

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

Application of San Diego Gas & Electric Company (U 902 M) for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2016.

Application No. 14-11-003
(Filed November 14, 2014)

Application of Southern California Gas Company (U 904 G) for Authority to Update its Gas Revenue Requirement and Base Rates Effective on January 1, 2016.

Application No. 14-11-004
(Filed November 14, 2014)

**JOINT MOTION OF SAN DIEGO GAS & ELECTRIC COMPANY,
SOUTHERN CALIFORNIA GAS COMPANY AND
OFFICE OF RATEPAYER ADVOCATES FOR ADOPTION OF SETTLEMENT
AGREEMENT REGARDING THE POST-TEST YEAR PERIOD**

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September 11, 2015

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AGREEMENT REGARDING THE POST-TEST YEAR PERIOD**

I. INTRODUCTION

Pursuant to Rule 12.1 of the Commission’s Rules of Practice and Procedure, this Joint Motion by San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas) (jointly, Applicants) and the Office of Ratepayer Advocates (ORA) (collectively, Settling Parties) requests approval of a settlement regarding the post-test year (PTY) period for SDG&E and SoCalGas (PTY Settlement Agreement).¹ As described below, the PTY Settlement Agreement provides for a post-test year period that will encompass a 2019 attrition year, reflecting a four-year GRC cycle, and an attrition year escalation factor for 2019 of 4.3%, contingent upon Commission adoption of (1) SDG&E’s and SoCalGas’ concurrently filed revenue requirement settlement agreements and (2) four-year GRC cycles for all major California investor-owned utilities (IOUs, i.e., Southern California Edison Company (SCE)), Pacific Gas & Electric Company (PG&E), SDG&E and SoCalGas). The Settling Parties will jointly request the latter relief in a petition for modification of the Commission’s Rate Case Plan (RCP) in Rulemaking (R.) 13-11-006 (the Risk Rulemaking), or by other appropriate procedural mechanism.

As shown below, the Settling Parties believe that the PTY Settlement Agreement is “reasonable in light of the whole record, consistent with law, and in the public interest,” as

¹ The PTY Settlement Agreement is attached as an Appendix.

required by Rule 12.1(d). The benefits of the PTY Settlement Agreement include minimizing the potential for delays in GRC proceedings and achieving a more efficient use of CPUC and Applicants' resources by managing the increase in the Settling Parties' workload due to new regulatory requirements set forth in the Commission's decision integrating the Safety Model Assessment Proceeding (S-MAP) and the Risk Assessment Mitigation Phase (RAMP) into the Commission's RCP, in D.14-12-025. The Settling Parties note that even without these new requirements, Applicants' test year (TY) 2012 GRC decision took 876 calendar days between application and final decision, which is 492 days longer than the 384-day period set forth in the RCP. The public interest is served by minimizing regulatory delays, in part to avoid impacting the timing of work and capital projects, many of which are for critical safety and reliability efforts. Minimizing delays also reduces rate shock and creates greater rate stability, to the benefit of customers.

The settled-upon escalation factor for 2019 of 4.3% is well-supported by the record and recent Commission decisions, and represents the product of negotiations between the Settling Parties. The Settling Parties believe this amount will allow SDG&E and SoCalGas the revenue requirement needed to maintain and operate their system safely, reliably, and efficiently, while keeping customer rates reasonable through 2019.

As set forth below in Section IV.B, the Settling Parties believe the Commission can approve the instant settlement and comply with statutory obligations requiring Commission audits on a three-year basis. The Settling Parties understand and ORA agrees that if the Commission adopts a four-year GRC cycle in this proceeding, ORA will conduct an audit of SDG&E and SoCalGas' 2016 recorded costs, notwithstanding the four-year GRC cycle.

II. BACKGROUND

A. Procedural History

SDG&E and SoCalGas filed their TY 2016 GRC Applications initiating the above-captioned (and later-consolidated) proceedings on November 14, 2014, and served supporting testimony and workpapers.² Ms. Sandra Hrna for SDG&E and Mr. Ronald van der Leeden for SoCalGas sponsored prepared direct testimony presenting Applicants' PTY ratemaking framework, which included the following proposals:

² A comprehensive procedural background is provided in the concurrently filed September 11, 2015 "Joint Motion for Adoption of Settlement Agreements Regarding San Diego Gas & Electric Company's Test Year 2016 General Rate Case" and "Joint Motion for Adoption of Settlement Agreements Regarding Southern California Gas Company's Test Year 2016 General Rate Case."

