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ELECTRONIC ERRATA

Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: San Diego Gas & Electric Company, Docket No. ER11-4318-000

Dear Secretary Bose:

Please find attached the omitted page 1 of the Offer of Settlement and Settlement Agreement ("Settlement") that San Diego Gas & Electric Company ("SDG&E") filed in hard copy today in the above-referenced proceeding. For convenience, SDG&E is including the entire Settlement herewith.

SDG&E apologizes for any inconvenience its error may have caused. If you have any questions about this matter, please contact the undersigned.

Respectfully submitted,

/s/ Georgetta J. Baker

Georgetta J. Baker
Attorney for San Diego Gas & Electric Company

cc: ALJ Judith A. Dowd
All Parties

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

San Diego Gas & Electric Company)

Docket No. ER11-4318-000

OFFER OF SETTLEMENT AND SETTLEMENT AGREEMENT

**I.
INTRODUCTION**

San Diego Gas & Electric Company (“SDG&E”), pursuant to Rule 602 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (the “Commission” or “FERC”), 18 C.F.R. §385.602 (2011), offers and agrees to the terms of this Offer of Settlement and Settlement Agreement (“Settlement Agreement”). This Settlement Agreement resolves all outstanding issues set for hearing and settlement judge procedures concerning the Base Transmission Revenue Requirement (“BTRR”) of SDG&E’s annual, *i.e.*, Cycle 5, Transmission Owner (“TO”) Formula rate mechanism Informational Filing,¹ consistent with *Order on Annual Formula Rate Filing, Directing Accounting Change and Establishing Hearing and Settlement Judge Procedures*, issued on October 14, 2011 (“October 14 Order”).² SDG&E expects that this Settlement Agreement will be uncontested.

¹ The TO3 annual rate mechanism was adopted pursuant to the TO3 Settlement providing for SDG&E to effectuate rate changes *via* annual informational filings, designated “cycles,” due to be filed on August 15 of each year, with revised rates becoming effective each September 1 and running through August 31 of the following year. The TO3 Formula rate mechanism will remain in effect from July 1, 2007 through August 31, 2013. The TO3 Settlement was approved in *San Diego Gas & Electric Company*, 119 FERC ¶ 61,169 (2007).

² *San Diego Gas & Electric Company*, 137 FERC ¶61,041 (2011). Among other things, the Order directed SDG&E to make a Compliance Filing by November 14, 2011, with revised worksheets recording uninsured wildfire-related losses in Account 925 of the Uniform System of Accounts instead of in Account 350 and Account 360, as SDG&E had originally proposed in the Informational Filing.

A. Coordinated Approval

SDG&E requests coordinated approval of this Settlement Agreement and the Compliance Filing that SDG&E filed on November 14th as mandated by the October 14 Order. Such coordinated approval will permit SDG&E to flow through to its ratepayers the reduced Wholesale and Retail BTRRs and related rates in an administratively efficient and expeditious manner.

B. Non-Opposition to the Settlement

The following parties to this proceeding have authorized the undersigned counsel for SDG&E to represent that such parties do not oppose this Settlement: the California Public Utilities Commission; Pacific Gas and Electric Company; the California Department of Water Resources State Water Project; the M-S-R Public Power Agency and the City of Santa Clara, California, doing business as Silicon Valley Power; the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California, the Modesto Irrigation District; Transmission Agency of Northern California and Northern California Power Agency.

C. Shortened Comment Period and Waiver

In accordance with Rule 602(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. §385.602(d), this Settlement Agreement is being served on all participants in this proceeding. Under Rule 602(f), 18 C.F.R. §385.602(f), those entities will have an opportunity to comment on this Settlement Agreement. In an effort to provide for coordinated approval of this Settlement Agreement and the Compliance Filing mandated by the Order, SDG&E requests a shortened comment period such that initial comments will be due no later than November 30, 2011. SDG&E also requests that reply comments be waived unless controversial issues are raised in initial comments warranting reply comments. In that case, reply comments would be due December 6, 2011. No participant in this proceeding opposes either SDG&E's request for a

waiver of reply comments in such circumstances or SDG&E's request for shortened initial comment and reply comment periods.

