%	18.9	6%
Tier 3	34.9	37.7	8%	34.6	-1%
Tier 4	36.9	39.7	8%	36.6	-1%
CARE					
Tier 1	10.3	11.6	13%	10.8	5%
Tier 2	12.0	13.5	13%	12.6	5%
Tier 3	17.6	20.3	16%	19.0	8%

IV. REQUEST FOR ADOPTION OF THE SETTLEMENT AGREEMENT

The Settlement Agreement is submitted pursuant to Rule 12.1 *et seq.* of the Commission’s Rules of Practice and Procedure. The Settlement Agreement is also consistent with Commission decisions on settlements, which express the strong public policy favoring settlement of disputes if they are fair and reasonable in light of the whole record.¹² 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.¹³ 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 without change.

¹⁰ Full Revenue reflects incremental impacts of (1) 2014 Energy Resource Recovery Account (“ERRA”) Forecast (A.13-09-017), (2) ERRA Trigger Application (A.13-04-017) assuming year-end 2013 balance of \$213.3 million, and (3) incremental balance of \$80 million anticipated for 2014. Also includes impacts of 2012 GRC P2 implementation of (1) change in revenue allocation, (2) change in allocation of CARE rate design subsidy, and (3) change in class definition for Schedule PA-T-1.

¹¹ 50% revenue reflects incremental impacts of (1) 50% of the incremental impact of 2014 ERRA Forecast (A.13-09-017), (2) 50% of incremental impact of ERRA Trigger Application (A.13-04-017) assuming year-end 2013 balance of \$213.3 million, and (3) 50% of the incremental balance of \$80 million anticipated for 2014. Also includes impacts of 2012 GRC P2 implementation of (1) Change in revenue allocation, (2) change in allocation of CARE rate design subsidy, and (3) change in class definition for Schedule PA-T-1.

¹² See, e.g., D.88-12-083 (30 CPUC 2d 189, 221-223) and D.91-05-029 (40 CPUC 2d, 301, 326).

¹³ D.92-12-019, 46 CPUC 2d 538, 553.

The Settlement Agreement complies with Commission guidelines and relevant precedent for settlements. The general criteria for Commission approval of settlements are stated in Rule 12.1(d) as follows:

The Commission will not approve stipulations or settlements, whether contested or uncontested, unless the stipulation or settlement is reasonable in light of the whole record, consistent with law, and in the public interest.¹⁴

The Settlement Agreement meets the criteria for a settlement pursuant to Rule 12.1(d), as discussed below.

A. The Settlement Agreement Is Reasonable In Light of the Record

The record in Phase 2 of this proceeding includes this Motion, SDG&E's November 22 proposal and supporting testimony (SDG&E Exhibits 1 and 2), the Revised testimony of Cynthia Fang filed on January 28 (SDG&E Exhibit 3), the Supplemental Bill Impact Tables of SDG&E served on January 22 (SDG&E Exhibit 4), the Supplemental Bill Impact Tables Setting Forth Annual Impact for System-Wide Non-CARE and CARE Primary Default Rate Schedules (SDG&E Exhibit 5), and the Prepared Rebuttal Testimony of Cynthia Fang on Behalf of SDG&E (SDG&E Exhibit 6); the Term Sheet of Agreement in Principle (SDG&E Exhibit 7), Office of Ratepayer Advocates testimony on San Diego Gas & Electric Company 2014 Summer Rate Relief (ORA Exhibit 1), Testimony of William B. Marcus submitted on behalf of TURN (TURN Exhibit 1), UCAN Data Request (UCAN Exhibit 1), Customer Bill Impacts in Response to Data Request (UCAN Exhibit 2), Customer Bill Impacts for a Second Scenario (UCAN Exhibit 3), ORA Data Request (UCAN Exhibit 4), Customer Bill Impacts in response to ORA Data Request (UCAN Exhibit 5), and the Testimony of David Croyle submitted on behalf of UCAN (UCAN Exhibit 6), the Testimony of Michael Shames submitted on behalf of SDCAN (SDCAN Exhibit 1) as well as the comments and reply comments that have been submitted by SDG&E, ORA, TURN, UCAN and SDCAN herein. Together, the above documents provide the information necessary for the Commission to find the Settlement Agreement reasonable in light of the record.