- A three-year term (2016-2018) for this general rate case cycle, with SDG&E's next test year in 2019.
- A post-test year ratemaking mechanism to adjust authorized revenue requirements for:
 - Labor and non-labor costs based on IHS Global Insight's forecast,
 - Medical costs based on the Towers Watson forecast, and
 - Capital investment impact on rate base.
- Continuation of the currently authorized Z-factor mechanism.
- An attrition year revenue requirement increase of \$96.6 million (5.07 percent) in 2017 and \$96.3 million (4.81 percent) in 2018 for SDG&E, and \$125 million (5.3 percent) in 2017 and \$94 million (3.8 percent) in 2018 for SoCalGas.³

SoCalGas and SDG&E served Mr. van der Leeden's and Ms. Hrna's revised direct testimony in March 2015. Pursuant to the schedule adopted in the Scoping Memo and Ruling, ORA issued its comprehensive reports on April 24, 2015, which were sponsored by 25 witnesses. Other intervenors served their testimony on May 15, 2015. ORA and the Utility Consumers' Action Network (UCAN) each submitted testimony on SoCalGas' and SDG&E's PTY proposals, and Southern California Generation Coalition (SCGC) submitted testimony on SoCalGas' PTY proposal.⁴

ORA's report included a recommendation that SDG&E's TY 2016 GRC should be subject to a four-year cycle (i.e., three attrition years from 2017 through 2019), as follows:

With a 3-year GRC cycle, test years of the initial case serve as base years for the following rate case. This presents a problem because recorded test year costs may not be representative of future costs, as utilities often initiate new programs during the test year, and initial costs may not reflect a more stable or steady-state level of expenses or expenditures. A 4-year GRC cycle allows for better utility financial and operational management of spending and investment.⁵

ORA proposed attrition year increases of 3.5% for all three years, including 2019. As an alternate proposal, ORA did not oppose Applicants' proposal to use an escalated 7-year average of capital additions as a proxy for the 2016 and 2017 post-test years, but recommended using recorded 2014 and authorized 2015 and 2016 capital additions to calculate the 7-year average.⁶

³ Ex. 95 SDG&E/Hrna at SKH-ii; Ex. 92 SCG/van der Leeden at RMV-ii.

⁴ Ex. 398 ORA/Tang; Ex. 347 UCAN/Norin; Ex. 33 SCGC/Yap.

⁵ Ex. 398 ORA/Tang at 13:1 to 14:8.

⁶ *Id.* at 21:17-20.

ORA proposed that the escalated seven-year average level of capital additions would also be used for 2019, if a third post-test year were to be adopted.⁷ UCAN did not take a position on the length of the next GRC cycle or fourth attrition year, but did not oppose ORA's 3.5% escalation factor as an alternative proposal for attrition years 2017 and 2018.⁸ SCGC sponsored testimony supporting a three-year GRC cycle.

In June 2015, SoCalGas and SDG&E served Mr. van der Leeden's and Ms. Hrna's rebuttal testimony, which objected to ORA's proposal to adopt a four-year GRC cycle in this case, unless (1) GRC cycles are coordinated to avoid any overlap between the GRC proceedings of the other California utilities; and (2) any additional attrition year should use the attrition methodology as proposed by SDG&E and SoCalGas in direct testimony.⁹

B. Concurrently Filed Settlement Agreements

Other aspects of Applicants' PTY ratemaking proposals have been settled in the "TY 2016 Settlement Agreements" between Settling Parties and others.¹⁰ The TY 2016 Settlement Agreements provide for attrition year escalation factors of 3.5% for 2017 and 3.5% for 2018, and continuation of SDG&E's and SoCalGas' respective Z-factor mechanisms.

C. Compliance with Rule 12.1(b)

As required by Rule 12.1(b), prior notice with an opportunity to participate in a settlement conference was provided to all parties, and a settlement conference was held on August 28, 2015. The Settling Parties executed the attached PTY Settlement Agreement on September 10, 2015.

III. SUMMARY OF THE PTY SETTLEMENT AGREEMENT

After multiple rounds of negotiations on the issue, Settling Parties agree to supporting a post-test year period from 2017 through 2019, subject to the following conditions:

- The Settling Parties agree to an attrition year escalation factor for 2019 of 4.3%. The attrition year escalation factors for 2017 (3.5%) and 2018 (3.5%) are included in the TY 2016 Settlement Agreement.

⁷ *Id.* at 22:1-4.

⁸ Ex. 347 UCAN/Norin at 43:5-12.