II. TERMS OF SETTLEMENT

A. BTRR

1. Effective September 1, 2011, SDG&E shall reduce its Retail BTRR by \$4.279 million, from \$406.900 million to \$402.621 million, to reflect removal from the Forecast Period³ of the \$111.638 million un-weighted capital costs associated with the Defensible Space Fire Mitigation Trust for the Sunrise Powerlink Project ("Mitigation Costs"), which amount reflects a net present value calculation using the 58 year life of the Sunrise Project. This BTRR shall be further reduced to reflect the outcome of the Compliance Filing, subject to final Commission action on the Compliance Filing, that SDG&E filed on November 14th consistent with the October 14 Order. The October 14 Order directed SDG&E to record costs related to the Witch Fire, Rice Fire and Guejito Fire to Account 925 in the Compliance Filing.

2. Effective September 1, 2011, SDG&E also shall reduce its Wholesale BTRR by \$4.273 million, from \$409.081 million to \$404.808 million, for the same reason set forth in Paragraph 1. This BTRR shall be further reduced to reflect the outcome of the Compliance Filing that SDG&E filed on November 14th consistent with the October Order, subject to final Commission action on the Compliance Filing.

³ The Forecast Period capital additional revenue requirement in this Cycle 5 covers the 17-month period April 2011 through August 2012. Appendix VIII, Section I. B.15 of SDG&E's FERC Electric Tariff, Volume No. 11, defines "Forecast Period" as the "period beginning April 1 of the calendar year in which the Rate Effective Period begins, through the end of that Rate Effective Period,..." Here the Rate Effective Period is September 1, 2011 through August 31, 2012.

B. Future Recovery of Mitigation Costs

1. In Cycle 6, and for the life of the Sunrise Powerlink Project (“Sunrise Project”), SDG&E will file to recover the Mitigation Costs referenced in Section II.A. above using an annual pay-as-you-go approach.

2. Under this approach, SDG&E will reflect in its Retail and Wholesale BTRRs Mitigation Costs as they are incurred by SDG&E, either by expensing the Mitigation Costs as a transmission operations and maintenance expense of the Sunrise Project or by capitalizing such costs as a permitting expense of the Sunrise Project.

3. SDG&E shall propose whether the Mitigation Costs will be expensed or capitalized each year, and no party shall be foreclosed from contesting SDG&E’s elected methodology for reflecting the Mitigation Costs in its Retail and Wholesale BTRRs.

4. The annual Mitigation Costs to be proposed for inclusion in the Retail and Wholesale BTRRs shall reflect a 2008 cost of \$2.8 million, adjusted annually for inflation for the life of the Sunrise Project, subject to costs of administration. This provision shall not prejudice the right of parties to this proceeding to comment on and challenge the level of such inflation adjustments and costs of administration at the Commission, though no party to this proceeding opposes that SDG&E may recover inflation adjustments and costs of administration in connection with Mitigation Costs.

C. Refunds

1. SDG&E shall refund payments received in excess of those that SDG&E would have received under the BTRRs set forth in Sections II. A. and B. of the Settlement Agreement as specified herein.

2. SDG&E shall refund to the California Independent System Operator Corporation (“CAISO”) all payments that it has received from the CAISO that exceed the payments that

would have been received had the BTRR set forth in Section II.B of the Settlement been reflected in the CAISO's Access Charge rates as of September 1, 2011. The effective period for such refunds shall be from September 1, 2011 to the date the Access Charge rates resulting from this Settlement Agreement are implemented by the CAISO. Within ten (10) business days of the date on which all necessary approvals of this Settlement are obtained, SDG&E will request that the CAISO calculate and make refunds, with interest as required under 18 C.F.R. §35.19a, to Utility Distribution Companies, Metered Subsystems, and Scheduling Coordinators for Access Charges and Wheeling Access Charges, as appropriate, under the CAISO Tariff. SDG&E will also request that the CAISO adjust the Wheeling Access Charge revenues allocable to each Participating Transmission Owner ("PTO") to reflect the refunds for Wheeling Access Charge service. Further, SDG&E will request that the CAISO, consistent with its Tariff, ensure that such adjustments to Wheeling Access Charge revenues be debited to each PTO's TRBA in the first restatement of SDG&E's and other PTOs' TRBAs following all approvals of this Settlement.