¹⁴ See also, Re San Diego Gas & Electric Company, (D.90-08-068), 37 CPUC 2d 360: “[S]ettlements brought to this Commission for review are not simply the resolution of private disputes, such as those that may be taken to a civil court. The public interest and the interest of ratepayers must also be taken into account and the Commission’s duty is to protect those interests.”

The settlement represents a significant compromise by SDG&E in response to concerns over impacts on lower tier and whether SDG&E's proposal would go too far, too quickly. In that regard, rather than reducing the differential between Tier 1 and Tier 2 rates and increasing Tier 1 and Tier 2 rates with and at the same level as SAR increases, the Settlement Agreement provides that Non-CARE Tier 1 Rates would change at a level of RAR plus 2% (but in no event less than 7% relative to February 1, 2014 rates) while non-CARE Tier 2 Rates would change at a level of RAR plus 4%. Rather than changing CARE rates with and at the same level as SAR changes as SDG&E proposed, the Settlement Agreement provides that CARE Tier 1 and Tier 2 Rates would change at a level of RAR plus 2% and CARE Tier 3 Rates would change at a level of RAR plus 5%. Finally, rather than reducing the differential between Tier 3 and Tier 4 non-CARE rates from 2 cents/kWh to 1 cent/kWh as SDG&E proposed, the Settlement Agreement would adjust upper tier rates in a manner that maintains the 2 cents/kWh differential between Tier 3 and Tier 4 Rates.

The Settlement Agreement does not prejudge Phase 1 of this proceeding and proposes a set of rules for implementing revenue requirement changes for residential customers on an interim basis that would be superseded by a decision in Phase 1 of R.12-06-013.

The Settlement Agreement is also reasonable insofar as it is consistent with the guiding principles contained in the October 25, 2013 ACR, which recommended that, for the interim residential rate changes, "any tier increase resulting from increased revenue requirements [will] be applied first to the lower tiers" in order to "prevent further disparity in lower and upper tiers," that rate changes should "avoid rate shock," and that the rates for Tiers 1 and 2 should "begin to increase in 2014."¹⁵ The Settlement Agreement would provide for increases in Tier 1 and Tier 2 Rates, but at levels that moderate potential bill impacts in order to avoid rate shock.

The Settling Parties respectfully submit that the Settlement Agreement is reasonable, in the public interest, and is consistent with AB327 as well as the guiding principles in the October 25, 2013 ACR:

- The Settlement Agreement includes no major structural adjustments to CARE, FERA or medical baseline programs.

¹⁵ October 25, 2013 ACR, p. 5.

- The Settlement Agreement provides a small adjustment to the effective CARE discount in order to begin to put CARE rates on a glide path to the 35% maximum discount required by AB 327.
- The Settlement Agreement limits rate changes to increases in lower tiers no more than a few percentage points above projected increases in revenue requirements to the class, in a manner that avoids rate shock to all customers.
- The Settlement Agreement represents a movement from all party's positions and balances interests of all ratepayers.

B. The Settlement Agreement is Consistent with Law

The Settling Parties believe that the terms of the Settlement Agreement comply with all applicable statutes and prior Commission decisions, and reasonable interpretations thereof. In agreeing to the terms of the Settlement Agreement, the Settling Parties have explicitly considered the relevant statutes and Commission decisions and believe that the Commission can approve the Settlement Agreement without violating applicable statutes or prior Commission decisions.

C. The Settlement Agreement is in the Public Interest

The Settlement Agreement is a reasonable compromise of the Settling Parties' respective positions, as summarized in Section III. The Settlement Agreement is in the public interest and in the interest of SDG&E's customers. Specifically, as explained in Section IV.A., above, the Settlement Agreement provides for reasonable increases in the rates for non-CARE Tiers 1 and 2, and provides a reasonable formula for addressing revenue requirement changes until a Commission decision is implemented addressing longer-term rate design issues in Phase 1 of this proceeding.