⁹ Ex. 97 SDG&E/Hrna at 5-6; Ex. 94 SCG/van der Leeden at 9.

¹⁰ The "TY 2016 Settlement Agreements" are the "Settlement Agreement Regarding San Diego Gas & Electric Company's Test Year 2016 General Rate Case Revenue Requirement, Including Attrition Years 2017 and 2018" and the "Settlement Agreement Regarding Southern California Gas Company's Test Year 2016 General Rate Case Revenue Requirement, Including Attrition Years 2017 and 2018." The Settling Parties are concurrently seeking Commission approval of the TY 2016 Settlement Agreements along with approval of the PTY Settlement Agreement.

- Commission adoption of the TY 2016 Settlement Agreements for both SDG&E and SoCalGas, except as may be modified in a manner mutually acceptable to the Settling Parties; and
- Commission adoption of four-year GRC cycles for all major California IOUs (i.e., SCE, PG&E, SDG&E and SoCalGas), to avoid overlapping GRC test years among SDG&E/SoCalGas, SCE, and PG&E. The Settling Parties will jointly request this relief in a petition for modification of the Commission’s Rate Case Plan (RCP) in R.13-11-006, or by other appropriate procedural mechanism.

If both conditions are not satisfied, then the PTY Settlement Agreement will be deemed null and void, and SDG&E will proceed with following a three-year GRC cycle and filing its next GRC application in September of 2017 as a TY 2019 GRC, pursuant to D.14-12-025.¹¹

IV. FURTHER HEARINGS REGARDING THE PTY SETTLEMENT AGREEMENT ARE NOT NECESSARY

Under Rule 12.3, hearings are not a prerequisite to approving a settlement. Under the present circumstances, the Commission has before it a fully developed record reflecting the merits of granting the PTY Settlement Agreement. This record will be supplemented by the parties’ filed comments, reply comments, and the comparison exhibits. Thus, the Settling Parties do not believe there are any issues of material fact pertaining to the PTY Settlement Agreement that require a hearing. To the extent there is debate over the merits of the PTY Settlement Agreement, it is likely that the issues will be legal and policy-related and, therefore, well suited to the comment and reply comment process.

V. LEGAL STANDARD APPLICABLE TO REVIEW OF THE PTY SETTLEMENT AGREEMENT

Numerous Commission decisions have endorsed settlements as an “appropriate method of alternative ratemaking” and express a 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 not only reducing the expense of litigation, and conserving scarce Commission resources, but also allowing parties to reduce the risk that litigation will produce unacceptable results.¹³ This strong public policy favoring settlements also weighs in favor of the Commission resisting the temptation to alter the results of the negotiation process. As long as a settlement taken as a whole is fair, “is reasonable in light of the whole record, consistent with

¹¹ D.14-12-025 at 40.

¹² See, e.g., D.05-10-041, 2005 Cal. PUC LEXIS 484 at *70, D.15-03-006, 2015 Cal. PUC LEXIS 132 at *8 and D.15-04-006, 2015 Cal. PUC LEXIS 212 at *12-13.

¹³ D.14-12-040, 2014 Cal. PUC LEXIS 617 at *50-51.

law, and in the public interest” it should be adopted without change.¹⁴ As shown below, the PTY Settlement Agreement meets this standard.

A. The PTY Settlement Agreement Is Reasonable In Light Of The Record As A Whole

As set forth in the PTY Settlement Agreement, the Settling Parties have vigorously negotiated toward a post-test year period and escalation rate that reflects compromises on both sides. In doing so, the Settling Parties specifically considered the positive and negative aspects of a three- and four-year GRC cycle, and the potential that the settled 2019 escalation rate may be too high or too low, depending on future economic outcomes. The settled 2019 escalation reflects the Settling Parties’ best judgments as to the totality of factors and risks. Settling Parties also made use of reasoned judgment and agree that, as in any forecasting exercise, there is a range of reasonable outcomes. The Settling Parties also agree that different methodologies can produce results within this range and that no single methodology will produce the sole reasonable result in every instance.

B. The PTY Settlement Agreement Is Consistent With Law And Prior Commission Decisions

The Settling Parties believe, and herein represent, that no term of the PTY Settlement Agreement contravenes statutory provisions or prior Commission decisions.¹⁵ Indeed, the Commission has previously adopted rate case terms longer than the traditional three-year cycle. SoCalGas received rate case terms of a minimum of five years in D.97-07-054 that was extended through 2003 pursuant to D.01-10-030 (1997-2003) and four years in D.04-12-015 (2004-2007). SDG&E received rate case terms of five years in D.94-08-023 (1994-1998), four years in D.99-05-030 that was extended an additional year pursuant to D.01-10-030 (1999-2003) to five years, four years in D.04-12-015 (2004-2007), and four years in D.08-07-046. The Commission also recently adopted a four-year GRC term for PG&E in D.07-03-044 (2007-2010).

