

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

**San Diego Gas & Electric Company            )           Docket Nos. ER13-941-000,  
ER13-941-001 and ER13-941-002**

**EXPLANATORY STATEMENT**

Pursuant to Rule 602 of the Federal Energy Regulatory Commission’s (“Commission” or “FERC”) Rules of Practice and Procedure, 18 C.F.R. § 385.602 (2013), San Diego Gas & Electric Company (“SDG&E”) hereby submits this Explanatory Statement describing the terms and conditions of the Offer of Settlement (“Settlement”) in the above-referenced proceeding. If approved, this Settlement will resolve all issues set for hearing and settlement judge procedures in the *Order Conditionally Accepting and Suspending Rates and Establishing Settlement Judge and Hearing Procedures* (“Order”).<sup>1</sup> The Settlement is the result of formal and informal settlement discussions among the participants in this case and is intended to resolve all issues set for hearing in this proceeding. All Parties<sup>2</sup> and the Commission Trial Staff (“Trial Staff”) have indicated that they either support or do not oppose the Settlement.

**I. BACKGROUND**

On February 15, 2013, SDG&E filed tariff revisions under Section 205 of the Federal Power Act (“FPA”)<sup>3</sup> to implement its Fourth Transmission Owner (“TO”) formula rate

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<sup>1</sup> *San Diego Gas & Electric Company*, 143 FERC ¶61,246 (2013).

<sup>2</sup> The parties to this proceeding are: SDG&E, the California Public Utilities Commission; Pacific Gas and Electric Company; Southern California Edison 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, Trans Bay Cable, LLC, State Water Contractors and Sacramento Municipal Utility District (parties to this proceeding are each referred to as a “Party” and are collectively referred to as the “Parties”).

<sup>3</sup> 16 U.S.C. § 824d (2006).

mechanism (“TO4 Formula”), to become effective September 1, 2013.<sup>4</sup> The TO4 Formula was intended to replace SDG&E’s Third TO formula rate mechanism (“TO3 Formula”) which was due to terminate on August 31, 2013.

As SDG&E explained, the TO4 Cycle 1<sup>5</sup> Filing (“TO4 Filing” or “Filing”), among other things: (1) proposed a new TO4 Formula and Appendix VIII to SDG&E’s TO Tariff to supersede the TO3 Formula; (2) revised SDG&E’s Base Transmission Revenue Requirements<sup>6</sup> (“BTRR”) and increased transmission rates for retail End Use and California Independent System Operator Corporation (“CAISO”) wholesale customers under the terms of the proposed TO4 Formula; and (3) revised Appendix IX of SDG&E’s TO Tariff to reconcile it with CAISO terminology/protocols.

Parties protested various aspects of the Filing. On June 27, 2013, the Chief Judge issued an order appointing Judge Judith A. Dowd as settlement judge. Subsequently, on September 26, 2013, the Chief Judge issued an order appointing Judge H. Peter Young as hearing judge when Parties reached an impasse in their settlement negotiations. On November 1, 2013, Judge Young designated dispute resolution specialists from the Office of Administrative Law Judges and Dispute Resolution to facilitate settlement.

The Parties and Trial Staff have engaged in numerous settlement conferences both before Judge Dowd and the dispute resolution specialists. With their assistance, the Parties and the Trial Staff were able to reach a negotiated resolution of disputed issues culminating in this

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<sup>4</sup> *Order on Request for Rehearing and Motion for Clarification*, 144 FERC ¶61,078 (2013) (established September 1, 2013, as the Effective Date of the TO4 Formula).

<sup>5</sup> SDG&E uses the term “Cycle” to identify the specific informational filing being made under the TO4 Formula. Thus, TO4 Cycle 1 is SDG&E’s first Informational Filing under the TO4 Formula.

<sup>6</sup> Capitalized terms have the meanings ascribed to them herein or in SDG&E’s TO4 Tariff.

Settlement.<sup>7</sup> The TO4 Formula, consisting of Appendix VIII, a Formula Rate Protocols (“Protocols”) (Attachment 1 to Appendix VIII) and a Formula Rate Spreadsheet (“Spreadsheet”) (Attachment 2 to Appendix VIII), has been developed in accordance with the Settlement.

## **II. DESCRIPTION OF THE SETTLEMENT**

The following is a summary of the terms of the Settlement. This description is provided for the convenience of the Commission in reviewing the Settlement and is not intended to alter the terms of the Settlement in any way.