The Settlement Agreement, if adopted by the Commission, would avoid the cost of further litigation, and free up Commission resources for other proceedings, including timely resolution of Phase 1 of this Rulemaking. The Settlement Agreement would free up the time and resources of other parties as well, allowing them to focus on the rest of this proceeding and other proceedings.

Each portion of the Settlement Agreement is dependent upon the other portions of the Settlement Agreement. Changes to one portion of the Settlement Agreement would alter the balance of interests and the mutually agreed upon compromises and outcomes which are

contained in the Settlement Agreement. As such, the Settling Parties request that the Settlement Agreement be adopted as a whole by the Commission, as it is reasonable in light of the whole record, consistent with law, and in the public interest. If the Settlement Agreement is not adopted as a whole in the Proposed Decision approving the Settlement Agreement, the Settling Parties request that the assigned Administrative Law Judges provide fifteen days for the Settling Parties to determine whether the proposed modifications are acceptable to the Settling Parties. The Settling Parties reserve the right to serve testimony on the proposed modification provided that doing so would not delay issuance of a final decision beyond June 12, 2014.

V. SCHEDULE FOR COMMENTS AND IMPLEMENTATION OF SETTLEMENT AGREEMENT

The Commission opened Phase 2 of the Rulemaking with the intention that it would approve residential rate changes in advance of summer 2014. This is particularly important in light of anticipated revenue requirement increases that, absent approval of the Settlement Agreement, would be felt exclusively by customers in Tiers 3 and 4. Under the express terms of the Settlement Agreement, the Settling Parties have agreed to use their best efforts to obtain Commission approval of the Settlement Agreement no later than June 12, 2014 so as to implement the revised rates no later than July 12, 2014.¹⁶ Because the rate changes sought to be approved in the Settlement Agreement are time-sensitive, the Settling Parties request expeditious review and approval of this Settlement Agreement.

Pursuant to Rule 1.2 of the Commission's Rules of Practice and Procedure, which provides that the Commission's Rules "shall be liberally construed to secure just, speedy, and inexpensive determination of the issues presented" and that "[i]n special cases and for good cause shown, the Commission may permit deviations from the rules," the Settling Parties request that the Commission shorten the thirty-day period provided for in Rule 12.2 for comments contesting all or part of the settlement such that comments contesting all or part of the Settlement Agreement be due on the same date as that provided for the filing of Opening Briefs in this proceeding, April 7, 2014. Shortening the comment period is also consistent with Rule 12.1(c), which states that while "[s]ettlements should ordinarily not include deadlines for Commission approval . . . in the rare case where delay beyond a certain date would invalidate the basis for the proposal, the timing urgency must be clearly stated and fully justified in the motion [for adoption

¹⁶ See, Settlement Agreement for Phase 2 Interim Residential Rate Design Changes for San Diego Gas and Electric Company, at pp. 10-11.

of the settlement agreement].” The term sheet that forms the basis for the Settlement Agreement has already been entered into evidence¹⁷ and subject to a Settlement Conference, and witnesses representing SDG&E, ORA, and TURN have taken the stand and offered testimony in support of the Settlement Agreement and made themselves available for cross-examination regarding the substance of the Settlement Agreement at evidentiary proceedings in this proceeding.

VI. CONCLUSION

For the forgoing reasons, the Settling Parties respectfully request that the Commission:

1. Approve the attached Settlement Agreement as reasonable in light of the record, consistent with law, and in the public interest; and
2. Issue a decision no later than June 12, 2014 authorizing SDG&E to implement changes via a Tier 1 Advice Filing in accordance with the terms of the Settlement Agreement.

¹⁷ See, SDG&E Exhibit 7.