Although the Commission recently affirmed a three-year GRC cycle, in its decision integrating the Safety Model Assessment Proceeding (S-MAP) and the Risk Assessment Mitigation Phase (RAMP) into the Commission’s RCP, the Commission recognized that

¹⁴ Rule 12.1(d) of the Commission’s Rules of Practice and Procedure.

¹⁵ In D.00-09-037 (p. 11) the Commission based its finding that the third criteria had been met on representation by the settling parties that they expended considerable effort ensuring that the Settlement Agreement comports with statute and precedents, and did not believe that any of its terms or provisions contravene statute or prior Commission decisions. *See also*, D.07-04-043, 2007 Cal. PUC LEXIS 275 at *126-127.

implementing these new procedures would place an additional burden on litigating parties, and that circumstances may warrant altering the schedule as needed:

On the three-or four-year GRC cycle, we will retain the three-year cycle. The three year cycle will minimize overlapping GRCs so long as the RCP schedule is followed. We recognize, however, that there are oftentimes other circumstances or events that interfere with the timely proceeding of GRCs. The assigned Commissioner and ALJ shall have the discretion to alter the schedule as may be needed. Should the S-MAP, RAMP, and GRC processes pose scheduling conflicts, we may need to revisit the need for a four-year rate cycle.¹⁶

In agreeing to a four-year GRC cycle, the Settling Parties understand that the Commission has utility auditing obligations as set forth in Public Utilities Code Section 314.5. Recently, the State Auditor's March 2014 audit report found that, "The Commission generally complies with the audit requirement [PU Code Section 314.5] through procedures it performs during the review of a utility's general rate case."¹⁷

The Settling Parties believe the Commission can approve the instant settlement and comply with the obligations of PU Code 314.5. The Settling Parties understand and ORA agrees that if the Commission adopts a four-year GRC cycle in this proceeding, ORA will conduct an audit of SDG&E and SoCalGas' 2016 recorded costs. Applicants will provide ORA with any information it needs to conduct a general audit of the Test Year of each utility. ORA will deliver its completed audit to the Commission's Executive Director and serve it on the parties to the above-captioned proceeding.

C. The PTY Settlement Agreement Is In The Public Interest

1. The PTY Settlement Agreement Will Benefit Ratepayers

The PTY Settlement Agreement represents a favorable outcome for ratepayers. In recent GRCs, IOUs have received annual post-test year revenue increases ranging from 3.0% to 4.5%.¹⁸ In the most recent GRC decision, for PG&E, the Commission authorized attrition increases of 4.57% for 2015 and 5.0% for 2016.¹⁹ Thus, the PTY Settlement increase of 4.3% for attrition year 2019 falls squarely within the range of recently authorized PTY revenue increases, but is still much lower than the most recently authorized escalation factor for an attrition year. Moreover, the PTY Settlement Agreement will promote administrative efficiency by allowing

¹⁶ D.14-12-025 at 40.

¹⁷ The California State Auditor Report 2013-109 (March 2015) at 3, *available at* <https://www.auditor.ca.gov/pdfs/reports/2013-109.pdf>.

¹⁸ *See Ex. 398 ORA/Tang at 7-8.*

¹⁹ D.14-08-032, *mimeo.*, at p. 2.

parties time to implement new S-MAP and RAMP procedures, while recognizing the additional risks that will be shouldered by SDG&E and SoCalGas shareholders during an extra attrition year.²⁰

2. Settlement After Hearings Is in the Public Interest

Following extensive hearings, and therefore being completely informed as to the strengths, weaknesses, and nuances of each other's litigation positions, the negotiators for the Settling Parties spent many hours weighing and determining a reasonable, mutually acceptable outcome. The Commission has previously recognized the significance of this fact:

A very important potential advantage of settlements is that the parties themselves may be better able than the trier of fact to craft the optimal resolution of a dispute.²¹

Thus, from reviewing the PTY Settlement Agreement, and the process used to arrive at the mutually acceptable terms, the Commission may derive substantial assurance that the requirements of Rule 12 and Public Utilities Code Section 451 have been met.²²

Moreover, as noted above, prior to settling the PTY issues, discovery was complete, and the stage of the proceeding was as advanced as possible for a settlement – it was at the briefing stage. Parties undeniably had undertaken a thorough review of the issues. The Settling Parties were represented by experienced counsel. That ORA, the Commission staff responsible for representing ratepayer interests, is a signatory to the PTY Settlement Agreement reinforces that the PTY Settlement Agreement is reasonable and in the public interest.