### **A. Article I—Settlement Rates**

Effective September 1, 2013, and during the term of the TO4 Formula, SDG&E’s wholesale and retail BTRR shall be determined by the TO4 Formula, consistent with the terms of this Settlement.

When SDG&E makes its annual Informational Filing, if any party protests any cost reflected in charges derived under TO4 Formula Appendix VIII, SDG&E shall bear the burden of demonstrating the justness and reasonableness of its implementation of the TO4 Formula, consistent with Commission precedent and Sections C.4.d. and C.4.g. of the Protocols.

#### **1.1. Wholesale BTRR**

The TO4 Cycle 1 formulaic BTRR for the transitional Rate Effective Period, beginning September 1, 2013 through December 31, 2014, consists of (1) Base Period revenues and (2) Forecast Period revenues.

Effective September 1, 2013, the TO4, Cycle 1 Wholesale BTRR shall be \$538.410 million, as determined in accordance with the TO4 Formula.

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<sup>7</sup> On December 12, 2013, Judge Young issued an order suspending the procedural schedule and providing for the filing of a formal offer of settlement by January 31, 2014.

## **1.2. Retail BTRR**

Effective September 1, 2013, the TO4, Cycle 1 Retail BTRR shall be \$541.698 million, as determined in accordance with the TO4 Formula.

## **1.3. Miscellaneous Rate Matters**

This section addresses issues related to: (1) generation interconnection facilities costs, unfunded or partially funded reserves, and the income tax calculation for the equity component of Allowance for Funds Used During Construction, inclusion of Accumulated Deferred Income Taxes in rate base; (2) allocation of Administrative and General (“A&G”) costs and intangible plant costs on the basis of labor ratios and (3) calculation of the Annual Fixed Charge Rate for projected capital additions.

## **1.4. Incentives**

During the term of the TO4 Formula, and subject to the conditions set forth in the Protocols,<sup>8</sup> SDG&E shall have the right to file a petition for declaratory order for authorization to recover transmission project-specific incentives. All parties retain their full rights to oppose the requested incentives.

## **1.5. Term**

1.5.1. The term of the TO4 Formula shall be 5 1/3 years, beginning on September 1, 2013, and ending on December 31, 2018, subject to the following paragraph.

1.5.2. SDG&E and each Party shall each have a one-time right to terminate the TO4 Formula by providing notice to SDG&E and each Party no later than June 30, 2016 (“Notice of Termination”). Following the Notice of Termination, SDG&E shall file a successor

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<sup>8</sup> See Protocols, section D.2.

rate pursuant to Section 205, which shall include a request for an effective date that is January 1, 2017. The Trial Staff and each Party retain their full rights to oppose the filing.

1.5.3. Notwithstanding the January 1, 2017 requested effective date, the TO4 Formula rates in effect at the time SDG&E makes a successor rate filing shall remain in effect until superseded by subsequent FERC-approved rates, consistent with Section 2.4(e) of the Commission's regulations.<sup>9</sup>

### **1.6. Depreciation Rates**

The TO4 Formula provides for stated Transmission Plant depreciation rates for each account upon which the annual depreciation expenses shall be calculated. The composite depreciation rate will be 2.52%, based on plant balances as of May 31, 2012, except for the Sunrise Powerlink project, which reflects plant balances as of July 31, 2012.

Stated depreciation rates and/or amortization periods are also provided for General Plant, Common Plant and Intangible Plant, as applicable. These rates may not be changed absent a FPA Section 205 or 206 filing.

SDG&E will not make a single-issue Section 205 filing to change its Transmission Plant depreciation rates during the term of the TO4 Formula. However, SDG&E may make a single-issue Section 205 filing to change the depreciation rates and/or amortization periods for General Plant, Common Plant and Intangible Plant, as applicable, upon approval by the CPUC of revised depreciation rates for these plant categories. All persons retain their full rights to oppose such filing.

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<sup>9</sup> 18 C.F.R. §2.4(e).

### **1.7. Cash Working Capital**

SDG&E will determine cash working capital by multiplying the total amount of its Operations and Maintenance and A&G expenses allocated to transmission by 1/8<sup>th</sup>.

### **1.8. Post-Employment Benefits Other than Pensions (“PBOP”)**

SDG&E will continue to make annual single-issue Section 205 filings to update its PBOP. Each year, SDG&E shall state PBOPs separately in Statement AH in the Informational Filing.