Dated: March 27, 2014

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Dated: March 27, 2014

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APPENDIX A

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

Order Instituting Rulemaking on the Commission's
Own Motion to Conduct a Comprehensive
Examination of Investor Owned Electric Utilities'
Residential Rate Structures, the Transition to Time
Varying and Dynamic Rates, and Other Statutory
Obligations.

Rulemaking 12-06-013
(Filed June 21, 2012)

**SETTLEMENT AGREEMENT FOR
PHASE 2 INTERIM RESIDENTIAL RATE DESIGN CHANGES
FOR SAN DIEGO GAS AND ELECTRIC COMPANY**

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Dated: March 27, 2014

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**SETTLEMENT AGREEMENT FOR
PHASE 2 INTERIM RESIDENTIAL RATE DESIGN CHANGES
FOR SAN DIEGO GAS AND ELECTRIC COMPANY**

This Settlement Agreement for Phase 2 Interim Residential Rate Design Changes (Settlement Agreement) for San Diego Gas & Electric Company ("SDG&E") is entered into by the undersigned Parties hereto, with reference to the following.

I. PARTIES

The Parties to this Settlement Agreement are SDG&E, the Office of Ratepayer Advocates ("ORA"), The Utility Reform Network ("TURN"), the Utility Consumers' Action Network ("UCAN") the San Diego Consumers' Action Network ("SDCAN"); and the Coalition of California Utility Employees ("CUE").

a. ORA is a division of the Commission that represents the interests of public utility customers. Its goal is to obtain the lowest possible rate for service consistent with reliable and safe service levels. Pursuant to Public Utilities Code Section 309.5(a), the ORA is directed to primarily consider the interests of residential and small commercial customers in revenue allocation and rate design matters.

b. TURN is an independent, non-profit consumer advocacy organization that represents the interests of residential and small commercial utility customers.

c. UCAN is an independent, non-profit consumer advocacy organization that represents the interests of residential and small commercial utility customers.

d. SDCAN an independent, non-profit consumer advocacy organization that represents the interests of residential and small commercial utility customers.

e. CUE is a coalition of labor unions and represents approximately 35,000 employees of most of the electric utilities in California. DEFINITIONS

When used in initial capitalization in this Settlement Agreement, whether in singular or plural, the following terms shall have the meanings set forth below or, if not set forth below, then as they are defined elsewhere in this Settlement Agreement:

a. “ACR” means Assigned Commissioner’s Ruling;

b. “CARE” means California Alternate Rates for Energy program, which provides customers meeting a certain household income criteria a discount from SDG&E’s otherwise applicable residential rates.

c. “Energy Rates” means the volumetric rates paid by customers who are served on SDG&E’s residential rate schedules.

d. “FERA” means Family Electric Rate Assistance Program, which currently provides residential customers meeting certain household income and family size criteria a discount by charging Tier 2 Energy Rates for usage incurred in Tier 3.e. “IOUs” means investor-owned utilities. As used in this Settlement Agreement, the IOUs are Southern California Edison Company, Pacific Gas and Electric Company and SDG&E.

f. “kWh” means kilowatt hours.

g. The terms “Tier 1,” Tier 2”, Tier 3” and “Tier 4,” as used herein, are defined as follows

- Tier 1: usage up to 100% of baseline
- Tier 2: usage between 100% up to 130% of baseline
- Tier 3: usage between 130% up to 200% of baseline
- Tier 4: usage above 200% of baseline.

h. “Settlement Agreement” shall have the meaning given to such term in the introductory paragraph hereof.

- i. “Settling Parties” means SDG&E, ORA, TURN, UCAN, SDCAN and CUE.