In sum, the PTY Settlement Agreement represents a reasonable bargain, crafted under the strictures of all the Commission's rules governing procedural and substantive scrutiny of a GRC, by parties intimately familiar with the utility's operations, accounting, and duty to provide safe and reliable service at reasonable rates.

²⁰ See D.96-12-066, 1996 Cal. PUC LEXIS 1111 at *9 (“Any savings the utility can generate between general rate cases belong to the shareholders. In exchange for this opportunity, the shareholders take on the burden of added expenses it may incur during a rate case cycle.”).

²¹ D.92-08-036, Finding of Fact 9. See also, D.95-12-051, 1995 Cal. PUC LEXIS 963 at *14 (“[t]he advantages of the settlement outweigh the risks of ratepayer harm.”).

²² Public Utilities Code Section 451 provides, in pertinent part: “All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable.”

3. The PTY Settlement Agreement Is in the Public Interest Even Though It Is Not an All-Party Settlement

The PTY Settlement Agreement is not an all-party settlement. Nevertheless, the PTY Settlement Agreement complies with the Commission's criteria for settlements.²³ The PTY issues have been identified in sufficient detail for the Commission to understand and appreciate the reasonableness of the PTY Settlement Agreement, particularly in the context of the hearing record and past Commission decisions. As set forth in the PTY Settlement Agreement, the Settling Parties spent significant effort to assure the four-year GRC cycle and escalation factor reflected in the PTY Settlement Agreement provide an overall 2019 revenue requirement that Settling Parties believe will allow SDG&E and SoCalGas to operate and manage their systems safely, reliably, and efficiently, while keeping customer rates reasonable.

Finally, the Settling Parties are fairly reflective of the affected interests. ORA represents ratepayers and comprehensively reviewed Applicants' GRC revenue requirement requests, and the Commission has found that ORA is "ideally positioned to comment on the operation of the utility and ratepayer perception" as required by D.92-12-019.²⁴ Thus, although other parties have not signed the PTY Settlement Agreement, a broad range of ratepayer interests are represented.

²³ 2003 Cal. PUC LEXIS 246 at *66-67 (2003). This policy was also reaffirmed in D.10-12-035, 2010 Cal. PUC LEXIS 647 at *39-40 and D.11-12-053, 2011 Cal. PUC LEXIS 585 at *111-113. *See also*, D.11-05-018, 2011 Cal. PUC LEXIS 275 at *23 ("In assessing settlements we consider individual settlement provisions but, in light of strong public policy favoring settlements, we do not base our conclusion on whether any single provision is the optimal result. Rather, we determine whether the settlement as a whole produces a just and reasonable outcome.")

²⁴ D.92-12-019, 1992 Cal. PUC LEXIS 867 at *24.

VI. CONCLUSION

For all the foregoing reasons, the Settling Parties urge the Commission to approve the attached PTY Settlement Agreement without modification. As discussed, the Settling Parties believe strongly that the PTY Settlement Agreement accomplishes a mutually acceptable outcome of the PTY issues in this proceeding. Consequently, the Settling Parties respectfully request that the Commission grant this motion and:

1. adopt the attached PTY Settlement Agreement as reasonable in light of the whole record, consistent with law and in the public interest;
2. authorize a post-test year period from 2017 through 2019 for SDG&E's and SoCalGas' TY 2016 GRCs, with a 2019 attrition year escalation factor of 4.3%, which is contingent upon the following two factors:
 - Commission adoption of the TY 2016 Settlement Agreements (which are being filed for approval at the same time this motion is filed), except as may be modified in a manner mutually acceptable to the Settling Parties; and
 - Commission adoption of four-year GRC cycles for all major California IOUs (i.e., SCE, PG&E, SDG&E and SoCalGas), to avoid overlapping GRC test years among the SDG&E/SoCalGas, SCE, and PG&E (this relief will be requested via petition for modification in R.13-11-006, or by other appropriate mechanism); and
3. grant such other and further relief as the Commission finds just and reasonable.

SDG&E represents that it has been authorized by ORA to sign this motion on its behalf, consistent with Rule 1.8(d) of the Commission's Rules of Practice and Procedure.