### **1.9. Post-Construction Environmental Costs**

SDG&E will expense, rather than capitalize, costs due to environmental requirements implemented after the affected facilities have been placed into service.

### **1.10. Rate of Return on Equity**

SDG&E’s ROE will be 10.05%, including the 50 basis point adder for CAISO participation. For each Informational Filing, SDG&E will use its actual equity, debt and preferred ratios as of December 31 of the Base Period to derive the capital structure for the applicable Rate Effective Period.

### **1.11. Wholesale and Retail True-Up Mechanisms**

The TO4 Formula reflects separate true-up mechanisms for wholesale and retail rates, as detailed in the Protocols.

### **1.12. FERC Account Nos. 182.2 and 407**

Abandoned project costs, if any, “shall be recorded in FERC Account No. 182.2 and amortized to FERC Account No. 407.”

### **1.13. Income Tax Calculation**

The federal and state income tax calculations have been revised as appropriate.

**B. Article II—Engineering Audit and Quarterly Reports**

This provision addresses the (1) the Engineering Audit that SDG&E and the CPUC have agreed to and (2) quarterly reports regarding historical cost and forecast data.

**C. Article III—Refunds**

This Settlement sets forth the methodology by which SDG&E will make Wholesale and Retail End Use refunds resulting from the Settlement. All such refunds shall reflect interest calculated pursuant to § 35.19a of the Commission’s regulations, 18 C.F.R. § 35.19a.

**D. Article IV—General Provisions**

**4.1. Resolution of All Issues**

This Settlement resolves all issues set for hearing and settlement judge procedures in this proceeding.

**4.2. Non-Precedential Effect of Settlement for All Issues**

This Settlement contains language relating to the non-precedential nature of the Settlement and Parties’ rights to enforce their respective rights and obligations under the Settlement in other proceedings.

**4.3. No Admission or Settled Practice for All Issues Set for Hearing**

This provision states that agreement to or acquiescence in the Settlement shall not constitute an admission, nor shall the Commission’s approval of the Settlement be deemed a settled practice.

**4.4. Approval of Settlement and Privileged Nature of Settlement**

This Settlement specifies that Rule 602 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.602, is applicable to all settlement communications in this proceeding.

#### **4.5. Settlement Effectiveness**

This provision specifies the conditions under which the Settlement will become effective.

#### **4.6. Integration**

This provision addresses the non-severability of the Settlement's terms and specifies the process for addressing any modifications to the Settlement that the Commission may direct.

#### **4.7. Entirety of Offer of Settlement**

This provision states that the Settlement 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.

#### **4.8. Standard of Review**

The provisions of this Settlement shall not be subject to change under Sections 205 and 206 of the FPA absent the written agreement of the Parties to this proceeding, and the standard of review for changes unilaterally proposed by a Party to this proceeding shall be the "public interest" standard of review. The "public interest" standard of review shall not apply to future changes to the Settlement adopted by the Commission, acting *sua sponte*, or at the request of an entity that was not a Party to this proceeding.

### **III. REQUIRED INFORMATION**

In accordance with the Chief Administrative Law Judge's Notice to the Public, *Information to be Provided with Settlement Agreements*, dated October 15, 2003, as revised October 23, 2003, SDG&E provides the following:

**A. What are the issues underlying the Settlement Agreement and what are the major implications?**

The issues underlying the Settlement concern the appropriate wholesale and retail BTRRs for SDG&E.

**B. Whether any of the issues raise policy implications.**

None of the issues resolved by the Settlement have policy implications.

**C. Whether any other pending cases may be affected.**

SDG&E is not aware of any other pending cases that may be affected by this Settlement.

**D. Whether the Settlement Agreement involves issues of first impression, or if there are any previous reversals on the issues involved.**

SDG&E does not believe that this Settlement involves issues of first impression, nor is the undersigned counsel for SDG&E aware of any previous reversals on the issues involved.

**E. Whether the proceeding is subject to the just and reasonable standard or whether there is *Mobile-Sierra* language making it the standard, *i.e.*, the applicable standards of review.**

The Settlement provides that the standard for modifications to the Settlement by the Parties to the proceeding is the public interest standard. The “public interest” standard of review shall not apply to future changes to the Settlement adopted by the Commission, acting *sua sponte*, or at the request of an entity that was not a Party to this proceeding.

**IV. CONCLUSION**

The Settlement fully resolves all issues set for hearing in this proceeding. Accordingly, in view of the foregoing, SDG&E requests the Commission to find that the Settlement is in the public interest and to approve it without modification.