II. RECITALS

a. On June 28, 2012, the Commission issued an Order Instituting Rulemaking on the Commission’s Own Motion To Conduct A Comprehensive Examination Of Investor-Owned Electric Utilities’ Residential Rate Structures, The Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations (Rulemaking, or “R.” 12-06-013). The Rulemaking was initiated, among other reasons, “to examine current residential electric rate design, including the tier structure in effect for residential customers, the state of time variant and dynamic pricing, potential pathways from tiers to time variant and dynamic pricing, and preferable residential rate design to be implemented when statutory restrictions are lifted.”¹

b. From summer 2012 through summer 2013, parties to the Rulemaking submitted opening and reply comments in response to a series of policy and other questions in the initial Rulemaking; attended an initial prehearing conference; filed another round of opening and reply comments on questions posed by the Assigned Administrative Law Judge (“ALJ”) regarding how the Rulemaking should be coordinated with other residential rate design proceedings; filed opening comments on definitional matters in advance of an in-person workshop facilitated by the

¹ R.12-06-013, p. 2.

assigned ALJ and Commission staff; and filed “optimal” residential rate design proposals assuming no legislative restrictions, including opening and reply comments thereto. Informal and formal discovery has been ongoing throughout the Rulemaking.

c. In October 2013, over one year after the Rulemaking was initiated, the California Legislature passed Assembly Bill (AB) 327, which was supported by the IOUs, ORA, TURN, American Association of Retired Persons (“AARP”), and the Greenlining Institute. Among other things, AB 327 lifted many of the statutory restrictions that had applied to residential rates for usage up to 130% of baseline under AB 1X beginning in February 2001, and by Senate Bill (“SB”) 695, which became effective in January 2010.

d. Following the passage of AB 327, an ACR was issued on October 25, 2013 inviting the IOUs to submit “interim” rate change proposals that were consistent with the Commission’s authority under AB 327. The goal of the interim proposals was to “stabilize and rebalance tiered rates” through a reasonable phase-in schedule relative to rates in effect prior to January 1, 2014, and consistent with statutory requirements that differentials between tiers should be gradual, that rates not unreasonably impair incentives for conservation and energy efficiency, and that rates not overburden low-income customers.² The IOUs were instructed to file interim proposals in a newly opened “Phase 2” of the Rulemaking, which was categorized as ratesetting, and was to run concurrently with Phase 1.³

e. To comply with the October 25, 2013 ACR, SDG&E filed its Phase 2 Supplemental Filing For Interim Residential Rate Design Changes on November 22, 2013 (“November 22 Proposal”), concurrently with the service of supporting testimony. The

² October 25, 2013 ACR, p. 3.

³ See Amended Scoping Memo and Ruling Of Assigned Commissioner, dated January 6, 2014. Phase 1, designed to address the years 2015-2018, was also categorized as ratesetting, but the longer-term issues to be decided in Phase 1 are beyond the scope of this Settlement Agreement.

November 22 Proposal requested authorization to: increase lower tier rates; increase Tier 1 rates to Tier 2 levels; consolidate Tiers 3 and 4⁴; move California Alternate Rates for Energy (“CARE”) subsidies from rates to a line item on the bill for residential and non-residential CARE customers; implement a transition path to bring the effective CARE discount within 30-35% for residential and non-residential CARE customers; and adopt a four year transition for rates applicable to non-CARE medical baseline customers. Several parties filed protests to the November 22 Proposal and SDG&E filed a reply.

f. SDG&E provided notice to customers via bill insert, electronic access to the insert, and by publication of its November 22, 2013 Phase 2 proposal.

g. On January 24, 2014 (consistent with conclusions drawn at a prehearing conference held January 8, 2014), a Second Amended Scoping Memo and Ruling Of Assigned Commissioner and Assigned Administrative Law Judge (“Second Amended Scoping Memo”) was issued, in which the IOUs were instructed to serve “simplified” interim residential rate design proposals to supplement the testimony filed on November 22, 2013. The stated reason for instructing the IOUs to re-serve simplified proposals was “in order [for the Commission] to fairly evaluate the IOU rate change proposals in time to implement new residential rates in 2014.”⁵ The Second Amended Scoping Memo stated that the simplified proposals “should be limited to increases in the lower tiers commensurate with projected increases in the overall revenue requirement allocated to the residential class, plus no more than a few percentage points, if necessary, to keep the upper tiers within a range that will avoid the potential for significant bill volatility and rate shock in the summer.”⁵

⁴ In the event SDG&E does not receive approval for the consolidation of Tiers 3 and 4 in its pending Test Year 2012 General Rate Case Phase 2 Application (“A.”) 11-10-002, originally filed on October 3, 2011 (“2012 GRC P2”).