Respectfully submitted,

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APPENDIX

PTY Settlement Agreement

**SETTLEMENT AGREEMENT REGARDING THE POST-TEST YEAR PERIOD
FOR SAN DIEGO GAS & ELECTRIC COMPANY
AND SOUTHERN CALIFORNIA GAS COMPANY**

I. INTRODUCTION

Pursuant to Rule 12.1 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), San Diego Gas & Electric Company (“SDG&E”), Southern California Gas Company (“SoCalGas”) and the Office of Ratepayer Advocates (“ORA”) (collectively, the “Settling Parties”) enter into this Settlement Agreement Regarding the Post-Test Year Period for SDG&E’s and SoCalGas’ Test Year (“TY”) 2016 General Rate Case (“GRC”) Application (the “PTY Settlement Agreement”), to settle certain post-test year issues arising in A.14-11-003 and A.14-11-004 (cons.). As described below, this PTY Settlement Agreement provides for a post-test year period that will encompass a 2019 attrition year, reflecting a 4-year GRC cycle, and an attrition year escalation factor for 2019 of 4.3%. This agreement is contingent upon the following conditions:

- Commission adoption of the “Settlement Agreement Regarding San Diego Gas & Electric Company’s Test Year 2016 General Rate Case Revenue Requirement, Including Attrition Years 2017 and 2018” and the “Settlement Agreement Regarding Southern California Gas Company’s Test Year 2016 General Rate Case Revenue Requirement, Including Attrition Years 2017 and 2018” (the “TY 2016 Settlement Agreements”), Commission approval of which the Settling Parties are concurrently seeking along with approval of this PTY Settlement Agreement; and
- Commission adoption of four-year GRC cycles for all major California investor-owned utilities (“IOUs,” comprising Southern California Edison Company (“SCE”), Pacific Gas & Electric Company (“PG&E”), SDG&E and SoCalGas) to avoid overlapping GRC test years among the SDG&E/SoCalGas, SCE, and PG&E. The Settling Parties will jointly request this relief in a petition for modification of the Commission’s Rate Case Plan (“RCP”) in Rulemaking (“R.”) 13-11-006 (the “Risk Rulemaking”), or by other appropriate procedural mechanism.

II. SETTLEMENT COMPLIES WITH COMMISSION REQUIREMENTS

This PTY Settlement Agreement complies with the Commission's requirements that settlements be reasonable in light of the whole record, consistent with law, and in the public interest, for the following reasons:

- The Settling Parties have vigorously negotiated toward a post-test year period and escalation rate that reflects compromises on both sides. In doing so, the Settling Parties specifically considered the positive and negative aspects of a three- and four-year GRC cycle, and the potential that the settled 2019 escalation rate may be too high or too low, depending on future economic outcomes. The settled 2019 escalation reflects the Settling Parties' best judgment as to the totality of factors and risks.
- The Settling Parties used reasoned judgment to arrive at the settled 2019 escalation rate and agree that, as in any forecasting exercise, there is a range of reasonable outcomes. The Settling Parties also agree that different methodologies can produce results within this range and that no single methodology will produce the sole reasonable result in every instance.
- The four-year GRC cycle and escalation factor reflected in the PTY Settlement Agreement provides an overall 2019 revenue requirement that Settling Parties believe will allow SDG&E and SoCalGas to operate and manage their systems safely, reliably, and efficiently, while keeping customer rates reasonable.
- The PTY Settlement Agreement intends to minimize the potential for delays in GRC proceedings and manage the increase in the Settling Parties' workload due to new regulatory requirements set forth in the Commission's decision integrating the Safety Model Assessment Proceeding (S-MAP) and the Risk Assessment Mitigation Phase (RAMP) into the Commission's RCP, in D.14-12-025. The Settling Parties note that even without these new requirements, SDG&E's and SoCalGas' TY 2012 GRC decision took 876 calendar days between application and final decision, which is 492 days longer than the 384-day period set forth in the RCP. The public interest is served by minimizing regulatory delays, in part to avoid impacting the timing of work and capital projects, many of which are for critical safety and reliability efforts. Minimizing delays also creates greater rate stability, to the benefit of customers.

- The Settling Parties believe, and herein represent, that no term of the PTY Settlement Agreement contravenes statutory provisions or prior Commission decisions. The Commission has previously adopted rate case terms longer than the traditional three-year cycle. Although the Commission recently affirmed a three-year GRC cycle in D.14-12-025, the Commission recognized that implementing these new procedures would place additional burdens on litigating parties, and that circumstances may warrant altering the schedule as needed.