Refunds for retail End Use Customers will be effectuated through the True-Up mechanism in Cycle 6, with interest calculated pursuant to § 35.19a of the Commission's regulations, 18 C.F.R. § 35.19a. Refunds will be based upon a refund period from September 1, 2011 through the end of the month in which the Commission approves the settlement so long as the approval occurs 15 days prior to the end of that month. If the Commission approval occurs after the 15th of the month, the refund period will terminate at the end of the following month after Commission approval of the Settlement to accommodate internal processes necessary for SDG&E to bill changed rates.

D. Resolution of all Issues Set for Hearing and Settlement Judge Procedures

This Settlement Agreement resolves all issues set for hearing and settlement judge procedures in Docket No. ER11-4318-000. SDG&E will not file a request for rehearing of the October 14 Order.

E. Non-Precedential Effect of Settlement

This Settlement Agreement is non-precedential with respect to any future proceeding, and its terms may not be referred to in any future proceeding before the Commission or any court or other forum for the purpose of supporting or opposing any specific approach to any issue. Notwithstanding the foregoing, any party may enforce its rights and obligations under this Settlement Agreement in any future rate case or other proceeding, and this Settlement Agreement may be referred to and introduced for that sole purpose and no other. This Settlement Agreement is submitted on the condition that, in the event it does not become effective in accordance with its terms, it shall not constitute any part of the record in this proceeding or be used for any other purposes.

F. No Admission or Settled Practice

Agreement to or acquiescence in this Settlement Agreement shall not be deemed in any respect to constitute an admission by any party that any allegation or contention made by any other party in this proceeding is true or valid. The Settlement Agreement represents a negotiated offer of settlement for the sole purpose of settling all issues set for hearing and settlement judge procedures in Docket No. ER11-4318-000. No party or affiliate of any party shall be deemed to have approved, accepted, agreed to, or consented to any fact, concept, theory, rate methodology, principle, or method relating to jurisdiction, prudence, reasonable cost of service, cost classification, cost allocation, rate design, tariff provisions, or other matters underlying or purported to underlie any of the resolutions of the issues provided herein. The Commission's

approval of the Settlement Agreement shall not constitute approval of, or precedent regarding, any principle or issue in this proceeding. The resolution of any matter in this Settlement Agreement shall not be deemed to be a “settled practice” as that term was interpreted and applied in *Public Service Commission of the State of New York v. FERC* (“PSCNY”).⁴

G. Approval of Settlement and Privileged Nature of Settlement

This Settlement Agreement is submitted pursuant to Rule 602 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.602, and is offered solely as a compromise in order to resolve the issues set for hearing in this proceeding. The discussions among the parties that have produced this Settlement Agreement have been conducted on the explicit understanding that they were undertaken subject to Rule 602(e) of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.602(e), and the rights of the parties with respect thereto shall not be impaired by the Settlement Agreement. All documents provided or exchanged among the parties in the course of such discussions are also subject to Rule 602(e).

H. Settlement Effectiveness

This Settlement Agreement shall become effective upon the issuance of a final Commission order approving this Settlement Agreement, including all attachments, without modifications or conditions or, if modified or conditioned, upon its acceptance by adversely affected parties as provided in Section I below.

I. Integration

This Settlement Agreement constitutes an integrated package of compromises that are non-severable. Notwithstanding the foregoing, if the Commission’s approval of this Settlement is conditioned on the modification of this Settlement Agreement or on any other condition, such

⁴ *PSCNY*, 642 F.2d 1335 (D.C. Cir. 1980).

modification or condition shall be considered to be accepted unless any party objecting to such condition or modification files written notice of objection to the Settlement Agreement, as modified or conditioned, with the Commission and serves such notice on the other parties within a period of fifteen (15) days from the date of such final Commission order.

J. Entirety of Offer of Settlement

This Settlement Agreement supersedes all previous representations, understandings, negotiations, and agreements, whether written or oral, between the participants in this proceeding or their representatives, and constitutes the entire offer of settlement with respect to the matters set for hearing and settlement judge procedures in this proceeding.

K. Standard of Review

The standard of review for modifications to this Settlement Agreement shall be the just and reasonable standard.