⁵ Second Amended Scoping Memo, p. 2.

h. To comply with these directives and guidelines, on January 28, 2014, SDG&E served the Revised Prepared Direct Testimony of Cynthia Fang On Behalf of San Diego Gas & Electric Company, revising its Interim Residential Rate Design Proposal (Revised Proposal). Through this testimony, SDG&E proposed: to increase Tier 1 and Tier 2 rates with and at the same level as system average rate (“SAR”) increases; to change CARE rates with and at the same level as SAR changes to better maintain current effective discount levels and avoid moving further from the 30-35% legislated range; to increase Tier 1 non-CARE rates by an additional 1 cent/kWh; and to reduce the differential between Tier 3 and Tier 4 non-CARE rates from 2 cents/kWh to 1 cent/kWh. On March 5, 2014, parties served intervenor testimony, raising various issues and concerns regarding SDG&E’s Revised Proposal. SDG&E served rebuttal testimony on March 12, 2014 in response to intervenor testimony.

i. On March 21, 2014, SDG&E filed a Motion Seeking Leave to Notice a Settlement Conference on less than 7 days’ notice, attaching a notice of settlement conference as an appendix. On March 21, 2014, ALJ McKinney issued an order granting SDG&E’s request. On that basis, SDG&E provided notice to all parties of its intent to formally hold a settlement conference, and an initial settlement conference pursuant to Article 12 of the Commission’s Rules of Practice and Procedure was held telephonically on March 24, 2014.

j. The Settling Parties have evaluated the various issues in Phase 2 of the Rulemaking, desire to resolve all Phase 2-related issues involving SDG&E’s residential non-CARE and CARE default rates, and have reached an agreement that resolves all disputed Phase 2-related issues involving SDG&E’s residential non-CARE and CARE default rates as indicated in Paragraph 4 of this Settlement Agreement.

III. AGREEMENT

In consideration of the mutual obligations, covenants and conditions contained herein, the Settling Parties agree to the terms of this Settlement Agreement. Nothing in this Settlement Agreement shall be deemed to constitute an admission by any Party that its position on any issue lacks merit or that its position has greater or lesser merit than the position taken by any other Party. This Settlement Agreement is subject to the express limitation on precedent described in Section 10.

A. Term and Applicability

The provisions provided for herein will apply to revenue requirement adjustments to rates in effect as of February 1, 2014, until a Commission decision approving the terms of this agreement is superseded by a Commission decision in Phase 1 of R.12-06-013.

B. Treatment of Revenue Requirement Changes Post-February 1, 2014

Revenue Requirement changes post-February 1, 2014 and prior to the implementation of any changes required by a decision in Phase 1 shall be implemented pursuant to the following rules:

- Non-CARE Tier 1: Tier 1 Rates shall change at a level of residential class average rate (“RAR”) plus 2%, but in no event less than 7% relative to February 1, 2014 rates. In the event that Tier 1 rates change at the floor level of 7%, the existing cents/kWh differential between Tier 1 and Tier 2 rates shall be maintained.
- Non-CARE Tier 2: Tier 2 Rates shall change at a level of RAR plus 4%, subject to the provisions applicable to the Tier 1 and Tier 2 differential in the event Tier 1 reaches the 7% floor set forth above.
- CARE Tier 1: CARE Tier 1 Rates shall change at a level of RAR plus 2%.