III. SETTLEMENT TERMS AND CONDITIONS

Pursuant to this PTY Settlement Agreement, Settling Parties stipulate to a four-year GRC cycle and a 4.3% escalation rate for the 2019 attrition year for SDG&E and SoCalGas, contingent upon the following conditions:

- Commission adoption of the TY 2016 Settlement Agreements, except as may be modified in a manner mutually acceptable to the Settling Parties; and
- Commission adoption of four-year GRC cycles for all major California IOUs (i.e., SCE, PG&E, SDG&E and SoCalGas) to avoid overlapping GRC test years among the IOUs. Settling Parties will jointly request this relief in a petition for modification to be filed in Rulemaking (“R.”) 13-11-006 (hereafter, the “Risk Rulemaking”), or by other appropriate procedural mechanism.

Accordingly, the post-test years (i.e., attrition years) for SDG&E’s and SoCalGas’ TY 2016 GRC would be 2017 through 2019. The Settling Parties have also agreed upon attrition year escalation factors of 3.5% for 2017 and 3.5 % for 2018, as part of the TY 2016 Settlement Agreements, which are concurrently presented to the Commission for approval along with this PTY Settlement Agreement.

If both conditions are not satisfied (i.e., the Commission, in its final decision rendered in this GRC does not adopt either or both of the TY 2016 Settlement Agreements, and/or, the Commission does not grant the relief requested in the Risk Rulemaking prior to the current schedule under which SDG&E and SoCalGas must file their next GRC applications), then this PTY Settlement Agreement will be deemed null and void and SDG&E and SoCalGas will proceed with filing their next GRC applications in September of 2017, as a TY 2019 GRC.

Settling Parties recognize ORA’s practice of conducting its audit in GRCs, which the Commission may elect to use to satisfy the requirements of California Public Utilities Code

Section 314.5, in connection with SDG&E's and SoCalGas' GRC proceedings. ORA conducted its most recent audit of SDG&E and SoCalGas in 2014-15, in conjunction with the TY 2016 GRC proceeding. The Settling Parties understand and ORA agrees that if the Commission adopts the proposed additional 2019 attrition year, ORA will conduct an audit of 2016 recorded costs. Applicants agree to provide ORA with any information it needs to conduct a general audit of the Test Year of each utility. ORA agrees to deliver its completed audit to the Commission's Executive Director and serve it on the parties to A.14-11-003/-004 (cons.).

IV. GENERAL PROVISIONS AND RESERVATIONS

In consideration of the mutual obligations, covenants and conditions contained herein, the Settling Parties agree to all of the above terms and conditions as a complete and final resolution of all issues related to a four-year GRC cycle and the 2019 attrition year, in addition to the terms set forth in the TY 2016 Settlement Agreements. The Settling Parties, by signing this PTY Settlement Agreement, acknowledge that they pledge support for Commission approval and subsequent implementation of all the provisions of this PTY Settlement Agreement. The Settling Parties agree to perform diligently and in good faith all actions required or implied hereunder, including the execution of any other documents required to effectuate the terms of this PTY Settlement Agreement, and the preparation of exhibits for, and presentation of witnesses at any required hearings to obtain the approval and adoption of this PTY Settlement Agreement by the Commission. The Settling Parties will not contest in this proceeding or in any other forum, or in any manner before this Commission, the recommendations contained in this PTY Settlement Agreement.

A. COMPROMISE OF DISPUTED CLAIMS

The Settling Parties agree that this PTY Settlement Agreement represents a compromise of their positions related to a four-year GRC cycle and the 2019 attrition year in this proceeding. No individual term of this PTY Settlement Agreement is assented to by any Party, except in consideration of the other Settling Parties' assent to all other terms.

B. REGULATORY APPROVAL

Settling Parties acknowledge that the positions expressed in this PTY Settlement Agreement were reached after consideration of all positions advanced in all the testimony sponsored in the proceeding by all Settling Parties and declare and mutually agree that the terms and conditions herein are reasonable, consistent with the law, and in the public interest.

Accordingly, the Settling Parties shall use their best efforts to obtain Commission approval of this PTY Settlement Agreement and shall jointly request that the Commission adopt this PTY Settlement Agreement in its entirety and without modification.