- CARE Tier 2: CARE Tier 2 Rates shall change at a level of RAR plus 2%.
- CARE Tier 3: CARE Tier 3 Rates shall change at a level of RAR plus 5%.
- Non-CARE Tier 3 and Tier 4: Tier 3 Rates shall be adjusted, after implementation of the forgoing rules for Non-CARE Tier 1 and Tier 2 Rates as well as CARE Tier 1, Tier 2 and Tier 3 Rates treatment of post February 1, 2014 revenue requirement changes, in a manner that maintains the existing 2 cent differential between Tier 3 and Tier 4 Rates.
- SDG&E will consolidate revenue requirement changes whenever feasible to reduce unnecessary rate fluctuations.
- When SDG&E files an Advice Letter to reflect revenue requirement changes, it will include data about February 1, 2014 rates, RAR and system average rate (“SAR”) contrast to Feb 1, 2014 percent changes to help parties to review them more efficiently.

The Settlement agreement provides for rules regarding how tiered rates will change with changes in revenue requirements rather than setting fixed rate levels. Table 1 below provides illustrative Settlement rates under different revenue requirement scenarios.

Table 1: Illustrative Settlement Rates under Full Revenue⁶ and 50% Revenue⁷ Scenarios

	Current (2/1/2014)	Illustrative Settlement Rates (Full Revenue Change)	% Change from Current	Illustrative Settlement Rates (50% Revenue Change)	% Change from Current
RAR	21.1	23.3	11%	21.7	3%
Non-CARE					
Tier 1	15.4	17.3	13%	16.5	7%
Tier 2	17.8	20.4	15%	18.9	6%
Tier 3	34.9	37.7	8%	34.6	-1%
Tier 4	36.9	39.7	8%	36.6	-1%
CARE					
Tier 1	10.3	11.6	13%	10.8	5%
Tier 2	12.0	13.5	13%	12.6	5%
Tier 3	17.6	20.3	16%	19.0	8%

C. Office of Ratepayer Advocates (“ORA”) Protest of SDG&E Advice Letter 2575-E

ORA shall withdraw its protest of SDG&E Advice Letter 2575-E.

D. No Modifications to Current Tariff Schedule Components

Prior to the implementation of any rate changes required by of a decision in Phase 1 of R. 12-06-013, no changes shall be made to non-CARE or CARE rate structures other than those identified above, i.e. there would be no changes to the monthly service fee, minimum charges, number of tiers, or the structure to CARE, the FERA program, medical baseline-related programs.

⁶ Full Revenue reflects incremental impacts of (1) 2014 ERRa Forecast (A.13-09-017), (2) ERRa Trigger Application (A.13-04-017) assuming year-end 2013 balance of \$213.3 million, and (3) incremental balance of \$80 million anticipated for 2014. Also includes impacts of 2012 GRC P2 implementation of (1) change in revenue allocation, (2) change in allocation of CARE rate design subsidy, and (3) change in class definition for Schedule PA-T-1.

⁷ 50% revenue reflects incremental impacts of (1) 50% of the incremental impact of 2014 ERRa Forecast (A.13-09-017), (2) 50% of incremental impact of ERRa Trigger Application (A.13-04-017) assuming year-end 2013 balance of \$213.3 million, and (3) 50% of the incremental balance of \$80 million anticipated for 2014. Also includes impacts of 2012 GRC P2 implementation of (1) Change in revenue allocation, (2) change in allocation of CARE rate design subsidy, and (3) change in class definition for Schedule PA-T-1.

E. Implementation of Settlement Agreement

The undersigned Parties agree to support a Motion for Adoption of Settlement Agreement incorporating the terms set forth herein as a whole and as to each and every of its terms and conditions without modification so as to preserve the balance struck as between the interests of the Settling Parties.

IV. IMPLEMENTATION OF SETTLEMENT AGREEMENT

It is the intent of the Settling Parties that SDG&E should be authorized to file a Tier 1 Advice Letter implementing tariffs containing the rate changes resulting from this Settlement Agreement as soon as practicable following the issuance of a final Commission decision approving this Settlement Agreement.