C. INCORPORATION OF COMPLETE SETTLEMENT AGREEMENT

This PTY Settlement Agreement embodies the entire understanding of the Settling Parties with respect to the matters described herein, and, except as described herein, supersedes and cancels any and all prior oral or written agreements, principles, negotiations, statements, representations or understandings among the Settling Parties. This PTY Settlement Agreement is to be treated as a complete package and not as a collection of separate agreements on discrete issues. To accommodate the interests related to various issues, the Settling Parties acknowledge that changes, concessions or compromises by one or more Settling Parties in one section of this PTY Settlement Agreement could result in changes, concessions or compromises by one or more Settling Parties in other sections of this PTY Settlement Agreement. Consequently, the Settling Parties agree to oppose any modification of this PTY Settlement Agreement not agreed to by all Settling Parties. Any Party signing this PTY Settlement Agreement may withdraw from this PTY Settlement Agreement if the Commission modifies, deletes from, or adds to the disposition of the matters settled herein. However, the Settling Parties agree to negotiate in good faith with regard to any Commission-ordered changes, in order to restore the balance of benefits and burdens, and to exercise the right to withdraw on if such negotiations are unsuccessful.

D. MODIFICATION OF SETTLEMENT AGREEMENT

The terms and conditions of this PTY Settlement Agreement may only be modified in writing subscribed to by the Settling Parties.

E. NON-PRECEDENTIAL

This PTY Settlement Agreement represents a compromise between the Settling Parties, consistent with Rule 12.5 of the Commission's Rules of Practice and Procedure, and should not be considered precedent in any future proceeding before this Commission. The Settling Parties have assented to the terms of this PTY Settlement Agreement only for the purpose of arriving at the compromise herein. Each Party expressly reserves its right to advocate, in other current and future proceedings, or in the event that this PTY Settlement Agreement is rejected by the Commission, positions, principles, assumptions, arguments and methodologies that may be different than those underlying this PTY Settlement Agreement.

F. NON-WAIVER

It is understood and agreed that no failure or delay by any Party hereto in exercising any right, power or privilege hereunder shall operate as a waiver hereof, nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right, power or privilege.

G. GOVERNING LAW

This PTY 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.

H. ENTIRE SETTLEMENT AGREEMENT

This PTY Settlement Agreement and all other supporting documents, exhibits, and schedules referred to in this PTY Settlement Agreement constitute(s) the final, complete, and exclusive statement of the terms of the PTY Settlement Agreement among the Settling Parties pertaining to the subject matter of this PTY Settlement Agreement and supersedes all prior and contemporaneous understandings of the Settling Parties. This PTY Settlement Agreement may not be contradicted by evidence of any prior or contemporaneous statements or PTY Settlement Agreements. No Party has been induced to enter into this PTY Settlement Agreement by, nor is any party relying on, any representation, understanding, PTY Settlement Agreement, commitment or warranty outside those expressly set forth in this PTY Settlement Agreement.

I. CAPTIONS AND PARAGRAPH HEADINGS

Captions and paragraph headings used herein are for convenience only and are not a part of this PTY Settlement Agreement and shall not be used in construing it.

J. EXECUTION

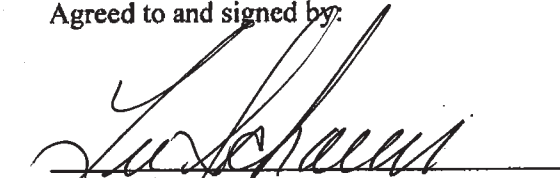
This PTY Settlement Agreement may be executed in counterparts by the Settling Parties with the same effect as if all the Settling Parties had signed one and the same document. All such counterparts shall be deemed to be an original and shall together constitute one and the same PTY Settlement Agreement.

K. EFFECTIVE DATE

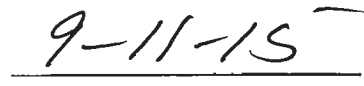
The Agreement is effective upon Commission approval of this PTY Settlement Agreement and satisfaction of the conditions described above.

V. SIGNATURES

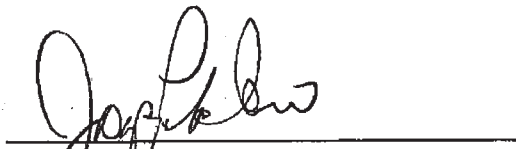
Agreed to and signed by:



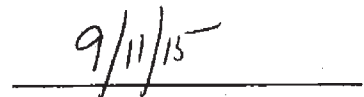
Lee Schavrien on behalf of
San Diego Gas & Electric Company and
Southern California Gas Company



Date



Joseph P. Como on behalf of
Office of Ratepayer Advocates



Date