V. RECORD EVIDENCE

The Settling Parties recommend that the testimony in support of both SDG&E's November 22 Proposal and the Simplified Proposal as well as the testimony of other parties on these proposals be admitted as part of the evidentiary record of this proceeding. The protests of the November 22 Proposal filed by TURN, ORA, UCAN, and SDCAN were filed with the Docket Office and are already part of the record.

VI. SIGNATURE DATE

This Settlement Agreement shall become binding as of the last signature date of the Settling Parties.

VII. REGULATORY APPROVAL

The Settling Parties, by signing this Settlement Agreement, acknowledge that they pledge support for Commission approval and subsequent implementation of all the provisions of this Settlement Agreement. The Settling Parties shall use their best efforts to obtain Commission

approval of this Settlement Agreement by no later than June 12, 2014. The Settling Parties shall jointly request that the Commission approve the Settlement Agreement without change, and find this Settlement Agreement to be reasonable, consistent with law and in the public interest.

VIII. COMPROMISE OF DISPUTED CLAIMS

This Settlement Agreement represents a compromise of disputed claims between the Settling Parties. The Settling Parties have reached this Settlement Agreement after taking into account the possibility that each Party may or may not prevail on any given issue. The Settling Parties assert that this Settlement Agreement is reasonable, consistent with law and in the public interest.

IX. NON-PRECEDENT

Consistent with Rule 12.5 of the Commission's Rules of Practice and Procedure, this Settlement Agreement is not precedential in any other pending or future proceeding before this Commission, except as expressly provided in this Settlement Agreement or unless the Commission expressly provides otherwise. The Settling Parties expressly recognize that each Party may advocate a position that is inconsistent with this Agreement for rate changes occurring on or after January 1, 2015 in Phase 1 of R.12-06-013, or in another ratesetting proceeding. Until the Commission issues a decision modifying the terms of this Agreement, the Settling Parties will support the continued applicability of Section 4 to govern any rate changes.

X. PREVIOUS COMMUNICATIONS

The Settlement Agreement contains the entire agreement and understanding between the Settling Parties as to the resolution of Phase 2 issues in the Rulemaking. In the event there is any conflict between the terms and scope of this Settlement Agreement and the terms and scope of

the accompanying joint motion in support of the Settlement Agreement, the Settlement Agreement shall govern.

XI. NON-WAIVER

None of the provisions of this Settlement Agreement shall be considered waived by any Party unless such waiver is given in writing. The failure of a Party to insist in any one or more instances upon strict performance of any of the provisions of this Settlement Agreement or to take advantage of any of their rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.

XII. EFFECT OF SUBJECT HEADINGS

Subject headings in this Settlement Agreement are inserted for convenience only, and shall not be construed as interpretations of the text.

XIII. GOVERNING LAW

This Settlement Agreement shall be interpreted, governed and construed under the laws of the State of California, including Commission decisions, orders and rulings, as if executed and to be performed wholly within the State of California.

XIV. NUMBER OF ORIGINALS

This Settlement Agreement is executed in counterparts, each of which shall be deemed an original. The undersigned represent that they are authorized to sign on behalf of the Party represented.

Dated: March 27, 2014

San Diego Gas & Electric Company

/s/ Lee Schavrien

By: Lee Schavrien
Senior Vice President, Financial,
Regulatory and Legislative Affairs

Dated: March 27, 2014

The Office of Ratepayer Advocates

/s/ Joseph P. Como

By: Joseph P. Como
Acting Director

Dated: March 27, 2014

The Utility Reform Network

/s/ Matthew Freedman

By: Matthew Freedman
Staff Attorney

Dated: March 27, 2014

Utility Consumers' Action Network

/s/ Donald Kelly, Esq.

By: Donald Kelly, Esq
Executive Director

Dated: March 27, 2014

San Diego Consumers' Action Network

/s/ Michael Shames

By: Michael Shames
Director

Dated: March 27, 2014

Coalition of California Utility Employees

/s/ Jamie Mauldin

By: Jamie Mauldin
Attorney